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# The Daily Market
## Make it your business

**08 June 2021**

| | | | |
|---|---|---|---|
| **USD-ZAR** | 13.5273/13.5393 | **GBP-ZAR** | 19.147/19.171 |
| **GBP-USD** | 1.4156/1.4207 | **AUD-USD** | 0.7745/0.7746 |
| **GOLD** | $1895.11 | **DJI** | 34630,24 |
| **EUR-ZAR** | 16.479/16.4888 | **EUR-USD** | 1.2178/1.2179 |
| **USD-JPY** | 109.39/109.41 | **R 186** | 7.28% |
| **BRENT** | $70.78 | **3m JIBAR** | 3,683 |

## EVENTS

| | | | | | |
|---|---|---|---|---|---|
| 09:00 | SA | Bond auction (R3,900mn of R 213, R 2032, R 2037) | | | |
| 09:30 | SA | GDP y/y nsa | 1Q | -2,70% | -4,10% |
| 06:00 | GE | Industrial production wda y/y | Apr | 29,50% | 5,10% |
| 09:00 | EZ | GDP sa y/y | 1Q F | -1,80% | -1,80% |
| 09:00 | EZ | ZEW economic sentiment | Jun | | 84,00 |
| 09:00 | GE | ZEW economic sentiment | Jun | 85,00 | 84,40 |

# FACTORS ON THE RADAR

## UK retail sales

| | | |
|---|---|---|
| What happened? | > | British Retail Consortium has reported strong May retail sales, up 10% y/y, with consumer spending also up 7.6% y/y. Total sales are up 28.4% y/y and like-for-like sales up 18.5% y/y. |
| Relevance | > | Low base factors are obviously impacting the growth rate, but it is a solid showing that will persist through H2 2021 |
| Importance | > | 3/5 (economy) |
| Analysis | > | The recovery is now well underway, with the June sales likely to be as strong if not stronger. Furthermore, H2 2021 will be characterised by monetary and fiscal stimulus effects that have yet to manifest fully. |

## US Housing

| | | |
|---|---|---|
| What happened? | > | A Fannie Mae survey showed that the percentage of people who felt it was a good time to buy a home declined to 35% in May, the lowest since the survey began |
| Relevance | > | The House Purchase Sentiment Indicator has fallen to a record low level after a phase of growth |
| Importance | > | 3/5 (economy) |
| Analysis | > | After an impressive run through the past year driven by ultra-low interest rates, high prices deter would-be buyers. This reflects the distortionary effect ultra-loose monetary policy has |

## ECB purchases

| | | |
|---|---|---|
| What happened? | > | The ECB bought five times more bonds in April and May than the EZ's four largest countries sold, and bond yields still rose |
| Relevance | > | Yields might've been even higher had the ECB not intervened as they did |
| Importance | > | 4/5 (economy, monetary policy) |
| Analysis | > | The ECB bought €135bn worth of bonds from the four largest countries, and still, the power of the market to position for growth, inflation and liquidity dominated |

# TODAY'S TALKING POINT

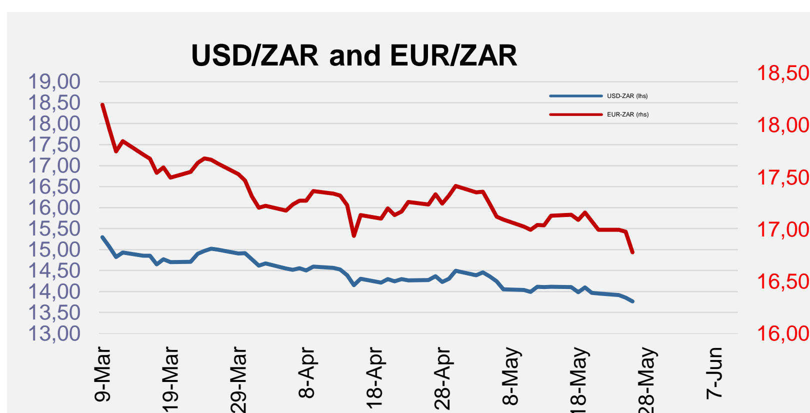
**GDP y/y: Q1**
**Expected: -2.8%**
**Prior: -4.1%**
**Analysis:** Economic activity in the first quarter of the year is estimated to have continued its recovery but remained below pre-pandemic growth levels due to Covid-related shocks and the reintroduction of coronavirus restrictions. Even though the print is expected to highlight an uneven recovery, with some sectors recovering at a more rapid pace while others lag, there has been a broad improvement in consumer and business confidence and demand dynamics. However, for the recovery to continue at a significant pace going forward, we will need to see increased investment levels, the swift implementation of reforms and a declining unemployment rate. While the more permanent impacts of the lockdowns will still linger, failure to address SA's structural challenges will see the weak growth dynamics remain this year.

# RAND UPDATE

The USD-ZAR gradually appreciated during yesterday's domestic trading hours, despite pressure remaining on the US dollar at the start of the week. Recall last week ended with a softer-than-expected nonfarm payrolls print, which ultimately tempered bets that the US economy was approaching a stage where the Fed may begin to consider paring back monetary support.

While the tapering of monetary policy support will eventually lead to some emerging market asset and currency pressure, this is only once developed-world central banks' inflation and employment targets have been met. Specifically, for the US, there would still need to be several months of solid hiring and elevated inflation for the Fed to pare back its policy support and, as such, loose offshore policy will continue to support emerging market asset flows.
However, traders ultimately decided to book profits on the ZAR yesterday following its 2.50% rise last week, and the local unit fell 0.70% against a broadly softer USD to close at 13.5200/$. Though, the local currency's fast rise through the latter half of May and the beginning of June has mainly gone uncontested and secured the unit's strongest levels since February 2019.

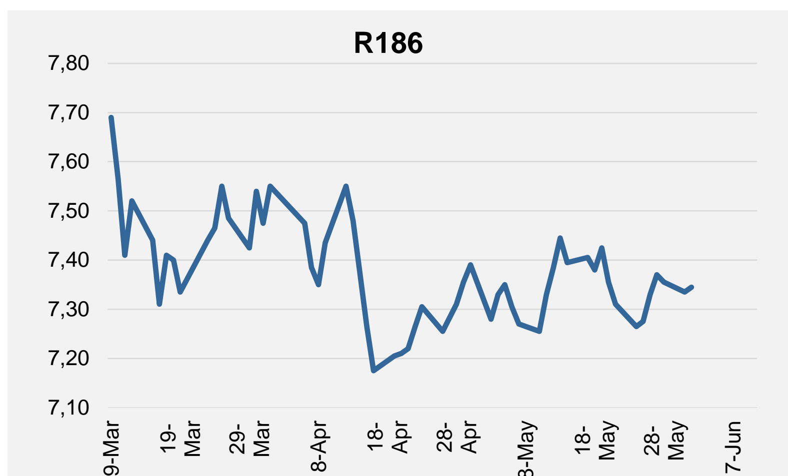
It remains to be seen whether the market accepts or rejects these levels given South Africa's fiscal risks, but fiscal consolidation efforts do appear to be gaining traction. On that front, a dramatic adjustment to government's contingent liabilities was announced yesterday. In an emailed statement, Transport Minister Fikile Mbalula said the Road Accident Fund (RAF) had cut its liabilities by over 90%, amounting to a R305 billion decrease. However, an altered accounting treatment resulted in the massive decrease, and the underlying position was essentially unchanged. Still, these developments will support the government's fiscal consolidation efforts and suggest that the RAF may require less funding in the future.



National Treasury data suggests that foreign investors continued to purchase SAGB's in May, with the total percentage owned by foreigners rising to an 11-month high of 30.5% from 29.9% in the month prior. This compares with recent lows of 29% back in October 2020, and translates to a little over R105bn in notional terms. It compares with total net vanilla issuance of R194bn since the October low in ownership. In looking a bit closer at the flows, it is interesting to consider that the R186 has received most foreign interest. JSE data suggest that just under R40bn worth of foreign capital flowed into the bond. Net issuance over October-May has been lower than this at R35.2bn. The increase in foreign interest can be partially explained by the bond's highest-in-sample 10.5% coupon rate, which is paid semi-annually. This stands to reason given low yields offshore, as investors will be looking for manageable cash flow.

When running a regression analysis on the bond sample and excluding the R2023, around 41% of the nominal flows since October can be explained by coupon rate, with higher coupons generally attracting more foreign interest. This means that investors want cash now. A further 42% of the variation is well correlated with maturity year, suggesting that foreign investors remain concerned with fiscal risk. Consequently, lower maturity bonds are favoured, and this would feed into the view that the SAGB curve is likely to remain steep.

The R2036 for instance has a coupon rate of just 6.25% and has seen net outflows over the period in question of R8.5bn despite no new issuance. The R186's coupon rate of 10.5% is far more attractive to a yield-hungry investor, and with the banking sector also generally favouring holding shorter-dated debt the R186 has performed well by holding its yield well below 8% in recent months.

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