

Date: 27 January 2012

USD-ZAR 7.7586/8686  
 GBP-USD 1.5621/723  
 GOLD \$1 718.80

EUR-ZAR 10.1821/2913  
 USD-JPY 77.76.83/7.24  
 BRENT \$110.97

GBP-ZAR 12.1859/3033  
 AUD-USD 1.0575/656  
 DJI 12 734.63

EUR-USD 1.3051/153  
 R157 6.560%  
 3M JIBAR 5.596%

Time (GMT)	Country	Event	Month	Exp	Prior
09:00	SA	ILB Auction (R600mn)			
09:00	EZ	M3 Money Supply y/y	Dec	2.10%	2.00%
13:30	US	Core PCE q/q	Q4	2.00%	2.10%
13:30	US	GDP q/q	Q4	3.00%	1.80%
14:55	US	Michigan Consumer Sentiment	Jan	74.00	74.00
	JP	BoJ Publish MPM Minutes			

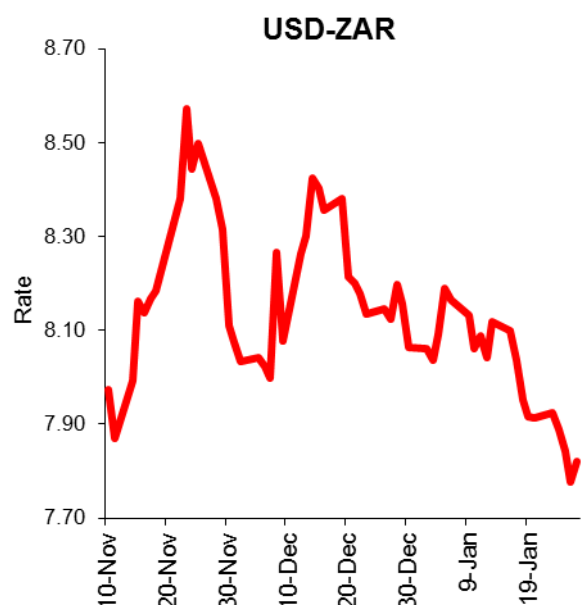
## Today's Talking Point

**PPI (Dec):** Over the course of December producer prices moderated for the third consecutive month, sending the annual growth rate below the 10% mark. Specifically, PPI grew 9.8% y/y vs 10.1% y/y in November and at a slower pace than consensus for a 10.0% y/y reading. Monthly price growth similarly slowed to 0% m/m from 0.2% m/m in November. The deceleration in producer price growth coincides with the moderation in the annual growth rate of the ZAR denominated continuous commodity index and the slowdown is expected to persist in Q1 2012. Moreover, a recovery in the ZAR since the start of the year should also be reflected in some relief in consumer price pressures towards H2 2012.

## Rand Update

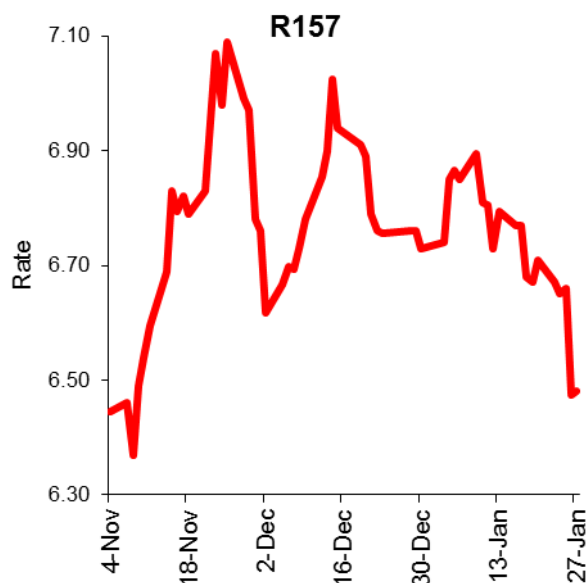
What has become an interesting debate following this week's market behaviour is whether it is the bond market driving the ZAR, or whether the ZAR is driving the bond market. Perhaps it is a combination of the two which threatens to spark a virtuous cycle where the gains in the ZAR will attract foreign investors that will want to take advantage of favourable interest rates and SA's fairly conservative and predictable economic policies. One suspects that after a period of very poor if not negative portfolio inflows, that the recent improvement in global risk appetite will go a long way to bolstering demand for high yielding emerging market assets. There is plenty of pent up demand waiting on the side lines for the opportunity to build exposures to higher yielding assets and with the ZAR trading at levels considered to be fundamentally weak given the currency debasing policies implemented in developed economies, one could argue that a bout of risk appetite turns this into an asymmetric trade where the ZAR appreciates. Heading into the weekend, some of the momentum in the ZAR appreciative move might be lost as investors consolidate their positions. Few traders will want to leave exposures open into a weekend which could yield an outcome to the Greek vs private sector bond holder negotiations.

The ZAR remains one of the most risk sensitive emerging market currencies and as such carries higher levels of volatility. Importers will start to find current levels attractive as they did yesterday and into the weekend those that have not already locked in profits from existing short USD positions may feel more comfortable doing so. However, whilst consolidation in the short term may be on the cards, the outlook for the ZAR in the weeks ahead has turned decidedly ZAR bullish as general levels of risk appetite improve. According to Reuters data (bid chart), the ZAR finished stronger vs. the USD on Thursday, closing at R7.7765 from R7.8428 on Wednesday. The ZAR strengthened against the EUR, ending at R10.1918 from R10.3343 on Wednesday, while similarly finished stronger against the GBP at R12.2022 from R12.3481 the previous day.



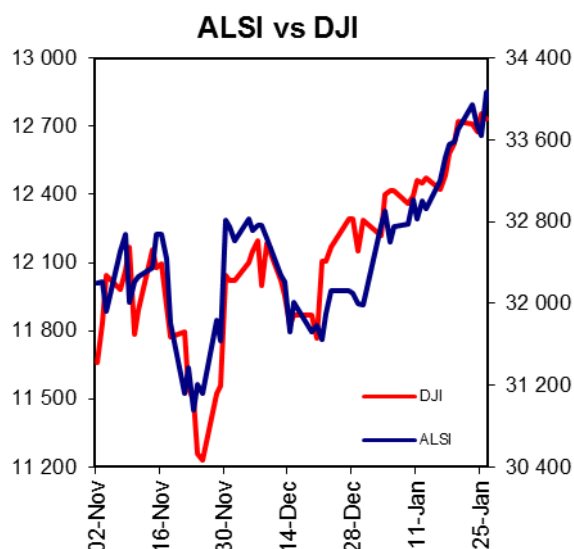
## Bond Update

Local bonds enjoyed a solid rally yesterday, with yields across the curve moving well lower on the day. By the close yesterday the R157 yield had plunged 18.5bpts to close at 6.475%, levels last seen back in November. The R186 similarly moved well lower dropping 14.5bpts to close at 8.230%. The increase of risk appetite can also be seen in the very strong rally of EM currencies such including the Rand over the past week. Judging by the way these currencies sold off during the European crisis, the way they are now rallying suggests the Europe crisis is behind us. Expect to see these gains extend in coming weeks. The PPI data, released yesterday, increased 9.8% y/y in December vs 10.1% in November, while consensus was looking for 10.0%. On a monthly basis, the PPI was flat, after increasing 0.2% m/m in November. The strengthening will continue to have a downside impact on the PPI in months ahead. There is no local data due for release today, but the market will be looking at Greek debt swap negotiations that are set to continue into the weekend, as well as Eurozone money supply data and US GDP due for release today.



## JSE Update

The local bourse surged at the open, and rallied throughout the session to put in the best daily performance for the year-to-date. The rally was well in line with major global equities, and was sparked by comments from the US Federal Reserve on Wednesday, when it indicated that it would likely keep interest rates low until at least late 2014. Buyers piled into equities across the globe as the prospect of a prolonged period of low interest rates and possible quantitative easing in the US threatened to dilute the value of cash and returns from bonds. By the close the ALSI had gained a significant 1.27%, taking the index back to all-time highs, eroding the losses seen on Tuesday and Wednesday. As a result, should the ALSI add on to yesterday's gains, this will be the fourth consecutive week of in which the ALSI has closed within positive territory. However, Market optimism seen yesterday has largely dissipated overnight. Mixed US economic data, and on-going debt talks with Greece have weighed on sentiment alleviating risk appetite, which has resulted mixed Asian markets ahead of the local open. As a result we could see the ALSI struggle for support today.



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