

Date: 22 February 2012

USD-ZAR 7.6816/7905  
 GBP-USD 1.5738/840  
 GOLD \$1 755.30

EUR-ZAR 10.1847/2922  
 USD-JPY 79.80 /80.24  
 BRENT \$121.53

GBP-ZAR 12.1585/2700  
 AUD-USD 1.0628/82728  
 DJI 12 965.69

EUR-USD 1.3193/274  
 R157 6.620%  
 3M JIBAR 5.600%

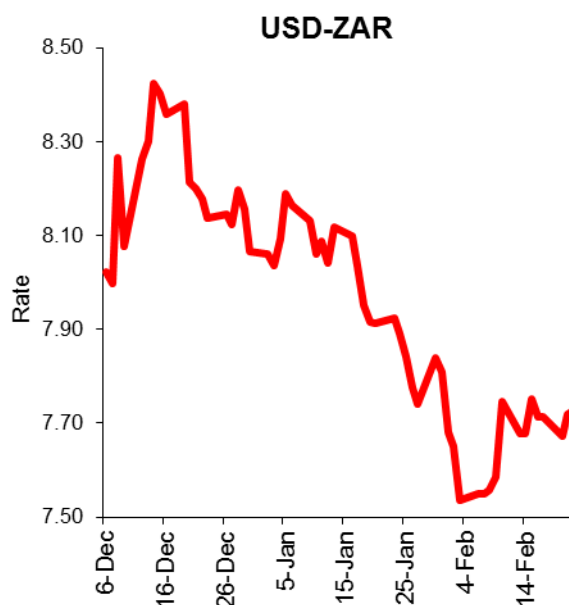
Time (GMT)	Country	Event	Month	Exp	Prior
08:00	SA	CPI y/y	Jan	6.20%	6.10%
12:00	SA	FM Gordhan delivers 2012 Budget Speech in Parliament			
08:28	DE	Manufacturing Flash PMI	Feb	51.30	51.00
08:28	DE	Services Flash PMI	Feb	54.00	53.70
08:58	EZ	Manufacturing Flash PMI	Feb	49.40	48.80
08:58	EZ	Services Flash PMI	Feb	50.60	50.40
10:00	EZ	Industrial New Orders m/m	Dec	0.50%	-1.20%
15:00	US	Existing Home sales	Jan	4.65mln	4.61mln
	GB	BoE Publish MPC minutes from Feb 8th-9th			
23:30	JP	Reuter Tankan	Feb		-5.00

## Today's Talking Point

**CPI (Jan) preview:** Over the course of Dec CPI remained unchanged from Nov at 6.1% y/y. Details reflect that food price pressures although buoyant and still rising may be starting to lose their momentum. Furthermore, given the lagged effects of money supply growth on inflation, the argument toward inflation topping out in Q1 2012 still holds. Buoyant consumer inflation is unlikely to persuade the SARB to tamper with interest rates for now as the Bank continues to try and balance inflation and growth considerations.

## Rand Update

Focus today without exception will rest with the combination of the inflation data this morning and more importantly the annual budget presentation this afternoon. In so far as the inflation data is concerned, a figure broadly in line with what was seen in December would change very little in so far as the SARB's monetary policy is concerned and should therefore not impact the ZAR significantly in the trading session. Regarding the budget, there are reasons to be worried if indeed government revises down their growth forecasts which currently appear too strong for the prevailing global economic backdrop. On the current trajectory of budget deficits, the SA economy is headed for a credit ratings downgrade, possibly as early as this year. In today's climate of austerity, cherishing a healthy debt/GDP ratio should be a top priority, but in an economy where the priorities have clearly shifted towards welfare spending in recent years, this reduction in the budget deficit might prove difficult to achieve. Arguably less of a factor this year than it has been in the past is the issue of exchange controls. The biggest risk with regards to the budget is the implication of the government's borrowing profile in the coming years and the reaction of the bond market. Financial market flow data shows that bonds have been the main attraction for foreigners and should they now look less attractive because of larger than expected bond supply/issuance, the effects could be reflected in a weaker bond market and in turn a weaker ZAR. According to Reuters data (bid chart), the ZAR finished weaker vs. the USD on Tuesday, closing at R7.7180 from R7.6726 on Monday. The ZAR came under similar pressure against the EUR, ending at R10.2264 from R10.1625 on Monday, while weakening marginally against the GBP to R12.1916 from R12.1618 in the previous session.

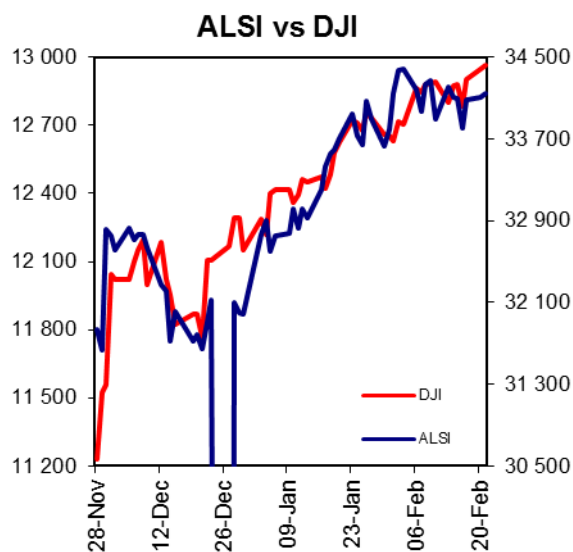
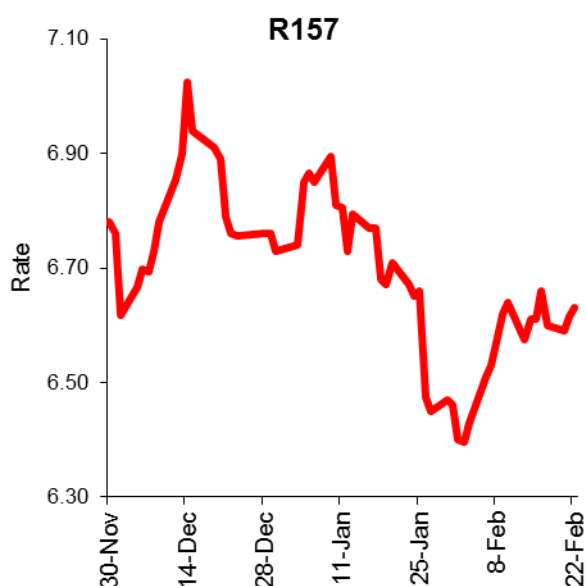


## Bond Update

Local bonds came under pressure yesterday, with yields across the curve moving higher albeit marginally. By the close the R157 yield had added just 2.5bpts to close at 6.615%, whilst the R186 moved only 1.5bpts upward to end the day at 8.230%. All eyes will be on the Budget Speech today, and thus CPI is likely to be overshadowed, unless of course there is a major surprise in the CPI data. Price inflation is bubbling under the surface, following the recent acceleration of broad money growth and the resulting increase of economic activity, but it may be a bit early to call a big topside surprise. Turning back to the government budget 2012, there is one major question that will be front and centre. Further deficit spending such as that of recent years will push SA's public debt comfortably through the 40% of GDP mark and lift the overall financing burden on the fiscus, especially if the ratings agencies then choose to downgrade SA's ratings. Liabilities are expected to mount in the form of the NHI, a social security net, infrastructural spending and more welfare support. Any suggestion that the deficit will remain wide and not declining might be treated negatively by the market.

## JSE Update

The local bourse opened higher yesterday, but then swung between gains and losses throughout the session. Despite this however, the ALSI managed to close the day just within positive territory, ignoring negative sentiment in the EZ. By the close the headline index was up just 0.11%. The ALSI has had a shaky start to the week, although we have seen gains in both sessions, the market has had to battle for only marginal gains. This is a good indication of market sentiment at present. An improving domestic outlook, specifically within the corporate sector has been offset by continued volatility in foreign markets. In line with this, European markets reacted cautiously to the news that Greece finally secured its second massive bailout, but Wall Street was more upbeat, with the DJIA trading above 13 000 points for the first time since May 2008. The fear amongst most EZ investors is that Greece remains insolvent and that its debt crisis still has a few more chapters to run. It has been a quiet week in terms of data, but today will see not only local CPI numbers, but the all-important 2012 budget. Equity traders will monitor fiscal adjustments which will affect corporate profits.



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