sasfin | Forex
beyond a bank

The Daily Market

Make it your business

30 June 2021

USD-ZAR	14.333/14.343	**GBP-ZAR**	19.8413/19.8653
GBP-USD	1.3848/1.3899	**AUD-USD**	0.7517/0.7519
GOLD	$1757.98	**DJI**	34292,29
EUR-ZAR	17.054/17.081	**EUR-USD**	1.1899/1.1903
USD-JPY	110.49/110.5	**R 186**	7.415%
BRENT	$75.07	**3m JIBAR**	3,683

EVENTS

06:00	SA	Private sector credit y/y	May	-0,90%	-1,76%
06:00	SA	M3 money supply y/y	May		2,02%
12:00	SA	Government budget balance (ZAR)	May		R-80,36bn
12:00	SA	Trade balance	May	R46,20bn	R51,24bn
09:00	EZ	CPI estimate y/y	Jun	1,90%	2,00%
12:15	US	ADP employment change	Jun	530k	978k

FACTORS ON THE RADAR

BoJ policy

What happened?	>	The BoJ has shifted to a quarterly schedule and has trimmed the amount of bonds it will purchase through the coming quarter
Relevance	>	The move aims to boost trading in Japanese bonds and influence trading less
Importance	>	3/5 (monetary policy)
Analysis	>	In being overly active, the BoJ has sanitised the behaviour of the bond market to the point where it is no longer as attractive to trade

Fedspeak

What happened?	>	Fed Governor Waller sounded an optimistic tone when he indicated that the Fed might need to trim its asset purchase programme as early as this year
Relevance	>	If the taper does not start this year, raising rates by the end of next will probably not be achieved
Importance	>	3/5 (economy, monetary policy)
Analysis	>	He did acknowledge that the labour market would need to tighten up considerably or inflation rise sustainably before the Fed considers raising rates before the end of 2022

US labour market

What happened?	>	The US will release the latest update on its key labour market metrics this week, and they will be keenly watched events. Investors will be keen to see what guidance the data offers
Relevance	>	Specifically, investors will be looking for signs the recovery is gathering momentum and that the Fed may need to respond
Importance	>	4/5 (economy)
Analysis	>	Unemployment cheques have meant that there has been no hurry for workers to return back to full employment. Those will soon be drawing to an end, and the true underlying strength of the labour market will be revealed

TODAY'S TALKING POINT

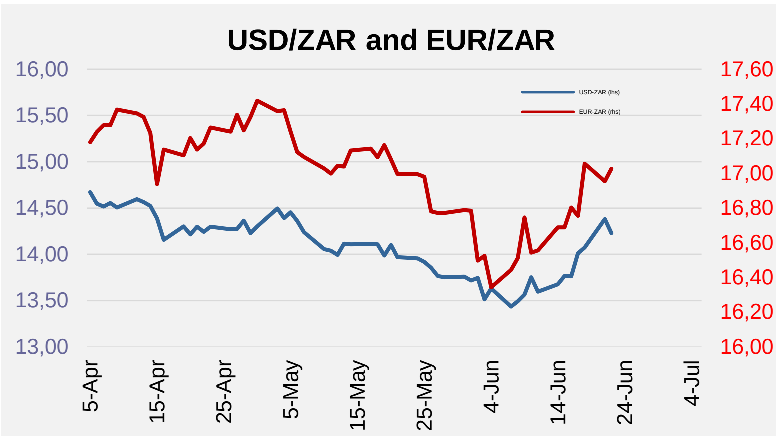
M3 Money Supply & PSCE y/y: May
Expected:
Prior: 2.02% & -1.76%

Analysis: Money supply growth slowed to just 2.02% y/y in April, its slowest pace of growth in more than a decade, while private sector credit growth is currently sitting at a record low of -1.76%. Credit extension in South Africa has plunged as households and businesses utilise the savings that had build-up last year during the lockdown period, while demand for big-ticket items remains weak. It is worth highlighting that this tightening monetary environment is helping offset the inflation pressures building off the back of rising global commodity prices and higher administered prices. Rising inflation in a background where monetary dynamics have tightened is likely to be recessionary, stifling SA's economic recovery.

RAND UPDATE

As COVID-19 outbreaks worldwide make headlines, risk aversion looks set to stay in the near term and is likely to keep the US dollar bid. The USD rose yesterday as investors preferred the greenback's safety while positioning ahead of key US employment data this week has also bolstered dollar demand. Resultantly, the ZAR tumbled for the second day against the USD as South Africa undergoes its own rise in coronavirus cases. However, the USD-ZAR currency pair did encounter resistance at its 100-day moving average, with advances ultimately pared as it settled 0.70% higher at the 14.3400-handle. While the ZAR succumbed to broader market sentiment yesterday, the South African judicial system secured a massive win. The Constitutional Court found former president Jacob Zuma in contempt of court when he defied a Constitutional Court ruling that he must appear before the state capture inquiry and sentenced the ex-president to 15 months imprisonment. This development bodes exceptionally well for the fight against corruption and reformist agenda and will instil some confidence amongst investors.

Meanwhile, the release of the SARB quarterly bulletin and Q1 payroll figures were largely overshadowed. Some highlights from the SARB report were that gross loan debt for the fiscal year ending through to March came in at 78.8% of GDP, compared to National Treasury's estimate of 80.3%, while government dissaving levels increased. The national savings rate rose to an 11-year high in Q1, as consumers and institutions remained cautious over the economic outlook. Foreign direct investment inflows fell in Q1 from the prior quarter, while portfolio outflows of R6.4 billion were recorded following inflows of R24 billion in Q4 2020. This ultimately paints a mixed picture, but rising government dissaving levels and lower investment levels point to downside risks to the economy.



The government budget data due for release later today, which follows a weak money supply and credit extension report released at the start of the local session. Government budget figures remain concerning, with the government's expenditure well above its revenue collection. Growth in 12-month rolling government expenditure comes in at 10.4% y/y, while the equivalent measure of tax intake is 5.6% y/y lower. Some recovery has been noted into the start of the year, but this may not last. With an extension of lockdown restrictions, we are likely to see this number further suppressed in the months ahead.

As a result, SA will continue to print sizeable monthly budget deficits with a lack of cost-cutting and fiscal consolidation measures of major concern. Over the 12-months to April, expenditure came in at R1839bn while tax intake was just R1258bn, leading to a cumulative deficit of R581bn. Macroeconomic imbalance theory suggests that if it were not for the sizeable trade balance, the ZAR could have been trading at much weaker levels than it is at present.

Rating agencies have flagged SA's lack of fiscal prudence as a potential risk for further rating action. Looking ahead, the reintroduction of restrictions could see revenue collection subside and government step up its fiscal support, essentially increasing its monthly shortfall while increasing the risk of a downgrade. Optics on state reform can do so much, with SA's economy facing the headwinds of poor past policy decisions.