IQnews DAILY
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Date: 04 January 2012

USD-ZAR 8.0090/1100	**EUR-ZAR** 10.4563/5663	**GBP-ZAR** 12.5510/6668	**EUR-USD** 1.2985/086
GBP-USD 1.5584/685	**USD-JPY** 76.46/87	**AUD-USD** 1.0310/92	**R157** 6.740 %
GOLD $1 598.85	**BRENT** $111.82	**DJI** $111.82	**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

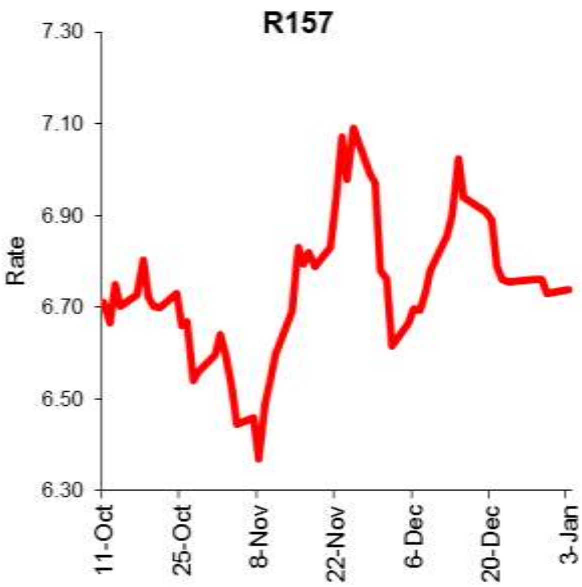
Fuel Price Update: During the course of December, an average USD-ZAR rate of roughly R8.19, coupled with an average Brent price of around $107.87/bl and an estimated refining cost of 45c/l resulted in a price decrease of 5c/l in 95 Reef petrol on Wednesday, 4 January. Annual fuel price inflation has declined to 21.53% y/y from 26.15% y/y in December. Consequently, the fuel price contribution to the annual CPI reading has waned to 0.85% y/y in January versus 1.03% y/y in December.

Rand Update

With the level of short positions on the EUR futures having risen to a fresh record last week that would have been a danger sign to many speculators that the current weakening in the EUR may have indeed run its course. So much in the way of bad news has been priced in that the EUR has simply lost some of that downside momentum. Trading simply on the unfolding crisis has become a bit like trading yesterday's news. Unless there is a fresh threat that could plunge the eurozone into fresh turmoil, any bit of good news is likely to generate a proportionately stronger response than any negative news. This comment is not aimed at turning everyone into EUR optimists but instead to offer a healthy alternative perspective to the very one-sided EUR pessimism that has existed for many months now and offers very good rationale for why Germany would think twice about wanting to exit the eurozone. In terms of the ZAR, the news out of Germany and the very one-sided EUR market have generated the possibility of a short term ZAR appreciation back below the 8.0000 handle vs the USD through the course of this week and possibly next. Add to that the risk of topside surprises with the US data and the general perception of risk off should extend through the week to also lend some support to the ZAR. Ahead of the US payrolls data on Fri we would prefer to trade off a small short USD base with risk off sentiment expected to improve further. According to Reuters data (bid chart), the ZAR finished stronger vs. the USD on Tuesday, closing at R8.0360 from R8.0606 on Monday. The ZAR weakened against the EUR, ending at R10.4996 from R10.4207 on Monday, while similarly finished weaker against the GBP at R12.5886 from R12.5004 the previous day.

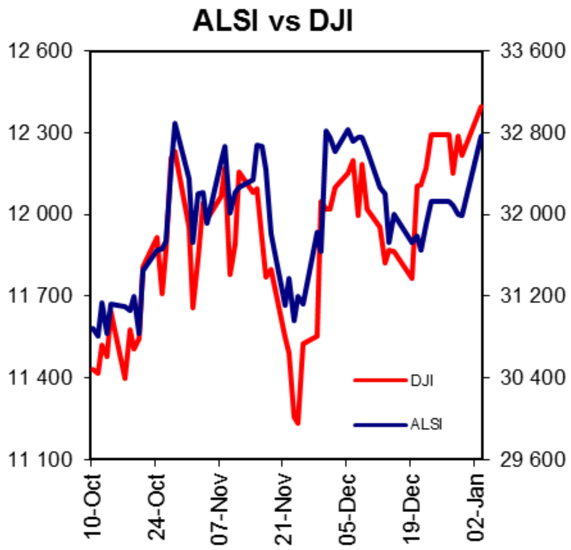
Bond Update

Local bonds came under very marginal pressure yesterday, as equities surged. This enticed investors to rotate from bond positions to equities. However, the R157 yield remains in the range pointed out yesterday, between 6.80-6.75% that has held since Dec 21. However, indications are that the yield is set to rise today, and likely to break above 6.80% in coming sessions. Market talk is that there are substantial liquidity shortages in the interbank lending markets, and that loans are very difficult to come by. This is pushing these interbank interest rates sharply higher at present. If this trend persists, local bonds may come under pressure as it would mean an illiquidity discount will be priced in to yields, pushing yields higher. However, bear in mind that the SARB has not held any liquidity-providing auctions over the holiday period, but will again resume these today. We expect that the SARB will make enough liquidity available today and that this will alleviate the liquidity pressures toward the end of the week. Interest rate expectations as measured by forward rate agreements (FRAs) continue to flat line, as trading volumes still remain low at the start of the new year.



JSE Update

Equities were tearing higher yesterday. Before the local open Asia was trading higher, then local and European equities opened higher, before Wall Street also opened on the front foot later in the session. The JSE Top 40 advanced by a not-so-modest 2.8% on the first trading day of 2012, as mining shares in particular surged. The Top 40 is now only 6.4% below record highs reached in middle 2008, and 3% below the peak of 2011. We continue to maintain the view that the Top 40 index will reach new record highs in 2012. Supporting the strong day for stocks was the better than expected China manufacturing PMI, and also two stronger than expected US data points, in the form of construction spending and the ISM manufacturing PMI. US economic data continues to confirm that the short-term cyclical economic upswing is materialising. Favour the view that as Europe and the UK economy starts to show signs of improvement, equities will extend gains even further. There are no local data releases due today, and players will continue to keep an eye on offshore developments.



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