

Date: 23 December 2011

USD-ZAR 8.1042/2158
 GBP-USD 1.5639/742
 GOLD \$1 609.24

EUR-ZAR 10.6076/7259
 USD-JPY 77.88/8.30
 BRENT \$107.94

GBP-ZAR 12.7425/8613
 AUD-USD 1.0119/201
 DJI 12 169.65

EUR-USD 1.3042/113
 R157 6.740 %
 3M JIBAR 5.585%

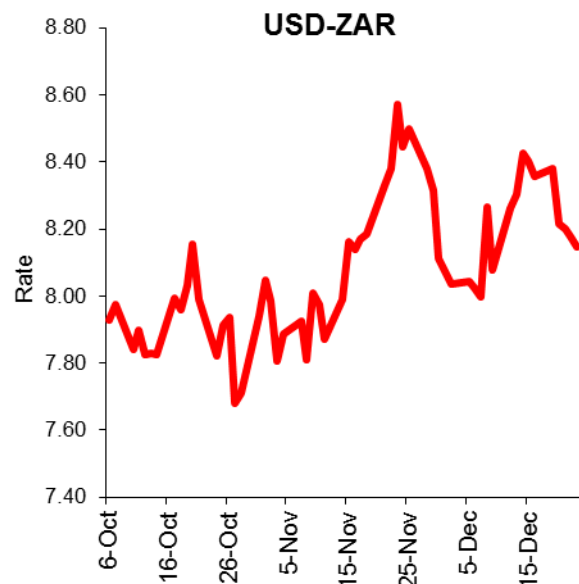
Time (GMT)	Country	Event	Month	Exp	Prior
13:30	US	Core PCE m/m	Nov	0.10%	0.10%
13:30	US	Durable Goods Orders	Nov	2.10%	-0.50%
13:30	US	New Orders XT	Nov	0.40%	1.10%
13:30	US	Personal Income	Nov	0.30%	0.40%
15:00	US	New Homes Sales	Nov	313.0k	307.0k

Today's Talking Point

Thin trading conditions expected globally: Approaching Christmas weekend one should be aware that trading conditions have thinned dramatically, creating the potential for higher volatility across global markets. Bloomberg reports that US trading volumes declined by 25% relative to the 3-month average yesterday. Thin liquidity is exacerbated given the fact that Japan is celebrating a public holiday today. Expect position taking to feature with many traders preferring to put positions back on into the new year.

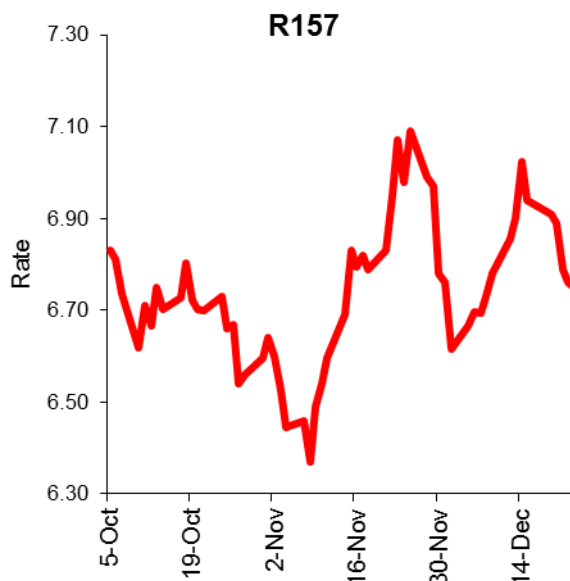
Rand Update

Ahead of the Christmas weekend and what will be our last ZAR report for 2011, financial markets appear to be settling down into some range bound trade. The warranted optimism on the eurozone's situation has not materialised as anticipated and the recovery in the ZAR may therefore have to wait as investors digest the unfolding intervention by the ECB. One thing we should not forget is cause and effect. Injecting nearly EUR 200bn worth of funding into an economy in one day, on top of a rate cut and the efforts to stabilise the banking system as well as announcing another round of liquidity supportive measures in Feb must have an effect. It would be very difficult to argue otherwise. The popular criticism of this is that the situation in the eurozone is of such a magnitude that it simply dwarfs the ECB's efforts. This does not however tell us where or how the fresh funding will be deployed. Choosing to follow the money will give us a different/better perspective. We would certainly not try and down play the magnitude of the crisis in the eurozone. It is enormous and growing with each day that the region heads deeper into recession. That being said, the nearly EUR 200bn worth of funding will find a home. It may be utilised in the recapitalisation of banks which would stabilise the banking industry, or it may be deployed in the internal eurozone carry trade taking advantage of high sovereign bond yields and yield a healthy profit to help stabilise the sovereign debt markets, or it may find itself headed towards riskier asset classes or a combination of all of the above. This ultimately is expected to boost the prospects of the ZAR. According to Reuters data (bid chart), the ZAR finished stronger vs. the USD on Thursday, closing at R8.1790 from R8.2000 on Wednesday. The ZAR strengthened against the EUR, ending at R10.6728 form R10.6944 on Wednesday, while similarly finished stronger against the GBP at R12.8198 from R12.8510 the previous day.



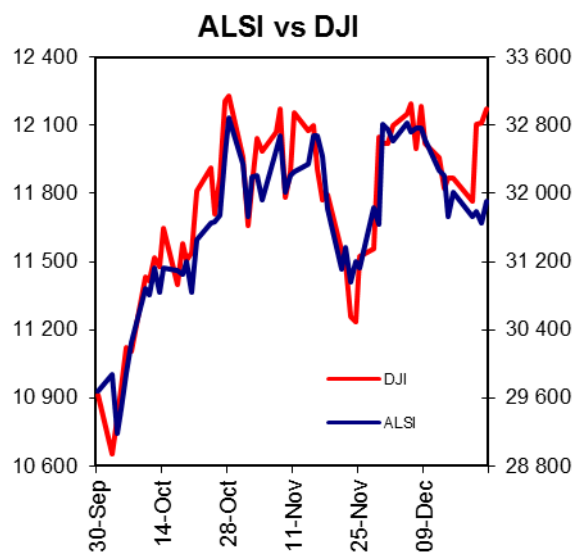
Bond Update

Local markets are winding it down ahead of the Christmas long weekend, and liquidity is expected to be extremely thin today as positions are squared off. Domestic bonds have been pretty flat this week, with yields tending to edge lower across the curve. However, in thin liquidity conditions the R203, R204 and R208 yields have jumped higher, according to Reuters data. This is unlikely to be sustained. FRAs have also continued to edge lower, as interest rate expectations have moderated as the response to the big money printing programme of the ECB has been mixed. In terms of the outlook for interest rate expectations as measured by FRAs, note that data released by the Reserve Bank a week ago shows that deposits in the banking system continue to climb at an accelerating rate. In other words, money supply growth is still accelerating. This will continue to result in strengthening domestic economic data that consensus focus on, which should see interest rate expectations climb in the first half of 2012, even though the Reserve Bank is unlikely to actually lift interest rates. There is no local data due for release until next week, and players will only focus on this come the New Year.



JSE Update

There was some cautious optimism across global equities yesterday. The local market followed suit, after opening stronger the local bourse managed to hold onto early gains through the session to close the day in positive territory. By the close of trade the ALSI was up 0.81%, as most indices added to the gains, however the gold index slipped 0.79%. With volumes thin yesterday and nothing in the way of local data to give direction, local traders turned to foreign markets for guidance. Major European markets managed to claw onto gains, after Wednesday's sell off. Similarly, US stocks posted modest gains after data showed weekly jobless claims fell by more than expected to 364k, however, the improvement in sentiment was paired with a downward revision to third-quarter GDP data which raised questions about the much anticipated US economic recovery. Japanese markets are closed for the Emperor's birthday today, and as we head into the Christmas weekend liquidity is likely to ease up into today's session. There are just four trading sessions left this year, and at present the ALSI is largely flat for the year. It is likely to remain this way with markets activity expected to be quiet next week.



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