

Date: 20 January 2012

USD-ZAR 7.8751/9827
 GBP-USD 1.5444/546
 GOLD \$1 655.59

EUR-ZAR 10.2362/3438
 USD-JPY 76.91/7.32
 BRENT \$111.40

GBP-ZAR 12.2236/3340
 AUD-USD 1.0382/426
 DJI 12 623.98

EUR-USD 1.2927/3029
 R157 6.690%
 3M JIBAR 5.596%

Time (GMT)	Country	Event	Month	Exp	Prior
09:00	SA	ILB Auction (R600mn)			
	EZ	Merkel, Sarkozy and Monti Meet in Rome			
	EZ	EU's Rehn Meets With Hungary's Fellegi in Brussels			
07:00	DE	PPI y/y	Dec	4.60%	5.20%
09:30	GB	Retail Sales y/y	Dec	2.40%	0.70%
15:00	US	Existing Home Sales m/m	Dec	5.20%	4.00%

Today's Talking Point

SARB Watch: In its regular MPC statement, the SARB started off with a more hawkish than expected tone but quickly highlighted the countervailing negative growth influences that will plague both the domestic and international economies in the months and quarters ahead. Whilst emphasizing the challenge of balancing inflation and growth considerations, the SARB highlighted how expectations for inflation which have deteriorated are being weighed up against growth expectations that have also deteriorated with GDP growth in 2012 only expected to average 2.8%. Although the SARB's policy stance was slightly more hawkish than expected, the growth outlook remains particularly poor and should keep the SARB reluctant to hike rates any time soon.

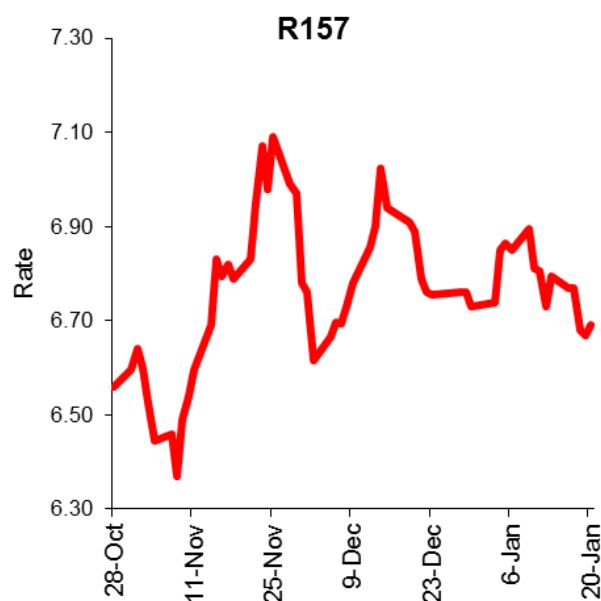
Rand Update

It is becoming difficult not to turn more optimistic on risk assets at the moment. Central banks abroad look set to do whatever is required in order to reflate their economies. The ECB's efforts which are far from over have had a material impact on asset prices and the stabilisation of the banking system. The BoE is conducting quantitative easing which they are expected to extend and increasingly, speculation is mounting that the Fed will join in with a third round of quantitative easing before possibly as early as March. All of this comes against a backdrop of a fairly conservative stance by the SARB which yesterday expressed their concerns about inflation to a greater degree than was anticipated. Although the peak of 6.6% in Q2 is deemed too hawkish by our measures, the fact that the SARB revised up their inflation forecasts and spoke specifically of the negative real repo rate suggests that if anything the next move may be in favour of a hike. Although this is not the house view and will not happen in such a weak growth environment, the point is that SA monetary policy is conservative. It is the structural reason behind why investors should not turn overly bearish on SA. Sentiment influencing events can affect the ZAR in the short term and they did just that in 2011, but they are not sustainable. Through the course of time, the structural trends always reassert themselves. We point this out to remind investors that the ZAR is not a one-way bet weaker as is reflected in many econometric models. In the very near term, the positive sentiment in the eurozone could very well persist for a while to come. The biggest risk in the short term is the developments in Greece. However, should the negotiations between the Greek government and private bond holders conclude successfully, the reality is that positive sentiment would intensify and further boost the risk on trade which would stand the ZAR in good stead. According to Reuters data (bid chart), the ZAR finished stronger vs. the USD on Thursday, closing at R7.9158 from R7.9525 on Wednesday. The ZAR weakened against the EUR, ending at R10.2597 from R10.2253 on Wednesday, whilst finishing stronger against the GBP at R12.2568 from R12.2731 the previous day.



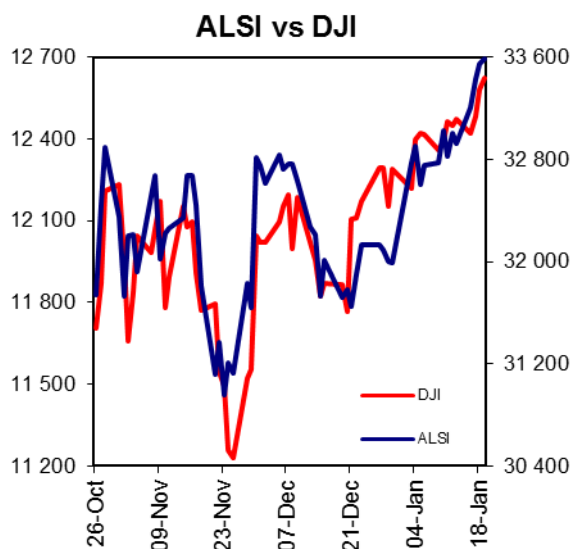
Bond Update

Local bonds ended mixed yesterday, as investors contended with the first MPC meeting this year. By the close the R157 yield dropped just 1bpt to close at 6.670%, whilst the R186 yield moved 4bpts lower to close at 8.400%. In the MPC statement, the SARB started off with a tone which appeared to reflect a bias toward rate hikes, which came as a surprise to most. However, Governor Marcus quickly highlighted the countervailing negative growth influences that will plague both the domestic and international economies in the months and quarters ahead. Whilst emphasizing the challenge of balancing inflation and growth considerations, the SARB highlighted how expectations for inflation which have deteriorated are being weighed up against growth expectations that have also deteriorated with GDP growth in 2012 only expected to average 2.8%. The SARB expects inflation to peak at around 6.6% in Q2 2012, which is well outside the 3%-6% target range. However there are many market commentators who would find this hard to agree with. After a heavy data week, fixed income traders must still contend with today's ILB auction, and given the flurry of activity recently, markets may be quieter in comparison to recent sessions.



JSE Update

The local market continued its recent rally yesterday, however local traders indicate that current levels might be seem somewhat overbought in the short term and so some profit-taking would not be surprising in today's session. By the close yesterday, the ALSI was up 0.11%, again reaching fresh all-time highs. However the index did move off intraday highs, which indicates that an element of profit taking has already crept into the market. With just one trading session left this week, the ALSI looks set to end the week in positive territory for the third consecutive week, as the local equity rally for 2012 continues. US jobless claims fell and European borrowing costs eased, after both Spain and France held successful debt auctions yesterday which eased investor jitters and spurred risk on trade. As a result major EZ bourses moved well higher, with the French CAC adding a little short of 2.00% yesterday. In the US, although gains were slightly less than EZ counterparts, stocks also closed higher. Stocks in the country reached fresh six months highs as financial shares soured. As we head into the weekend, investors are likely to favour riskier trades, however, be cautious of profit taking on the JSE today.



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