IQnews DAILY

Bringing you economic intelligence every week day

Date: 29 November 2011

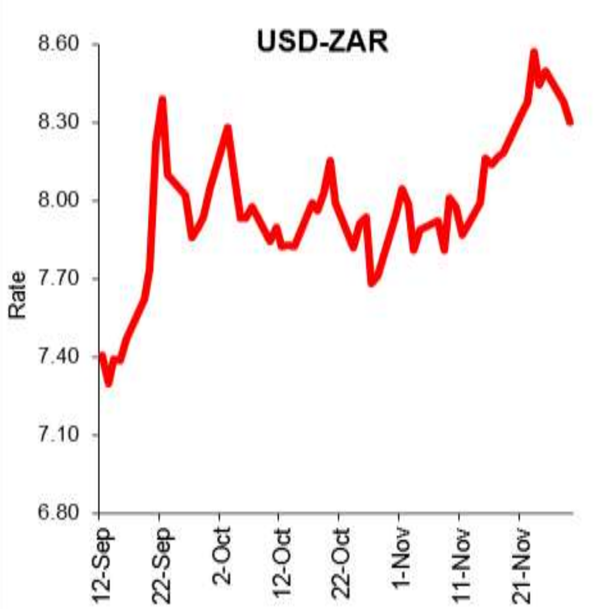
USD-ZAR 8.2438/3738	**EUR-ZAR** 11.0272/1706	**GBP-ZAR** 12.8253/9752	**EUR-USD**. 1.3309/412
GBP-USD 1.5476/579	**USD-JPY** 77.83/8.26	**AUD-USD** 0.9945/1.0031	**R157** 7.000%
GOLD $1 712.35	**BRENT** $109.27	**DJI** 11 523.01	**3M JIBAR** 5.575%

Time (GMT)	Country	Event	Month	Exp	Prior
06:00	SA	Money Supply y/y	Oct	7.26%(a)	6.80%
06:00	SA	Private Sector Credit Growth y/y	Oct	5.52%(a)	5.47%
09:00	SA	Bond Auction (R186 - R1000mn; R213 - R1100mn)			
09:30	SA	GDP nsa y/y	Q3	3.20%	3.00%
09:30	GB	M4 Money Supply m/m	Oct	-0.10%	-0.40%
10:00	EZ	Sentiment Indicators	Nov		
	EZ	Eurogroup Meeting - Brussels			
14:00	US	Case/Shiller Home Prices y/y	Sep	-3.00%	-3.80%
15:00	US	Consumer Confidence	Nov	44.00	39.80
15:00	US	Home Prices y/y	Sep	-0.10%	-0.10%

Today's Talking Point

GDP (Q3): GDP for Q3 is likely to reflect a slight pick-up in economic activity relative to Q2. In terms of the major sectors of the economy and their quarter on quarter developments growth in the manufacturing sector is likely to be relatively flat following a sharp drop in growth in Q2. Industrial action was pervasive in the mining sector in Q3 and consequently a weak outcome is expected. Propping up GDP growth is likely to be domestic consumption which strengthened somewhat as reflected in stronger retail sales growth.

Rand Update



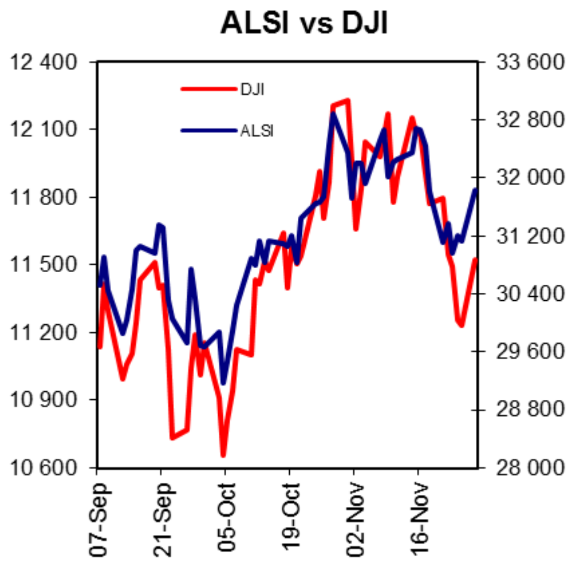
Whilst a retrace back towards 8.3500 had been envisaged, we had not anticipated this kind of response to the news out of Europe. Closer inspection reveals that there really is not very much to get excited about. The IMF has categorically denied that they are in talks with Italy on a funding facility which would see Italy step away from the markets. Fiscal integration in Europe may be a step in the right direction but will take a long time to implement, the EZ is rapidly heading back into recession and all the while debt levels in most EZ countries are rising. One can only assume that the market was starting to price itself for an implosion of the EZ and that the efforts of the EZ policy makers to ratify the leveraged version of the EFSF to helps backstop some of the sovereign debt, the imminent decision to extend the sixth tranche of the bail-out funding to Greece, talk of fiscal integration and the IMF visit to Italy simply shows that the commitment on the part of the EZ authorities to keep the EZ intact. Factors for investors to watch out for today include the money supply figures this morning. They will highlight on-going tightness in the monetary environment which against the backdrop of rising or high inflation implies that momentum in GDP growth is likely to be fading. GDP data today is expected to reflect growth in the region of 1.8% q/q seasonally adjusted and annualised. From a currency perspective, a tight monetary environment would auger well for ZAR resilience in the future, but a weaker growth performance would not. Foreigners may perceive a lower growth environment to offer less investment opportunity. Overall, ultimate direction is still more likely to be driven from developments abroad and specifically the EZ. According to Reuters data (bid chart), the ZAR finished stronger vs. the USD on Monday, closing at R8.3809 from R8.4980 on Friday. The ZAR strengthened against the EUR, ending at R11.1550 from R11.2463 on Friday, while finishing stronger against the GBP at R12.9879 from R13.1269 the previous day.

Bond Update

A significant ZAR recovery against the majors yesterday supported some buyer interest into the local bond market, as yields across the board moved lower. By the close yesterday the R157 yield had dropped 10bpts to close at 6.990%, whilst the R186 yield edged just 3.5bpts lower to end the day at 8.630%. News making economic headlines locally is that the OECD has slashed its forecasts for global growth, due to risks out the Eurozone. As a result, it argues that should domestic demand continue to disappoint, the SARB may need to reduce repo further. In data released early this morning, private sector credit extension increased to 5.52% y/y in October, softer than market expectations of 5.67% y/y and at a slower pace than September's 5.47% y/y growth. M3 accelerated to 7.26% y/y from the previous month's 6.80% y/y. The M3 and PSCE growth figures support the argument that inflationary pressures are primarily of a cost push nature and the SARB will likely take this into consideration when balancing growth and inflation concerns. Today will see the weekly bond auction where the R186 (2026) and R213 (2031) will be on offer. GDP figures will also be monitored by fixed income traders.

JSE Update

It was a positive day for the local bourse yesterday. After opening higher, the local market rallied throughout the session to close well higher in line with global equities, as yesterday saw a significant improvement in risk appetite. By the close the ALSI was 2.27% higher, as all indices managed to close in the good, however the gold index edged 0.42% lower, despite a rally in the gold price, which moved back above the $1700/oz mark, currently trading at $1712.98/oz. With no local data released yesterday, the rally on the JSE was driven by events abroad. US equities finished yesterday’s session on a stronger footing as expectations of a solution being formulated in the EU in addition to data showing strength in US manufacturing and retail sectors. Markets remained largely unaffected by the ratings downgrades of a range of banks and news that both France and the US may be downgraded. Downgrades have been expected and are mostly priced in. The overall improvement in sentiment has not however, alleviated tight interbank liquidity as eurozone risks abound. Local GDP figures to be released later today will be watched closely to give investors some insight into the local growth outlook.



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