

Date: 05 January 2012

USD-ZAR 8.0800/1883

GBP-USD 1.5550/654

GOLD \$1 618.80

EUR-ZAR 10.4548/5649

USD-JPY 76.53/94

BRENT \$113.70

GBP-ZAR 12.6310/7465

AUD-USD 1.0285/366

DJI 12 418.42

EUR-USD 1.2870/972

R157 6.855 %

3M JIBAR 5.600%

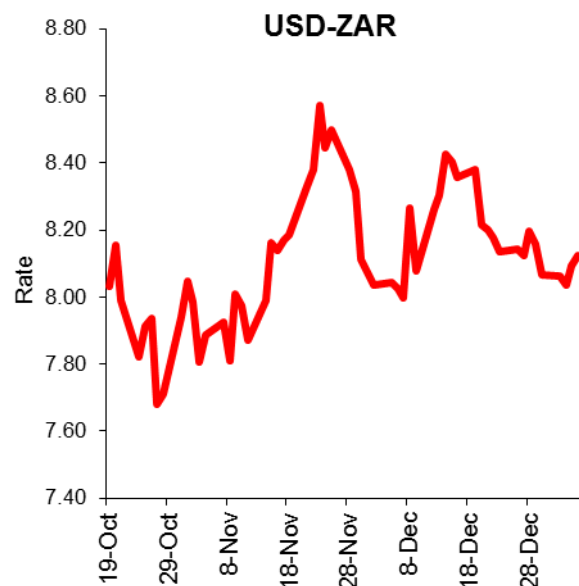
Time (GMT)	Country	Event	Month	Exp	Prior
09:28	SA	IMF Chief Christine Lagarde Visits SA			
10:00	GB	Services PMI	Dec	51.50	52.10
10:00	EZ	Industrial New Orders y/y	Oct		1.60%
10:00	EZ	PPI mm	Nov	0.10%	0.10%
12:30	US	Challenger Job cuts y/y	Dec		-12.80%
13:15	US	ADP Employment Change	Dec	170.0k	206.0k
13:30	US	Jobless Claims			
15:00	US	ISM Services PMI	Dec	53.00	52.00

Today's Talking Point

Energy Update: Yesterday the EU agreed in principle to ban Iranian exports, sending the price of Brent crude to an intra-day high of \$113.97/bl, its highest level since November 14. Should the higher oil price be sustained in the months ahead, it is bound to hurt global growth further. The risks include uncertainty regarding whether imposing sanctions is the correct policy considering that it will hurt the ailing EU economy.

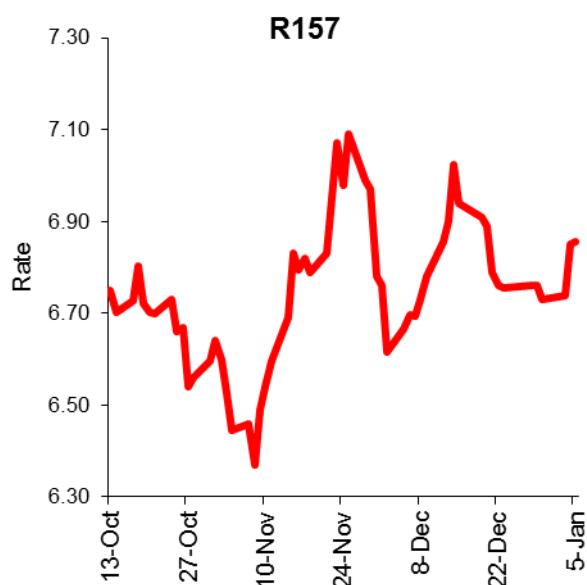
Rand Update

As if to remind us not to become too comfortable predicting currency direction, yesterday's ZAR weakness appeared to have come out of the blue. Again, the ZAR was a passenger in a far bigger move driven once again by developments in the eurozone than anything local. That being said, sources reveal that there has been a cash shortage in the domestic interbank money market that may be keeping foreigners a little cautious in the dealings on SA assets. Without the necessary liquidity to trade efficiently, the risk profile of SA as an investment destination rises and could in part explain the reluctance of foreigners to participate in greater measure to domestic movements. Nevertheless, the domestic cash shortage has not been the main driver of direction. The theme out of Europe has not changed. It remains about the sovereign difficulties that have kept investors cautious in how they treat the banks. Turning overly bearish on the EUR on the basis that there will be more bad news forthcoming comes with its own set of risks. A lot of bad news has been priced in and this has resulted in a very one-sided EUR currency market. This is what caught many traders off-guard at the start of the year and what could be repeated in the trading sessions ahead especially if the US data yet to be released this week continues to beat expectations. For the ZAR, this once again makes judging short term direction difficult. News flow out of Europe remains volatile but mostly poor, yet the EUR appears to be oversold in the near term. US data should help improve sentiment and promote a risk on trade all of which leaves us with no distinct direction this morning. According to Reuters data (bid chart), the ZAR finished weaker vs. the USD on Wednesday, closing at R8.0925 from R8.0360 on Tuesday. The ZAR strengthened against the EUR, ending at R10.4725 from R10.4996 on Tuesday, while finishing weaker against the GBP at R12.6389 from R12.5886 the previous day.



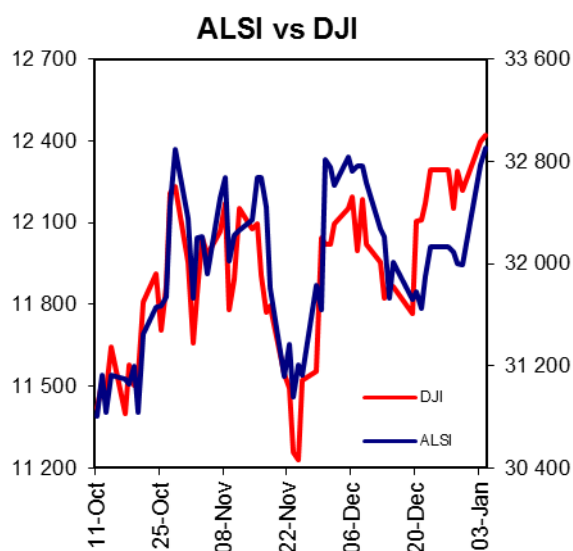
Bond Update

Technically local bonds were due for a retreat, and in line with this view, the R157 yield bounced above 6.80% yesterday to a close of 6.85%. The yield was up 10.5bps on the day yesterday. Yields shifted higher across the curve, yet the R186-R157 yield spread ticked 2.5bps higher to 178.5bps by the close. Turning to rate expectations, in line with our expectations, FRAs were paid sharply higher yesterday across the curve, suggesting that the market still sees the risk in favour of another interest rate hike rather than another cut toward late 2012. The entire term structure of rates, from FRAs to longer dated bonds, has been paid higher in the past two days. It may be owed to an overreaction to the liquidity shortages on interbank markets, and as a result be unsustainable. However, rising interest rates is likely also related to a general rotation away from EMs with major problems developing in Hungary. However, as we have been arguing for some time, fundamentals suggest local rate expectations will continue to pick up in coming months. Ahead of the local open, local bonds remain under pressure across the curve. Expect the local bonds to retreat further going into the weekend.



JSE Update

The JSE Alsi extended gains yesterday, adding another 0.4% on the day to close at 32,899 points. Since August 2011, when looking at the chart of the Alsi index, the trend has been very definitely and clearly from the lower left of the chart to the upper right – a bull market over the past five months. Over this period, the Alsi has climbed a wall of worry, continuing to advance despite some very negative news out of Europe and China. We continue to maintain the view that equities will climb even further in the new year and will soon reach new record highs. There is no local data due for release until next week, but markets will most likely keep an eye on Christine Lagarde, the head of the IMF, to see whether she makes any comments about the South African economy while she's here. Interesting to note that corporate cash deposits now exceed R470 billion, according Nedgroup Investments. This suggests corporates still remain very weary of the local growth outlook for 2012, and prefer sitting with cash on the balance sheet rather than investment assets. Once this cash is deployed, it may very likely boost equity prices even further, and place upward pressure on interest rates.



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