The Daily Market

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04 May 2021

USD-ZAR	14.4322/14.4436	**GBP-ZAR**	20.0173/20.0413
GBP-USD	1.3872/1.3925	**AUD-USD**	0.7741/0.7743
GOLD	$1786.96	**DJI**	34113,23
EUR-ZAR	17.3716/17.38	**EUR-USD**	1.2033/1.2036
USD-JPY	109.28/109.3	**R 186**	7.39%
BRENT	$67.47	**3m JIBAR**	3,675

EVENTS

GMT	Country	Event	Period	F/C	Prior
09:00	SA	Bond Auction (R4.8mn of R 213, R 2035, R 2048)			
04:30	AU	RBA rate decision	May 4	0,10%	0,10%
08:30	GB	Markit manufacturing PMI	Apr F	60,70	60,70
12:30	US	Trade balance	Mar	$-73,40bn	$-71,10bn
14:00	US	Durable goods orders m/m	Mar F		0,50%
14:00	US	Factory orders	Mar	1,60%	-0,80%

FACTORS ON THE RADAR

Fedspeak

What happened?	>	Fed Chairman Powell confirmed that the economic outlook had brightened but that the economy had further to recover before the Fed might tighten
Relevance	>	Powell highlighted the racial & educational disparities due to the pandemic that still need to close
Importance	>	4/5 (economy, monetary policy)
Analysis	>	However, Powell was optimistic now that he could see clear signs that the economy was making real progress in its economic recovery as the economy reopens on a broad scale

US manufacturing

What happened?	>	ISM manufacturing index fell to 60.7 in Apr from 64.7 in Mar. Although still a strong reading, the data also captured record-long lead times
Relevance	>	New orders and employment measures decline, mainly due to bottlenecks
Importance	>	4/5 (economy)
Analysis	>	This data should not be seen as a sign that underlying momentum is faltering. It is likely to pick up again much stronger in H2 when many supply chains normalise

RBA

What happened?	>	As expected, the RBA held its target of 10bp for the 3yr bond yields and has maintained the parameters for the bond-buying programme
Relevance	>	RBA will persist with this supportive policy until goals of full employment and inflation are met
Importance	>	3/5 (monetary policy)
Analysis	>	The RBA does not expect that these goals will be met until 2024, implying that loose policy is here to stay. Any increase in inflation later this year is likely to be temporary

TODAY'S TALKING POINT

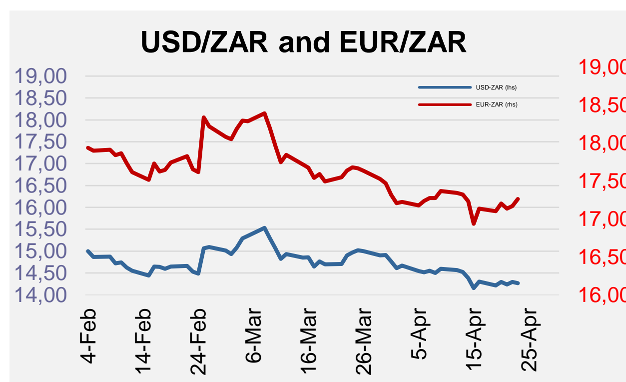
US Factory orders: Mar
Expected: 2.0%
Prior: -0.8%
Analysis: After temporarily dipping in February, US factory orders are expected to have rebounded in March as business sentiment improved amid the progress being made on the vaccination rollout and after the Biden administration announced another colossal stimulus package. Looking forward, economic prospects in the US will continue to improve as the number of new daily COVID-19 cases fall and the population builds immunity to the coronavirus. Against this backdrop, it is expected that US factory orders will rise further in the months ahead as the manufacturing sector continues to recover from the COVID-19 shock in 2020.

RAND UPDATE

The ZAR strengthened yesterday in thinner trading conditions, paring last week's losses as it ended near the top of the EM basket of currencies with a 0.65% gain from Friday's close of 14.4950/$. This was more a function of US dollar weakness though, rather than ZAR strength, as US manufacturing data came out slightly weaker than expected, tempering bets that the US economic recovery will continue at the current pace and denting the appeal of the greenback against most major currencies.

However, emerging markets were more mixed against the USD yesterday, while the ZAR had some positive domestic data readings helping it to secure its spot amongst the gainers. The Absa manufacturing PMI moderated to 56.2 in April from a prior figure of 57.4, but thus still remains above the 50-mark for the ninth consecutive mark, signalling expansionary conditions for the manufacturing sector. That said, pressure on the industry is likely to remain as it continues its ongoing recovery. These range from power outages, a slow vaccine rollout, still subdued demand and further headwinds from surging commodity and input prices, which marginalise profits amid the already tough business environment.

On the domestic demand front, Naamsa vehicle sales data released yesterday appeared to show massively rebounding vehicle sales on an annual basis in April, but recall this will be due to base effects as almost no vehicles were sold during last year's April lockdown. Upon closer inspection, vehicle sales fell month-on-month, recording a contraction of 17.6% from March. This goes to show the uneven nature of the domestic recovery amidst persistently weak business confidence.

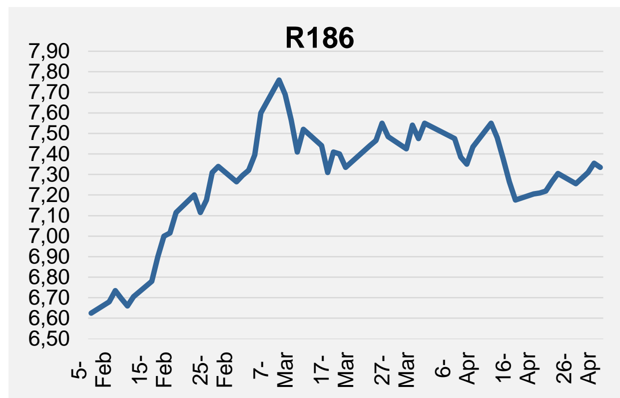


Big news for the bond market yesterday was that of another reduction in auction amounts. Auction debt on offer will shrink by R900mn per week to R3.9bn per week. This is down from highs of R6.6bn/week in lockdown. National Treasury links this to higher-than-expected tax intake, yet one should also bear in mind that NT was aggressively funding through 2020 given concerns about not being able to raise sufficient capital.

The R6.6bn weekly offering implied a roughly R343bn in annual issuance when assuming an issuance every week, which in addition to the non-competitive sales would raise total issuance to about R686bn. This would have been above the R562bn fiscal deficit registered from April 2020 to March 2021, according to NT data.

The new R3.9bn amount represents a 40% reduction from these levels to $405bn in issuance if extrapolated to an annual figure. With the roughly R120bn in over-issuance (686bn less the 562bn) added to that, we get a deficit of roughly R530bn expected in the fiscal year, which, when compared with a nominal GDP expectation of R5352.2bn, still implies a 10% funding deficit.

The reduction is due to higher taxes, but this should not be mistaken with an improving fiscal picture. Lest we forget that the fiscal deficit is still eye-wateringly wide in 2021/2022 and could exceed 10% if S&P Ratings' assumptions for the year ahead are anything to go by. A few years back, this kind of deficit would be unheard of. Taxes have not recovered so much as they have returned to trend, while government spending has remained buoyed and may struggle to consolidate amid rising input costs and increased dispensations over COVID regulations.



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