

Date: 09 January 2012

USD-ZAR 8.0800/2800  
 GBP-USD 1.5376/479  
 GOLD \$1 610.29

EUR-ZAR 10.2865/5177  
 USD-JPY 76.70/7.13  
 BRENT \$113.20

GBP-ZAR 12.4938/7525  
 AUD-USD 1.0140/222  
 DJI 12 359.92

EUR-USD 1.2664/768  
 R157 6.880 %  
 3M JIBAR 5.600%

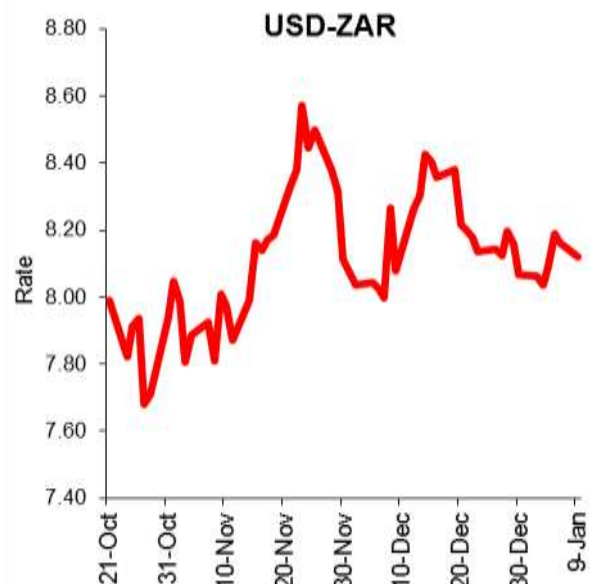
Time (GMT)	Country	Event	Month	Exp	Prior
08:00	SA	Net Reserves	Dec		\$48.6bn
07:00	DE	Exports m/m	Nov	1.20%	-3.60%
09:30	EZ	Sentix Investor confidence index	Jan		-24
11:00	DE	Total industrial production m/m	Nov	-0.50%	0.80%
17:40	US	Fed member Lockhart speaks on economic outlook			
20:00	US	Consumer credit	Nov	7.00bn	7.65bn

## Today's Talking Point

**Net Reserves (Dec):** SA's gross reserves declined to \$48.86bn in December from \$49.65bn in November. The adjustment in the reserves was largely owed to a substantial decline in the Gold price, dipping to \$1560.52/oz versus \$1713.47/oz in November. Furthermore a currency revaluation adjustment on the back of an appreciation in the USD also contributed to the magnitude of the decline in reserves. Net reserves fell to \$47.87bn from \$48.63bn in November. Despite market volatility it appears as though the SARB still refrains from intervening significantly in the FX markets.

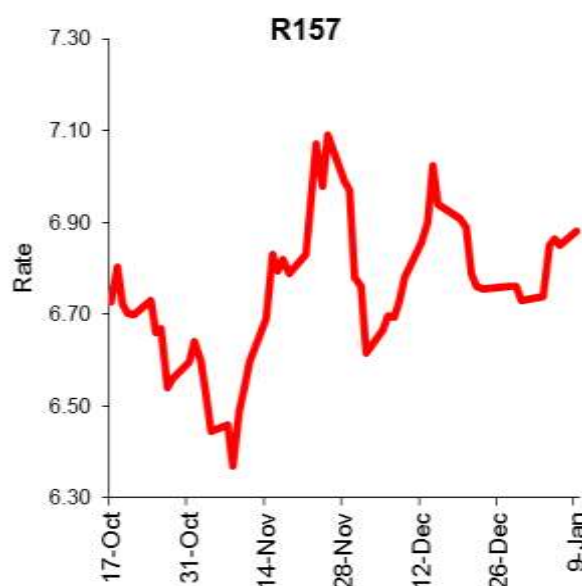
## Rand Update

In trade weighted ZAR terms the ZAR is holding its own and doing well against the likes of the EUR. To some degree this makes sense. The US economy appears to be recovering and although we question the sustainability of the recovery, we cannot ignore the prospect that investors will favour the USD above the likes of the EUR as a result. In contrast, the eurozone appears to be headed into recession and the political environment remains fragmented. German and French leaders may be meeting today to discuss ways of proceeding towards greater fiscal integration, but the reality is that this will change little in the near term. The banking system remains in trouble, sovereigns are being downgraded and need central bank help and the prospects for growth in 2012 are very poor. The points above form the foundation of the view that the EUR has further to weaken. This is however a fairly simplistic view and whilst it may make intuitive sense, it has led to a very one-sided trade where the number of short positions on the EUR has now risen to record levels and looks set to build even further. There is no acknowledgement for the influence of money printing and the effects this may have in the medium term. The reason we mention this is because in the short term, movements on the EUR-USD can have an effect on the USD-ZAR. It is also important to note that the catalyst for a resumption in negative sentiment towards the USD may come about as a result of a return in focus to the US debt ceiling. One should therefore be cautious of turning overly pessimistic on either the EUR or the ZAR. According to Reuters data (bid chart), the ZAR finished stronger vs. the USD on Friday, closing at R8.1637 from R8.1900 on Thursday. The ZAR strengthened against the EUR, ending at R10.3842 from R10.4676 on Thursday, while similarly finished stronger against the GBP at R12.5966 from R12.6839 the previous day.



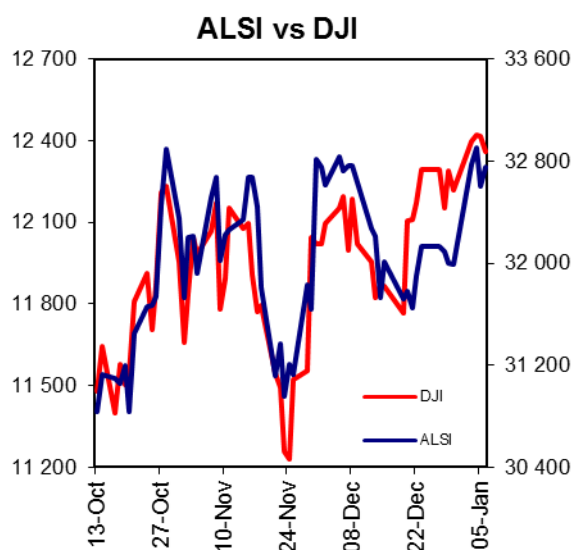
## Bond Update

Risk aversion owing to the developing Hungary crisis has kept SA bonds under pressure in the past week. The R157 government bond yield bounced from lows of 6.71% to highs of 6.95% last week, before closing the week at 6.85%. Stochastics on the R157 daily chart suggests the bond is oversold, and that the yield may begin to moderate again in the week ahead. We continue to maintain our bullish view of SA benchmark bonds relative to US Treasuries. Note that FRAs have seen healthy payer interest across the board in the first week of 2012, a sign that interest rate expectations are climbing. 3x6 and 6x9 FRA yields both tested recent highs last week, before moderating late in the week. The moderation of FRA yields is likely to extend at the start of this week, however, favour locking in payer rates on such a decline. We maintain the view that rate expectations are likely to climb further in coming months. This will be likely to support the Rand as well, so exporters should look at locking in favourable Rand forward positions in coming weeks. Data just released by the Reserve Bank shows that it was once again not intervening to weaken the Rand in December.



## JSE Update

A positive opening session set a solid base for the local market, and although the local bourse eased in the latter half of the day, it managed to end marginally higher. By the close the ALSI was up 0.46%, one of the only indices across global markets to close the week on a positive note. It has been a relatively good start to the year for the ALSI, with three of the four days within the first week of trade closing higher. However, EZ markets failed to capitalise on early gains, this even after positive employment figures from the US gave a lift to markets as the first week of trading for 2012 came to a close. Despite the fact that data showed US employment growth as accelerating last month, most major global equities ended the week lower. In the US, investors are gearing up for the unofficial start of corporate earnings season but will remain cognisant of European developments. Caution is likely to be favoured in early trade with an air of uncertainty ahead of the local open. Although there are a number of local data releases this week, the core focus will be on the ECB rate decision scheduled for Thursday.



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