IQnews DAILY

Bringing you economic intelligence every week day

Date: 22 December 2011

USD-ZAR 8.1884/2947	**EUR-ZAR** 10.7002/8174	**GBP-ZAR** 12.8542/9788	**EUR-USD** 1.3012/114
GBP-USD 1.5629/730	**USD-JPY** 77.84/8.25	**AUD-USD** 1.0062/143	**R157** 6.830 %
GOLD $1 603.99	**BRENT** $107.49	**DJI** 12 107.74	**3M JIBAR** 5.585%

Time (GMT)	Country	Event	Month	Exp	Prior
09:30	GB	GDP q/q Final	Q3	0.50%	0.50%
13:30	US	Core PCE q/q	Q3	2.00%	2%
13:30	US	GDP q/q Final	Q3	2.00%	2.00%
14:55	US	Michigan Consumer Sentiment Final	Dec	68.00	67.70
15:00	US	Home Price Index m/m	Oct	0.20%	0.90%
15:00	US	Leading Indicators	Nov	0.30%	0.90%

Today's Talking Point

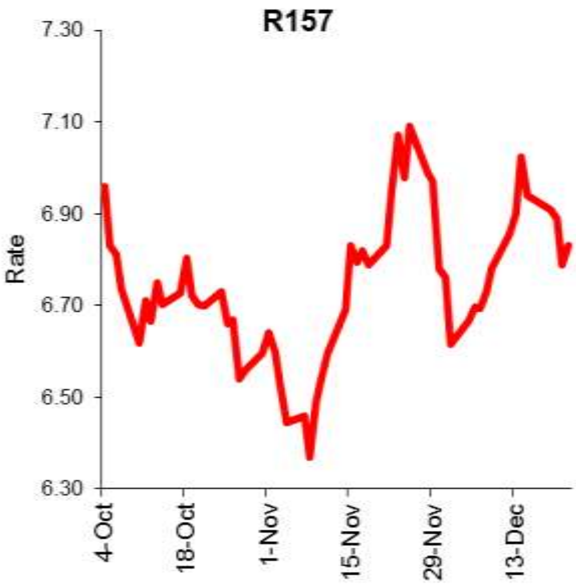
Energy Update: Oil markets rose for the second day in a row yesterday as risk appetite remained fairly healthy. Moreover, the weekly EIA inventory report reflected a sizable 10.6mn bl decline in US crude stockpiles for the week ended 16 Dec, signalling ample demand for oil products out of the US. The latest drop sent US inventories to a near three-year low. Overnight Brent pared some of yesterday's gains as market players likely opted for some profit-taking. At the time of writing Brent was trading at $107.43/bl. Today brings with it a wave of data out of the US including final GDP data, Michigan consumer sentiment, and the leading indicators.

Rand Update

Yesterday we spoke bullishly about prospects would there be a good take up of the ECB's Long Term Refinance Operation. Most expectations were beaten to the topside with the take up very much at the upper limit of expectations. With nearly EUR 490bn accessed by 523banks, the operation highlights just how desperate banks were for financing and how broad based the operation turned out to be. We continue to view this as a very significant development. In one day, the ECB has taken care of almost all the refinancing that the commercial banks were estimated to have needed through 2012 and so the fears of recapitalising banks in Q1 will now recede. Not only does this relieve the banks of this refinance pressure at the start of 2012 but removes some of the pressure off sovereigns that need to raise an equivalent amount of around EUR 200bn in Q1 by effectively removing the need for competing bond issuance. In the same way that the broader market underestimated the potential size of the funding facility, they have probably underestimated the impact it will have with mainstream economic theory not focussed on monetary dynamics. Ignoring these dynamics would lead one to believe that we are in for more of the same. The risk of that position is that risk assets surprise in their resilience and strength in the weeks and months ahead. The relevance of all of this for the ZAR, is that the local unit does better than people anticipate and from current levels, one now feels there is a greater probability that the USD-ZAR heads back below the 8.0000 handle once more. We continue to view yesterday's ZAR weakness as an opportunity for exporters to lock in higher USD rates. According to Reuters data (bid chart), the ZAR finished stronger vs. the USD on Wednesday, closing at R8.2000 from R8.2140 on Tuesday. The ZAR strengthened against the EUR, ending at R10.6944 form R10.7439 on Tuesday, while similarly finished stronger against the GBP at R12.8510 from R12.8648 the previous day.

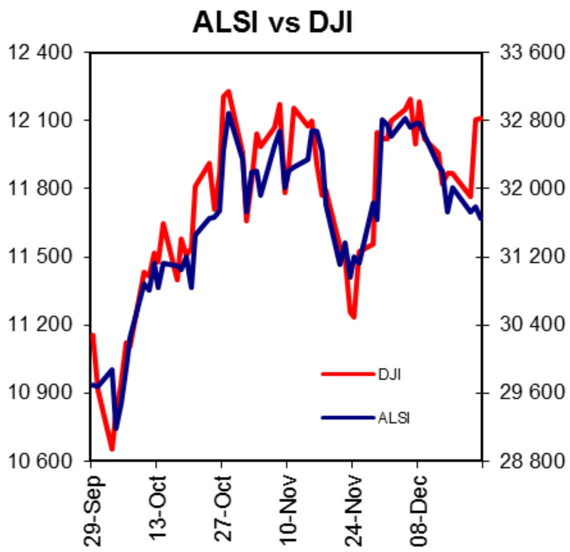
Bond Update

The local bond market opened positively yesterday, and managed to hold onto gains throughout the session, amidst a lack of market activity ahead of the holidays. By the close the R157 yield had dropped 10bpts to close at 6.790% and the R186 yield moved 20bpts to close at 8.555%. The big news yesterday was that the ECB allotted a whopping EUR489 billion in the first of two 36 month long-term fixed-rate refinancing operations. Consensus was looking for utilisation of this facility to come in between EUR290bn (Bloomberg poll) to EUR310bn (Reuters poll). Consensus expected banks to tap the amount required for normal day to day refinancing operations, thus demand was significant. As the VIX index, regarded as a measure of market risk, moves lower capital should also begin to shift off the side lines and back into equities and local bonds. Foreigners have been net sellers of local bonds this week, to the tune of R66 million, R644 million, and R225 million on Monday, Tuesday and yesterday, respectively. However we may see this trend improve into next year. Eyes will be on a slew of US data due for release today, as well as impacts of ECB money injections.



JSE Update

The local bourse started well higher yesterday, but investors got the jitters and stocks were sold off gradually through the session amidst significantly lower volumes as many traders have now taken leave. By the close the ALSI was down 0.43% having opened 0.71% to the good and being dragged lower by commodities. The negative sentiment in the local market was spurred by a negative open on the Dow Jones in the US. Although European markets began the day stuck in rally mode after Tuesday's strong gains and despite strong demand at yesterday's ECB 3 year lending facility, major bourses ended the day in negative territory. There are doubts amongst traders over how much of the funds raised from the inaugural long-term ECB Bank tender will actually flow into struggling euro zone economies and help restore confidence. Caution surrounding the EZ debt crisis has filtered through to Asian markets which are back in negative territory. With volumes expected to be low once again today, and nothing in the way of local data, the marginal trade which does take place today will once again be driven by sentiment abroad. Key on the radar in today's session will be the final print of US GDP data.



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