

17 January 2012

We delayed the weekly report by 1 day as yesterday was a public holiday in the USA. Markets are rising today despite a slew of sovereign downgrades in Europe on Friday by S&P. It looks like the market was expecting the downgrades and is taking it in its stride. If anxiety over Europe continues to dissipate we see large upside potential in crude oil.

The Past Week

WTI crude oil is almost unchanged for the week. The price came under pressure towards the end of last week as European politicians moved out the date for an oil embargo on Iran by 6 months. However, the price is rebounding after successful bond auction in France despite the ratings downgrade.

Technically, we are more bearish than bullish after last week's price action where the important swing low at \$98 was taken out. This would normally call for lower prices but the current bounce above \$100 is providing support. That said, we expect a move lower to \$95. If however, \$100 holds, the move up can extend up to resistance at \$104, which we expect to hold.

We expect a range of \$95-104 for the rest of the week.

The Rand gained 1.7% in volatile trading. The trend was for quick, violent weakening spurts as negative news came out or the Euro lost ground, followed by slow but steady rallies back towards R8/US\$ level. It looks as if the Rand is slightly de-coupling from the Euro and gaining ground as the price of gold and other precious metals gain.

Since 20 December, the Rand has been trading range-bound between R8.0-8.2 / US\$. In the short-term it looks like a break of the R8/\$ level is possible. Technically, we expect R7.86 to hold to the downside but a breach of that level can see the Rand move back to R7.5/\$ and even down to the 240day moving average at R7.34/\$.

We expect a range of R8.1-8.5/US\$ for the rest of the week.

Indicator	9-Jan-12	17-Jan-12
WTI	101	100.3
ZAR	8.18	8.04

Sell the rumour, buy the fact?

The market is full of clichés. One of them goes: Buy the rumour, sell the fact. This is normally applicable to situations where good news is expected and as time goes by, the good news is priced in, resulting in a decline in prices once the good news comes out (due to profit-taking).

The opposite usually happens on expectations of bad news. The debt crisis in Europe has dragged on for so long, that a lot of negativity has been priced into a number of markets, including oil. Yet, despite doomsday predictions from many market participants, there hasn't been a default out of Europe.

On Friday, Standard & Poor's downgraded the sovereign debt ratings of almost all European countries except Germany. The market initially declined on the downgrades. However, yesterday France sold bonds at yields below pre-downgrade levels. This seems to indicate that the downgrades were already priced in.

Could it be possible that a worst-case scenario for Europe has already been priced in and bears are getting tired of the situation? If that is indeed the case, we believe that WTI could quickly rally to \$110/bbl failing any geo-political troubles. Should Iran concerns re-surface, \$130 can be taken out long before July 2012.

Economic Indicators and Outlook for the Week

The Dow gained a modest 0.5% over the past week. It's not far from the 3year high at 12900 reached in April last year. The proximity of the high is providing resistance, but we believe a break of the level can happen in the first quarter of 2011. **We expect a range of 12100 - 12700.**

The Euro is unchanged after rebounding from a torrid week. The sovereign downgrades by S&P placed the Euro under pressure initially but a rebound is underway and it is possible that we have seen the low for the year. **We expect a range of Eur1.264-1.29/US\$.** (The weak Euro is not good for oil prices).

Gold gained 3% for the week. We expect the gold price to continue up. **We expect a range of \$1640-1690/oz.**

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Local Diesel Price

Yesterday the average under recovery on 0.05% (500ppm) diesel was 0.683 c/L.

The Top40 gained 1.5% for the week. It looks like it has broken significant resistance and we expect a significant move up. **We expect a range of 29400-30600.**

Indicator	9-Jan-12	17-Jan-12
Dow Jones	12359	12422
Euro/\$	1.272	1.2728
Gold	1613	1659
Top40	29209	29639

Conclusion

We are technically slightly bearish, but turning rather bullish fundamentally on crude oil.

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