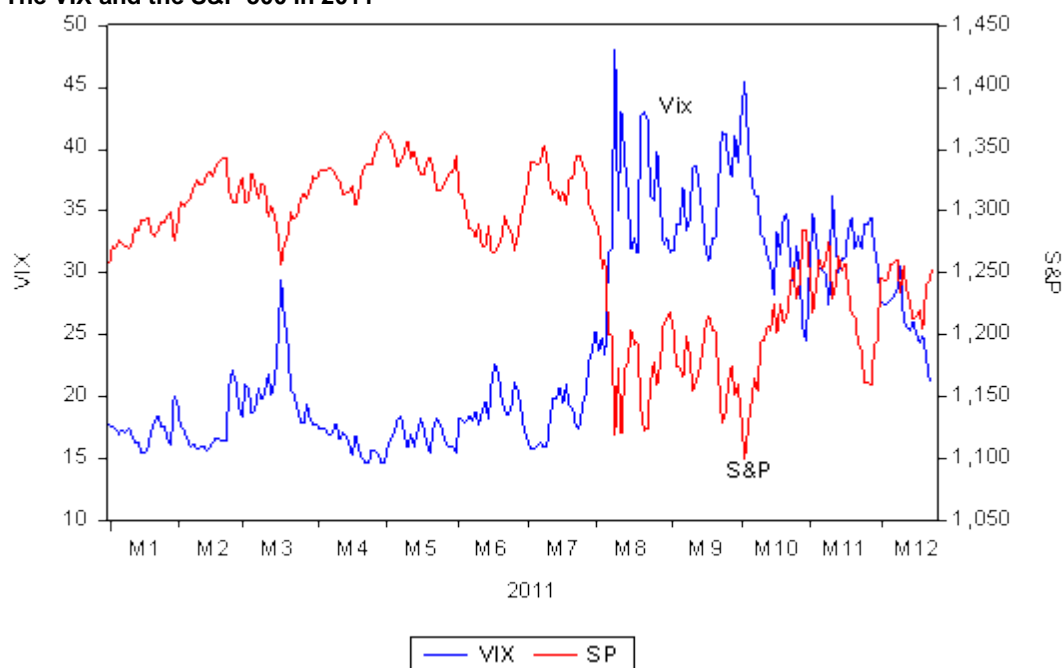


Talking Point: A New Year wish – with encouragement from the ECB

The ECB has finally acted as a lender of last resort (without limit) to the European banks, who had been threatened by the weakness in the European Government bonds they hold. These bonds are now being used as collateral by the banks for three year money from the ECB at 1% per annum. Nearly EUR500bn has been raised this way, in part presumably to buy three year bonds issued by their own governments. The steps taken by the ECB will surely eliminate the prospect of a banking crisis in Europe. They will also help to take pressure off Euro bond yields, leaving more time for Europe to address its fundamental fiscal and growth issues that money creation alone cannot solve.

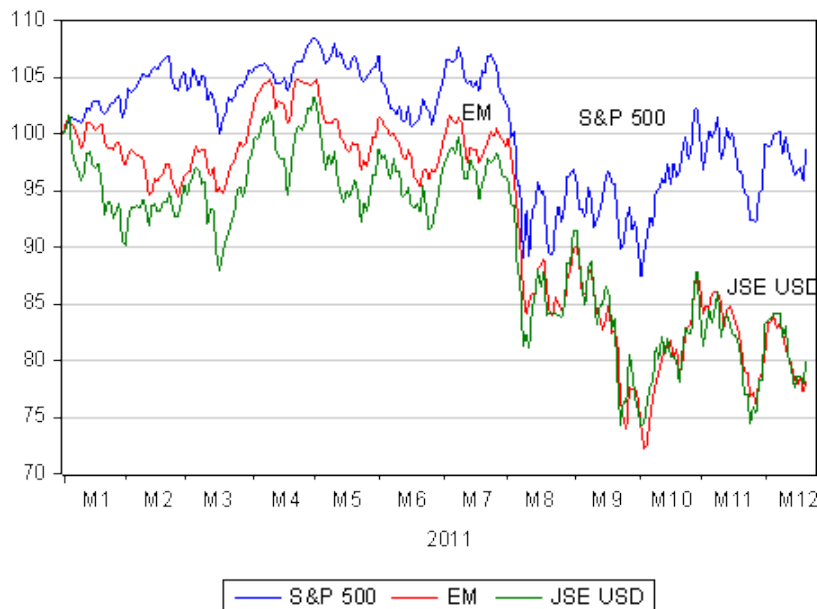
The markets seem to agree that these steps have reduced the prospect of a financial meltdown. Volatility priced into options issued on the S&P 500, as measured by the Volatility Index traded in Chicago (the fear index), clearly show the improved mood in the market. This has been accompanied simultaneously with strength in the S&P and other equity markets. The S&P 500 has been a distinct outperformer this year, while the emerging market (EM) Index and its very close cousin, the JSE (in US dollar terms) have been lagging well behind.

The VIX and the S&P 500 in 2011



Source: I-Net Bridge, Bloomberg and Investec Wealth & Investment

Equity market performance in 2011 in US dollars (1 January 2011 = 100)

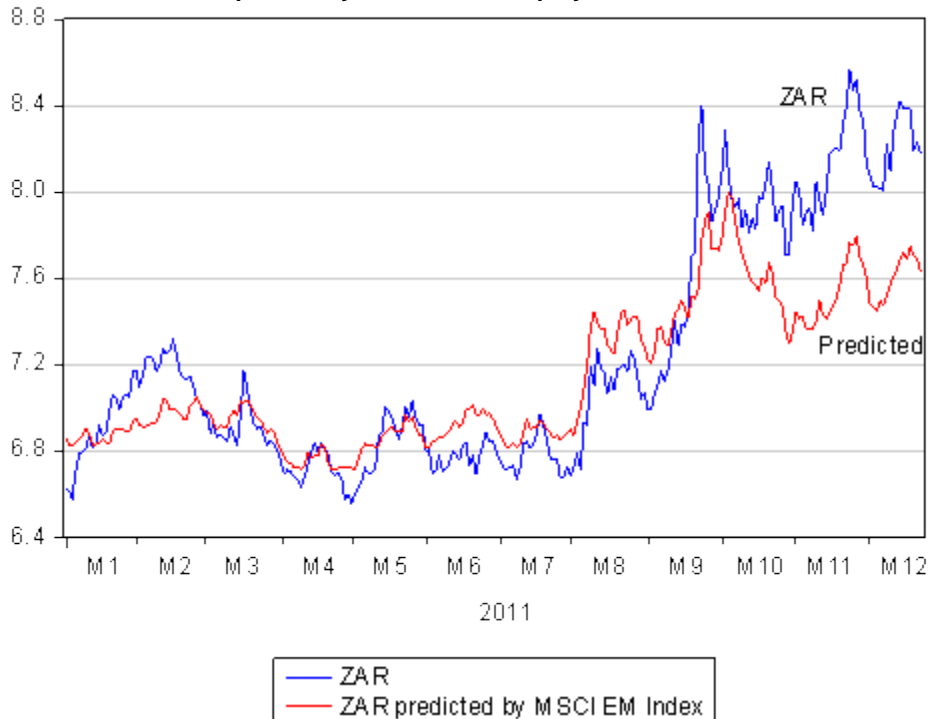


Source: I-Net Bridge, Bloomberg and Investec Wealth & Investment

The rand has continued to respond to the direction given by global equity markets. However as we show below, the rand since September 2011 has been weaker than would have been predicted by the EM Index alone. Fair value for the rand yesterday (given the level of the EM) would have been R7.62 rather than the R8.18 at the New York close.

If the market comes to price less Euro risk into equity and bond markets (as we think would be justified) we can expect further strength in global equity markets and perhaps hopefully also some relative strength in Emerging Equity markets, including the JSE and so the rand. That would be our New Year wish. **Brian Kantor**

The rand in 2011, explained by the MSCI EM Equity Index



Source: I-Net Bridge, Bloomberg and Investec Wealth & Investment

