

As we draw the curtains on a very successful January for global asset markets (Gold +11.1%, Platinum +14%, Silver +19.6%, Copper +10%, Top40 +6%, EXX +14.8%, BIL +12.7%, NPN +11%, AGL +9.8%), the question arises – where to next?

Historically speaking a start to the year as the one we have just witnessed normally leads to a stunning year ahead. Yet here we are, wondering over Greece (and Portugal); confused about the US debt ceiling (and Japanese debt/GDP); awaiting a State of the Nation address (and the detail of the National Budget). While German unemployment printed its lowest level since the early 90s, Greek unemployment continues to sky rocket. Another favourite chart currently used in macro presentations is that of youth unemployment levels in the European periphery. Elsewhere China did not appease the market by introducing a further RRR cut post its New Year celebrations, while the Australian property market is starting to show up as a concern.

So what are we to make of all of this? The short answer is we need to stay open-minded (for the foreseeable future).

The extent to which the sharp rally in risky assets year-to-date can continue near term will be brought into sharp focus over coming weeks with markets facing two key events/tests: 1) the EU Summit and the subsequent Troika decision; 2) tier-1 US economic data. With risk-takers clearly shifting their radar to Portugal, a 50% haircut on any Greek PSI deal (which is actually the same as a 70% loss) might not be enough to stem the tide that continues to rise against the European periphery. Whether financial markets are relying too heavily on the potential scope for a joint venture between the US and EU to announce a 'bazooka' and/or QE in the UK and more LTRO in Europe, only time will tell. What is clear is that cash balances do exceed that which we saw in January 2011 (by almost \$1 trillion) and therefore we should appreciate that after a poor year for macro funds, the current momentum in trading strategies might lead to some further "pressing".

"It is therefore understandable that foreigners managed to buy an impressive R7bn worth of South African bonds in January. Worryingly though, the opposite trend continues unabated on the equity front, with net selling of R6.1bn chalked last month."

With local asset managers close to their maximum exposure to foreign assets, at 15% on their local bond allocation, and foreigners still owning around 35-40% of the local equity market, we need to ask ourselves what happens next?

With the South African yield curve remaining one of the steepest in the world, and despite inflation expected to move further outside the 3-6% target band, demand by the foreign contingent for duration will likely continue into any mini sell-offs. It is local interest that is probably slightly harder to gauge as fair value models show bonds up as slightly expensive, although some might argue in doing so it might be using 'old normal' inputs.

Look for the National Budget and State of the Nation address to cause some volatility, with some key issues to look out for including NHI, bond issuance and bond buybacks.

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