

Date: 03 January 2012

USD-ZAR 7.9894/8.1131

GBP-USD 1.5517/621

GOLD \$1 586.84

EUR-ZAR 10.4053/5232

USD-JPY 76.56/7.00

BRENT \$108.80

GBP-ZAR 12.4832/6042

AUD-USD 1.0260/342

DJI 12 217.56

EUR-USD 1.2935/3038

R157 6.730 %

3M JIBAR 5.595%

Time (GMT)	Country	Event	Month	Exp	Prior
08:55	DE	Unemployment rate	Dec	6.90%	6.90%
09:28	GB	Manufacturing PMI	Dec	47.50	47.60
15:00	US	Construction spending m/m	Nov	0.50%	0.80%
15:00	US	ISM manufacturing PMI	Dec	53.20	52.70
	US	FOMC release MPC Minutes			

## Today's Talking Point

**Energy Update:** On Friday Brent Crude dipped lower to close the week at \$107.22/bl, down roughly 0.72% on the week. Looking at Brent's performance over the course of 2011, the crude blend gained around 12.63% after rising 21.90% in 2010. Overnight upbeat data regarding the Chinese and Indian manufacturing sectors resulted in oil markets gapping higher and at the time of writing, Brent was trading at \$108.70/bl. Furthermore, investors continue pricing in a risk premium relating to the geopolitical issues around Iran. Up ahead today market players will look to manufacturing data out of the US as well as details on the FOMC minutes.

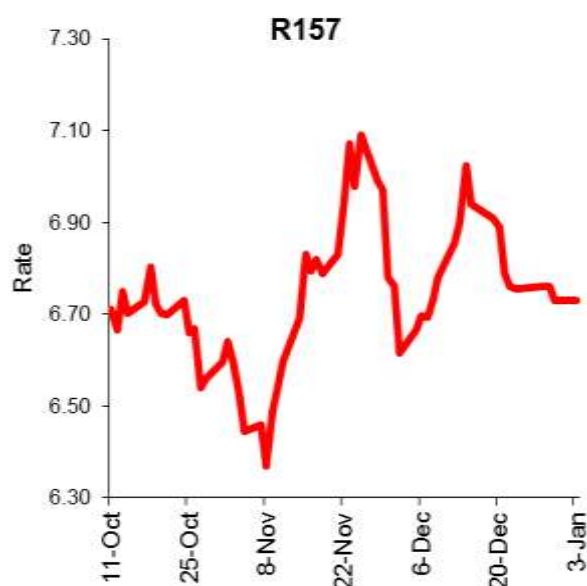
## Rand Update

2011 was a year of many lessons learned most specifically for the authorities that were faced with acknowledging that the way most economies had been run up to this point has not been sustainable and that corrective action is now required to restore credibility and fiscal trust. Such corrective action will be painful as is reflected by developments in Greece and most countries will have to deal with similar austerity of some magnitude or another. Europe may have begun the journey but the likes of the UK and the US have yet to undertake the herculean task that awaits. There remains hope that the monetary stimulation that has been applied will inflate those economies out of this economic morass and help restore fiscal revenues. Without a recovery in the US, with the Eurozone already in recession and with the UK about to go into one, demand from SA's developed economy trading partners is set to soften. In so far as its emerging market trading partners are concerned, it's worth noting that both China and India are experiencing a slowdown of their own and so one should prepare for a difficult H1 to 2012. The SA economy will struggle to post any meaningful growth and it is the kind of environment wherein financial markets will continue to experience high levels of volatility. As 2011 showed us, high levels of volatility tend to translate into a difficult trading environment for the ZAR that might struggle to post the kind of appreciation that the underlying fundamentals are pointing to. According to Reuters data (bid chart), the ZAR finished stronger vs. the USD on Monday, closing at R8.0606 from R8.0650 on Friday. The ZAR strengthened against the EUR, ending at R10.4207 from R10.4369 on Friday, while similarly finished stronger against the GBP at R12.5004 from R12.5290 the previous day.



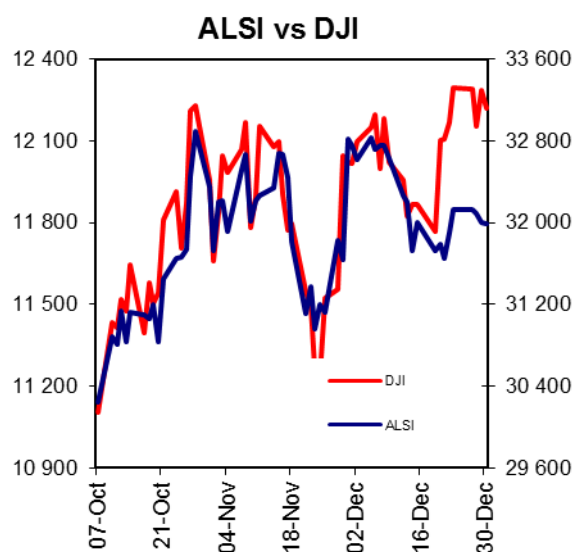
## Bond Update

The weeks over Christmas and New Year saw trade volumes in fixed income markets decline substantially, pushing overnight deposit rates sharply higher, to the highest levels since Q3 2010 at 6.50% this morning. Forward rate agreements, a gauge of interest rate expectations, were not moved by this liquidity squeeze. Bonds were also flat over this period, with the R157 yield trading in a range between 6.80-6.75% from Dec 21 to present. Local bonds substantially outperformed benchmark JSE equity indices in 2011. While the JSE Alsi declined 0.97% from Dec 30, 2010 to Dec 31, 2011, over the same period the R157 yield declined 58bps, or 7.91%. The R157 bond price therefore increased through the year. Going into 2012, we expect to see local equities catch up to bonds somewhat, however, still hold the view that local bonds will strengthen further this year. This is based on the premise that the crisis in Europe blows over, and that US data continues to strengthen, which will drive risk appetite and hence investment flows to local markets. This will also tend to be supportive of the ZAR. However, we continue to expect that interest rate expectations will pick up further in the first half of this year.



## JSE Update

Asian equities are starting 2012 on the front foot, with gains being seen on most Asian bourses overnight. The Shanghai composite is up 1.2%, the Hang Seng 2.1%, the Nikkei 0.7%, and the Aussie ASX 200 is up 1.1% at the time of writing. Alsi futures are also positive at the time of writing, up 0.72%. The USD is under pressure and this has seen the USD-ZAR move to lows of 8.0450 earlier this morning. Data released on Friday showed that domestic money supply growth remains robust, and this is expected will continue to support the JSE Alsi index in coming months. Looking back at 2011, note that the JSE Alsi index was virtually flat for the year, declining by a marginal 0.97% from Dec 31, 2010 to Dec 30, 2011. Except for a big dip in Q3 when the Eurozone crisis erupted and fears over the end of QE2 in the US, the Alsi actually traded in quite a narrow range and held near the highs of 33,000 points. During Q1, we may see the Alsi come under marginal pressure before rebounding and rallying to record highs later this year. We remain bullish of equities in 2012.



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