IQnews DAILY

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Date: 06 January 2012

USD-ZAR 8.1065/2500 | **EUR-ZAR** 10.3713/5343 | **GBP-ZAR** 12.5907/7686 | **EUR-USD** 1.2728/830
GBP-USD 1.5442/543 | **USD-JPY** 77.02/44 | **AUD-USD** 1.0194/277 | **R157** 6.865 %
GOLD $1 624.99 | **BRENT** $112.44 | **DJI** 12 415.70 | **3M JIBAR** 5.600%

Time (GMT)	Country	Event	Month	Exp	Prior
10:00	EZ	Sentiment Indicators	Dec		
10:00	EZ	Unemployment Rate	Nov	10.30%	10.30%
11:00	DE	Factory Orders m/m	Nov	-1.50%	5.20%
13:30	US	Non-Farm Payrolls	Dec	140.0k	120.0k
13:30	US	Unemployment Rate	Dec	8.70%	8.60%

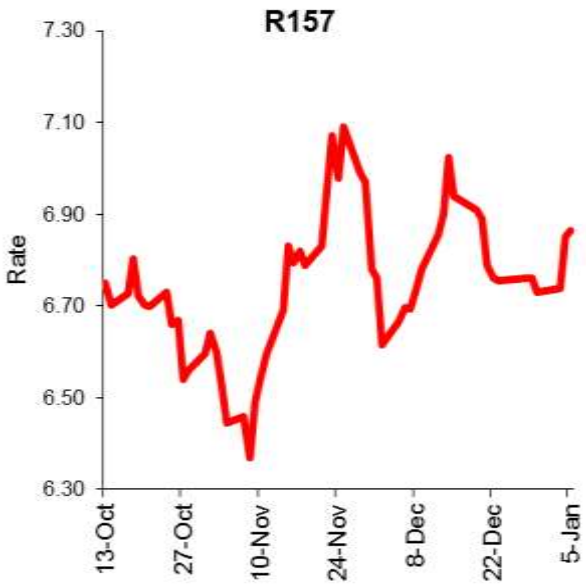
Today's Talking Point

Positive net foreign fund inflows expected to continue: It was a rather mixed performance in Dec in terms of foreign fund flows to and from the local financial markets. One may be interested to note that foreign investors continue to favour local bonds over equities, with a net inflow of R2.7bn into bonds compared to an outflow of R1.6bn from equities seen in the month. The domestic market is expected to be a recipient of inflows in the months ahead due to large monetary stimulus injected previously from the Fed and increasing stimulus from the ECB. This stimulus generates higher cash levels with which investors typically put on riskier positions in higher yielding assets such as local bonds.

Rand Update

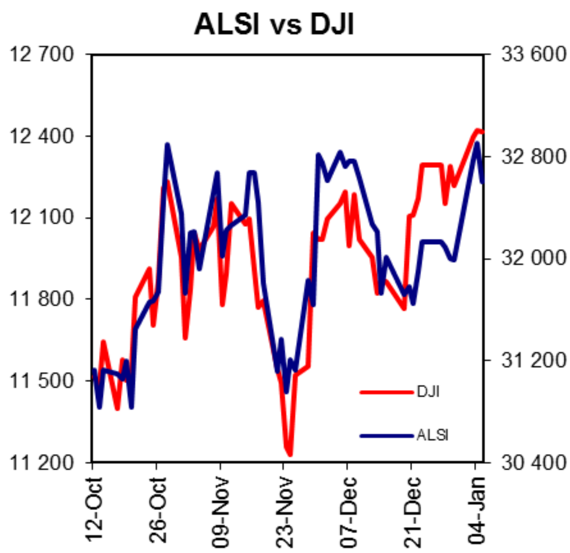
There are many countervailing forces to consider at the moment and which make direction finding exceptionally difficult. On the one hand the US data is showing firm signs of improvement with the effects of the credit taps opening supporting the manufacturing sector of the US economy. On the other hand, the US is about to bump into its debt ceiling again. Whilst the US economy is being supported by monetary stimulation, there are already signs emerging that the monetary boost may not last particularly long and that failing more monetary stimulation around the middle of the year, a fresh downturn could start to unfold. Out of Europe, everyone remains pessimistic. The economic variables are pointing to a recession and few people fully understand the implications of the latest round of stimulation by the ECB. For the most part, investors expect more pain in Europe and anticipate the debt crisis to remain in full swing for all of 2012 and beyond. However, whilst all this might be true, the Europeans are implementing fiscal and structural reforms which have kept their budget deficits much smaller than those of the US and are making in-roads to rebalancing the economy for the future. For the ZAR, the implication of the kind of monetary stimulation being applied abroad is that the authorities will fight against a massive recession and a banking collapse to keep the global economy in a more benign, albeit negative state of existence. It also means that SA's relatively conservative policies should on the whole translate into some underlying support for the ZAR through the months and quarters ahead and that 2012 should not be a negative year as 2011 was. According to Reuters data (bid chart), the ZAR finished weaker vs. the USD on Thursday, closing at R8.1900 form R8.0925 on Wednesday. The ZAR strengthened against the EUR, ending at R10.4676 from R10.4725 on Wednesday, while finishing weaker against the GBP at R12.6839 from R12.6389 the previous day.

Bond Update



As mentioned in the equity comment, eyes are turned to Hungary where a debt crisis is spiralling out of control. As Hungarian T-Bill yields have surged from 7.9% on Dec 22 to 10% at an auction yesterday, credit risk has also been priced into South African bonds. The SA 5yr CDS spread, a measure of default risk of the government, has jumped nearly 20bps in two days to 218bps yesterday. This means the market is also imputing contagion risk to SA owing to the Hungarian crisis. There is very little otherwise to ascribe the risk in this spread to other than Hungary. Local bonds came under pressure early in the day yesterday, but managed to erase losses by the close and see yields on short-term government bonds close below opening levels. This followed a day of sharp losses on Wednesday. Throughout the local trading session, the USD-ZAR was trending lower, and this supported local bonds. However, interesting to note that interest rate expectations looking 6 to 15 months out continued to climb, as the market sees an increasing possibility of interest rate hikes by late 2012/early 2013. Once again there is no local data due for release today, so players will look to the US labour market report out later.

JSE Update



After rallying 2.88% in two days on Tuesday and Wednesday, the Alsi was due for a retreat, and declined 0.91% yesterday. The Alsi is still up 1.92% from the first trading day of 2012. It is likely that the Alsi retreats further today, but we don't expect the index to fall below levels of 32,252 points, which would mean the JSE closes the first week of 2012 in the green. Data out the US again showed that the labour market is improving, with the ADP report released yesterday reporting an increase of 325k new private sector jobs in December, the most since December 2010. Equity markets will today be looking ahead to the non-farm payrolls report to be released in the US, which is now expected to also show a more positive reading. Overall, the positive US labour market news is positive for equity markets. That said, there are renewed debt crisis risks in the Eurozone, this time from Hungary. The Hungarian government has huge debt repayment bills due in coming months, and it is unclear how this will be paid for. As a result, Hungarian bonds have fallen sharply in recent weeks, and this has kept European bank stocks under pressure, as a Hungarian default would once again put European banks at risk of default, this time Austrian banks.

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