

Date: 25 November 2011

USD-ZAR 8.4579/5887
GBP-USD 1.5401/505
GOLD \$1 688.29

EUR-ZAR 11.2698/4105
USD-JPY 77.21/64
BRENT \$107.60

GBP-ZAR 13.1084/2320
AUD-USD 0.9650/735
DJI 11 257.55

EUR-USD 1.3256/356
R157 7.060%
3M JIBAR 5.575%

Time (GMT)	Country	Event	Month	Exp	Prior
23:30	JP	National CPI y/y	Oct	-0.10%	0.00%
09:00	SA	ILB Auction R600mn			
09:00	EZ	EU's Barroso Speaks at Conference in Estoril, Portugal			

Today's Talking Point

PPI (Oct): October's PPI reading surprised market expectations to the downside, accelerating to 10.6% y/y from 10.5% in the previous month. Consensus was for an 11% y/y growth rate. Rising producer prices have been largely due to the depreciation in the ZAR over recent months. This has been evident in the spike in the ZAR-denominated continuous commodity index. Even though the PPI reading came in softer than expected, the lagged effect of the weaker ZAR on PPI suggests that upside pressures will persist. Inflationary pressures at both the producer and consumer level have escalated throughout h2 2011. However, the tight domestic growth environment coupled with intensifying downside risks to growth stemming from abroad, will likely leave the SARB inclined to keep rates at accommodative levels for some time to come.

Rand Update

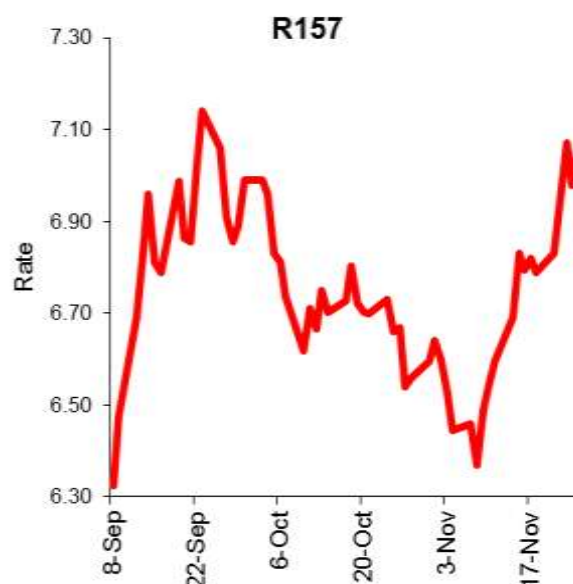
In what was a quieter trading session overall yesterday with liquidity generally thinner and many traders battle weary after another volatile week on the ZAR. Of course the effect of the US Thanksgiving holiday was to reduce overall levels of speculation the world over and one should be cautious in reading too much into the stability that was seen in yesterday's trading session and the relative stability which may again be seen today as US traders take the opportunity to enjoy a long weekend. What could perhaps threaten the region even more are indications from France and Germany that they would no longer debate the role of the ECB in public and would respect the independence of the central bank. That effectively suggests that there is unlikely to be any meaningful change to the way the ECB operates or intervenes in the fixed income market. In one sense the determination to keep the central bank independent must be admired. On the other hand, such an approach is bound to fuel more short term volatility and concern over the sustainability of the Eurozone. Yesterday's better than expected Ifo data out of Germany offered some respite to the EUR but that has all turned around with the



EUR now trading at levels last seen at the start of Oct when the Eurozone was experiencing significant strain. It would suggest that far from being out of the woods, that the Eurozone is still a huge source of volatility and risk and that using any opportunities to buy the USD dips remains the safer option, at least for now. According to Reuters data (bid chart), the ZAR finished stronger vs. the USD on Thursday, closing at R8.4434 from R8.5717 on Wednesday. The ZAR strengthened against the EUR, ending at R11.2694 form R11.4263 on Wednesday, while similarly finished stronger against the GBP at R13.0788 from R13.2941 the previous day.

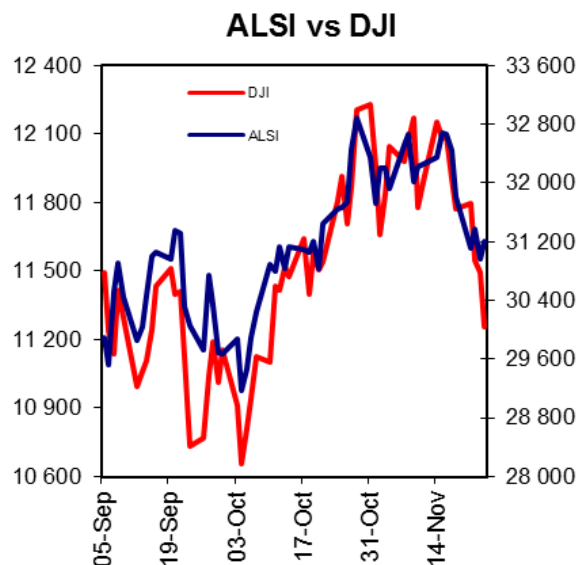
Bond Update

Local bonds pared losses yesterday, with yields moderating across the curve. This came as the ZAR also strengthened against the USD yesterday, the pair dropping quite sharply from overnight highs of 8.6000 to intraday lows of 8.4480. However, USD-ZAR is again up this morning to 8.5300 at the time of writing. The front page of the Business Day quotes a head of a manufacturing circle saying the weak Rand is "brilliant." It won't be long before even exporters are hit with higher energy and wage demands that erodes these short-term 'gains'. Data showed yesterday that PPI inflation accelerated to 10.6% y/y, up from the previous 10.5%. The weak Rand continues to pressure producer prices higher where raw commodities have a bigger and more direct impact on prices. This trend remains a concerning one for local bonds, while inflation-linked bonds could generate additional interest. Watch for signs of this in today's inflation-linked bond auction. Otherwise, eyes remain on the EZ where bonds across the region continue to sell-off. The only credible solution is one of ECB printing and until we see this, the classic 'risk-off' trade is likely to remain intact. Liquidity is also likely to remain thin today as it is Thanksgiving weekend in the US.



JSE Update

The JSE Alsi bounced yesterday following some severe losses earlier in the week. By the end of the day, the Alsi was up 0.79% from the open. Sectors were up across the board, with banks leading the rise with an increase of 1.57% on the day. As the Rand has weakened sharply in recent weeks, it has cheapened the cost of buying a unit of the Alsi considerably, when priced in US dollar terms. Priced in Rand, the Alsi is down 4.5% in the past four sessions, but priced in US dollars, the Alsi is down 7.6% over the same period. The US dollar priced Alsi is now at levels last seen in Aug/Sep 2010. Foreigners must be taking note in a big way as they will get substantially more bang for their bucks if they bought now compared with June or July 2011. Do not be surprised to see the Alsi surge higher and the Rand quickly recover losses when the ECB announces it will introduce a quantitative easing programme. Foreign inflows could rush quickly back into South Africa and drive equity prices higher.



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