

Date: 23 November 2011

USD-ZAR 8.3762/4887
 GBP-USD 1.5560/661
 GOLD \$1 705.84

EUR-ZAR 11.2824/4017
 USD-JPY 76.79/7.24
 BRENT \$108.11

GBP-ZAR 13.1016/2362
 AUD-USD 0.9718/803
 DJI 11 493.72

EUR-USD 1.3400/501
 R157 6.970%
 3M JIBAR 5.575%

Time (GMT)	Country	Event	Month	Exp	Prior
08:00	SA	CPI m/m	Oct	0.40%	0.40%
	UK	BoE Financial Policy Committee Holds Meeting			
08:28	DE	Preliminary Manufacturing PMI	Nov	48.50	49.10
08:28	DE	Preliminary Services PMI	Nov	50.00	50.60
08:58	EZ	Preliminary Manufacturing PMI	Nov	46.50	47.10
08:58	EZ	Preliminary Services PMI	Nov	46.00	46.40
09:30	GB	BoE Minutes release from 9-10 Nov meeting	Nov		
10:00	EZ	Industrial New Orders SA m/m	Sept	-2.70%	1.40%
13:30	US	Durable Goods Orders	Oct	-1.20%	-0.60%
13:30	US	Initial Jobless Claims		390K	388K
13:30	US	Personal Income	Oct	0.30%	0.10%
14:45	US	University of Michigan Confidence Final	Nov	64.50	64.20

Today's Talking Point

CPI (Oct): Higher food and petrol prices will continue to be the primary drivers of higher consumer inflation in October. Insight on the demand environment will be sought from the price dynamics in the remainder of the basket. These should still reflect relatively subdued price pressures. With prices of essential items rising this weighs on disposable income and diverts spending away from discretionary goods.

Rand Update

For even the more ardent ZAR bulls amongst us to be throwing in the towel, at least in the short term, the situation has deteriorated significantly. Whilst the longer term domestic structural factors will ensure that the ZAR stages a recovery at some point, the real risk pertains to the unfolding EZ crisis and the apparent inability for the authorities to contain it. There appears to be a disconnect between what the markets would like to see and what the authorities believe needs to be done in order to remedy the situation. Policy makers in Europe led by Germany want fiscal reforms and they want them now. Only once they have been implemented and the outcome has been positive, will the authorities regain that credibility but at the rate things are deteriorating at the moment, they may not gain that chance unless a different approach is adopted. That different approach involves a far greater role required by the ECB. It will not fix anything, but it will buy the EZ some time and allow governments to implement austerity without having to also worry about the worst case scenario of default. In the interim, risk barometers will remain very elevated or rise further, the credit crunch in Europe will intensify and the rotation away from EMs will gather momentum.

The fact that SA passed the secrecy bill yesterday did little to boost confidence in SA's longer term future, leaving the ZAR vulnerable to further weakness. According to Reuters data (bid chart), the ZAR finished weaker vs. the USD on Tuesday, closing at R8.3815 from R8.3300 on Monday. The ZAR weakened against the EUR, ending at R11.3251 from R11.2438 on Monday, while similarly finished weaker against the GBP at R13.1062 from R13.029 the previous day.



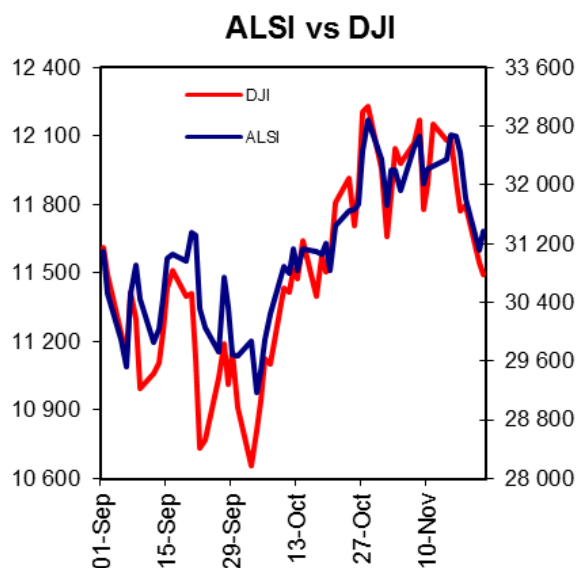
Bond Update

The market did not respond kindly to the passing of the Protection of State Information Bill yesterday. Straight after news broke that the bill had passed with a convincing majority in parliament the USD-ZAR spiked higher, and local bond yields also shot higher. Although EU bond yields were also still ripping higher in the session, this did not impact other EM currencies negatively, so it is safe to assume that it was developments in parliament that roiled local markets yesterday. By the close the R157 yield had moved 12bpts higher to close at 6.950%, just marginally below the key 7.000%, whilst the R186 yield moved from 8.525% to close at 8.665% yesterday. We have seen the Rand come under significant pressure in recent sessions, a trend which looks set to continue. The volatility of the Rand throws past business plans and calculations out of whack, and also tilts inflation risks to the topside. Since the start of August the Rand has weakened 25% against the Dollar and this will place a lot of pressure on the production structure, and as a result dampen growth prospects. This morning will see SA CPI inflation data released which will hold significance amongst fixed income traders.



JSE Update

Some bargain buying early in the session after three days of solid losses set the tone for the rest of the session. The local bourse remained in positive territory throughout the day yesterday, and managed to close in positive territory. By the close yesterday the ALSI was 0.82% higher, although these gains were tepid in relation to the losses suffered in recent sessions, and the local index remains at month lows. The SARB leading indicator dropped to a fresh 2011 low at 130.1 in September. This is down from 130.5 in August. The steady downward trend of the index alludes to softer growth in the year ahead, as it can be used as a rough proxy for projected growth 2-3 quarters ahead. Although this had little effect on intraday trade yesterday, the softer growth outlook will weigh on equity gains in the medium to longer term. Data out of both the US and China have compounded economic growth fears which is weighing on investor sentiment that is already battered by the European crisis. Asian markets are trading lower following a weaker close on Wall St. A sense of caution remains amongst investors, which will contain local gains.



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