sasfin beyond a bank

The Daily Market

22 November 2022

USD-ZAR	17,3074/17,3228	**USD-JPY**	141,91/141,94
GBP-ZAR	20,4841/20,5081	**GOLD**	$1742,64
EUR-ZAR	17,7401/17,7599	**BRENT**	$87,88
GBP-USD	1,1833/1,1888	**DJI**	33 700,28
EUR-USD	1,0246/1,025	**R 186**	8,735%
AUD-USD	0,6607/0,6611	**3m JIBAR**	6,650

Events (GMT)

Time	Country	Event	Month	Fc	Prior
09:00	SA	Vanilla auction (R3.9bn R2030, R2032 and R2035)			
07:00	SA	Leading Indicator	Sep		123.4
09:00	EC	ECB's Holzmann Speaks			
10:00	EC	OECD Publishes Economic Outlook			
10:15	EC	ECB's Rehn Speaks			
15:00	EC	Consumer Confidence	Nov P	-26.0	-27.6

Factors on the radar

Black Friday and Thanksgiving

What happened?	This week signals Black Friday, which also implies a long weekend in the US, with Thursday marking Thanksgiving
Relevance	Not only will Black Friday give insight into consumption, but liquidity will be thin
Importance	5/5 (markets, economy)
Analysis	This will ensure that investors are a little more cautious in their trading this week, which will be characterised by consolidation

RBNZ

What happened?	The RBNZ is on track to deliver its biggest rate hike ever this week as investors position for the prospect of a 75bp hike to combat inflation of 7.2% y/y
Relevance	New Zealand’s inflation is not dissimilar to that of the rest of the world, with more to come
Importance	4/5 (monetary policy)
Analysis	Traditionally, a central bank that moves in smaller increments, a 75bp rate hike from the RBNZ would be telling and highlight the gravity of the inflation spiral that is currently underway

Fed policy guidance

What happened?	Cleveland Fed President Mester was quoted on Monday saying that she would support a smaller rate hike at the next Fed meeting in December
Relevance	She did, however, also add that the Fed would remain data-dependent, and that would guide policy
Importance	3/5 (monetary policy, economy)
Analysis	A breakdown of the report highlights how 47% of respondents expect an economic slowdown in their export markets in the next 12 months, only slightly less than during the pandemic

Today's Talking Point

Leading Indicator: Sep

Expected:

Prior: 123.4

Analysis: The leading indicator, which is a valuable gauge of future economic conditions in the country, has trended lower in the last two months to reach the lowest level since February 2021. This points to slowing growth momentum in the near to medium term as SA's structural impediments remain constant detriments to economic growth. Should the leading index continue to fall further, as we expected it will, it could begin to impact how the SARB will conduct monetary policy going forward, given the even darker economic growth outlook as raising rates aggressively into a slowing economy will surely lead to a prolonged recession.

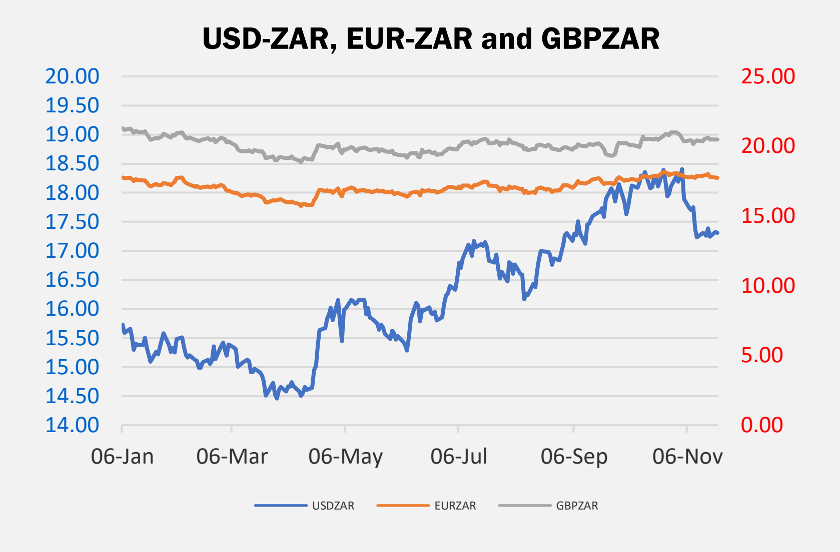
Rand Update

It was another consolidative day in FX markets, and the ZAR remained in its range. With very little to trade on today other than the leading indicators, there is not much to trade on unless the USD itself moves significantly. The leading indicators will show an economy that is slowing and has lost its momentum. Nothing surprising in this, given the strength of the inflation episode and the SARB's rate hiking response. This would also be in keeping with the weaker-than-expected retail sales data that was released last week.

Tomorrow might be more telling in that the latest inflation data will be released, which will offer investors some insight into whether prices are retreating to the degree that would allow the SARB to be a little less aggressive in their rate hikes. That will have an important bearing on the SARB's interest rate decision due on Thursday. That probably won't mean much for the ZAR, given that the Fed is also expected to hike by a smaller 50bp increment in December.

Furthermore, so much will depend on the outcome of Black Friday and the signals that will offer investors on US monetary policy. Any indication that the Fed needs to continue hiking aggressively and the USD could recover many of its losses. However, that is not expected. Black Friday could prove more resilient to the contraction in household disposable income, but much of that is already priced into the USD.

Instead, the best-case scenario is that it stages a mini-recovery that stalls. It is becoming inescapable that the tide has turned and that the Fed will need to reassess its current monetary policy stance. Looking at the markets, investors are already pricing in rate cuts through 2023, which will keep the USD from surging. Any near-term USD appreciation will be difficult to sustain, and the basic expectation is that the ZAR will recover lost ground through the coming months.



Bond Update

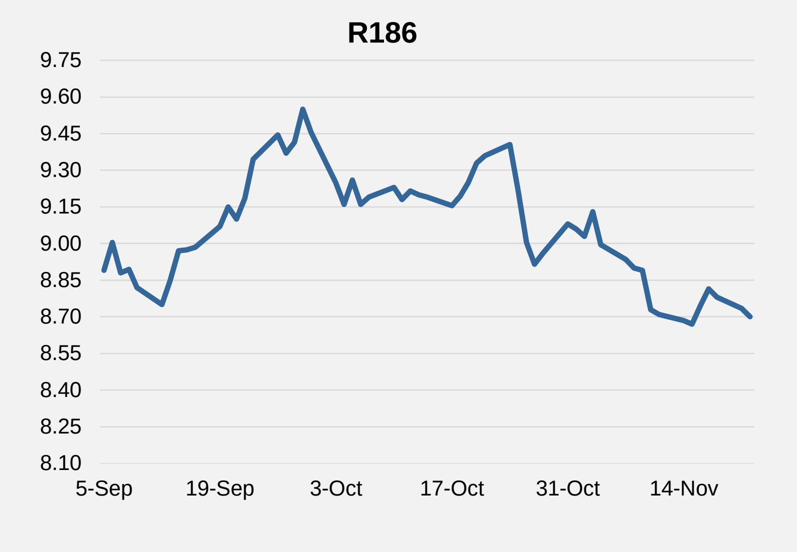
This week, the SARB will decide on interest rates, and while the consensus on Reuters still has the expectation of a 75bp rate hike pencilled in, there is a growing contingent of investors anticipating that the SARB will move in smaller increments of 50bp. There are good reasons for this in the paragraphs that follow.

The first is that the Fed is looking to pivot and start hiking by smaller increments from Dec. The market is looking quite convinced that the Fed is nearing the top of its hiking cycle and that the pace should slow, given how aggressively rates were lifted this year. Looking forward at the derivatives markets shows that investors are anticipating that the Fed could even start cutting rates next year, although Fed speakers have been at pains to point out that it will be the data that decides how policy will unfold.

The second is that inflation has topped out and turned lower. While it remains high and outside of the inflation target range, it is clear that the trend has reversed and is moving in the right direction. One could easily argue that the more prudent approach would be to start assessing the full impact of what has already transpired before blindly continuing with the same aggression. Moving too aggressively at this late stage of the cycle could do more harm than good.

The third is that load shedding has intensified. It has dealt the economy another blow and detracted from GDP. Not only does it act like another tax, but it also imposes deeper structural constraints on the economy. Such underperformance by Eskom will undoubtedly impose demand constraints and reduce the need for the SARB to curb demand by hiking more.

One of the SARB's valid reasons for aggressively hiking is the need to protect the ZAR. However, the ZAR will enjoy greater support as the USD comes under pressure. As the Fed softens its stance before other central banks, due to it being ahead of the DM economy curve, it will detract from the USD's performance, easing the pressure on the SARB. The USD has already begun its correction to less overvalued levels, and that trend could extend throughout the first half of 2023.



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140 West Street, Sandown, Sandton, Johannesburg, 2196

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