14 July 2021

USD-ZAR	14.7336/14.7466	**GBP-ZAR**	20.3563/20.3803
GBP-USD	1.3817/1.3871	**AUD-USD**	0.7454/0.7456
GOLD	$1812.11	**DJI**	34888,79
EUR-ZAR	17.3632/17.3744	**EUR-USD**	1.1782/1.1783
USD-JPY	110.48/110.49	**R 186**	7.47%
BRENT	$76.23	**3m JIBAR**	3,692

EVENTS

11:00	SA	Retail sales constant y/y	May	12,70%	95,80%
06:00	GB	CPI y/y	Jun	2,20%	2,10%
12:30	US	PPI final demand y/y	Jun	6,80%	6,60%
12:45	EC	ECB's Schnabel Speaks at Peterson Institute			
14:00	CA	Canada central bank rate decision	Jul 14	0,25%	0,25%
16:00	US	Powell to Deliver Semi-Annual Testimony to House Panel			

FACTORS ON THE RADAR

ECB guidance

What happened?	>	Next week will see the ECB update its guidance and must reflect a higher degree of flexibility on inflation
Relevance	>	The ECB may need to be a lot more patient with deviations from its inflation target
Importance	>	3/5 (monetary policy)
Analysis	>	Although the probability of a temporary inflation shock is high, the ECB will still need to reflect some flexibility in its guidance or risk losing credibility

US infrastructure bill

What happened?	>	Senate Democrats agreed to a $3.5trln investment plan they to include in a budget resolution that they will be debating soon
Relevance	>	To that, a further $600bn for the bi-partisan plan must be added
Importance	>	4/5 (fiscal policy)
Analysis	>	This is a colossal agreement that will face strong criticism and push back from the Republicans, who are quite rightly concerned about rising liabilities

EU recovery plans

What happened?	>	The EU has given the green light to 12 national recovery plans, effectively allowing for the disbursements of EU funds for the recovery from the pandemic
Relevance	>	The €800bn recovery plan would boost the Bloc's investment to approximately 3.5% of GDP
Importance	>	4/5 (economy)
Analysis	>	Included in the approved recovery plans are Italy, France and Spain, while other more marginal countries such as Greece, Latvia, Slovakia, Portugal, Luxembourg and Belgium are also listed

TODAY'S TALKING POINT

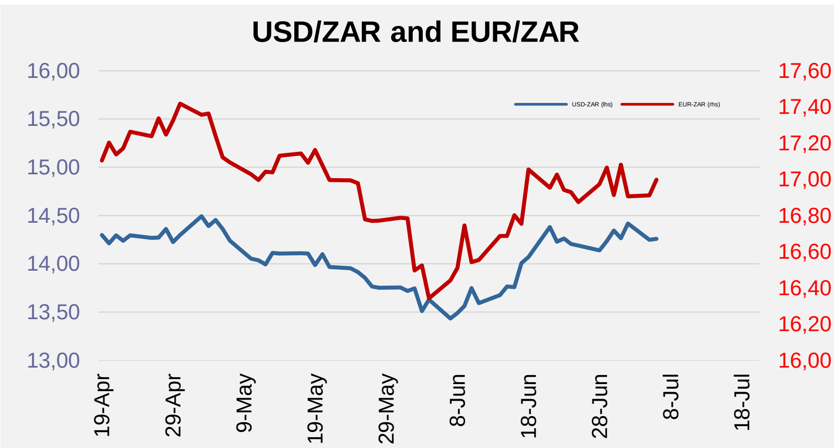
Retail sales m/m: May
Expected: 1.00%
Prior: -0.77%
Analysis: Retail sales growth rebounded to some degree in April, recording a smaller decline of 0.77% m/m compared to the sharp 4.52% drop in the month prior. Despite the improvement, retail sales have contracted in four out of the last five months this year, which signals that domestic demand dynamics remain relatively weak. Looking ahead, the risk to the sector remains tilted to the downside. The re-imposition of tighter restrictions due to the third wave of COVID-19 virus, weak labour dynamics, absence of reforms and depressed consumer and business confidence are all factors that will continue to weigh on the retail sector going forward. Rising administered costs and surging fuel bills, meanwhile, will also pressure disposables incomes and weigh heavily on the sector.

RAND UPDATE

The USD-ZAR closed higher for the second day this week amid continued domestic social unrest, while a higher than expected US inflation print bolstered the USD. The ZAR hit a three-month low against the dollar as it broke through the 14.5000/$ key support level, while domestic stocks and bonds also suffered. The local unit ended London trading hours at 14.6450/$, 1.60% weaker than the prior day's close, with pressure remaining to the downside overnight as riots continue and death tolls rise.

In terms of domestic data, on the back of a weak manufacturing production print the previous day, mining production also weighed on the ZAR as the data showed a decline in May. Specifically, output remained higher year on year due to last year's limited productive capacity amid the first round of lockdown restrictions. However, on a monthly basis, output fell by 3.5% in a month of relatively eased restrictions to productivity. These recent prints highlight the risk of a sluggish recovery, one which may take longer than expected. Given high commodity prices though, the outlook is somewhat better than the data may suggest, but this is unlikely to boost business confidence sufficiently as current lockdown restrictions and domestic unrest is likely to hold back much-needed investment going forward.

In the spot markets, the US dollar has remained buoyed by the market's reaction to the highest headline inflation print in 13 years, which raises questions over the Fed's assumptions that inflation will prove temporary. The ZAR, meanwhile, has continued to underperform the broader EM currency basket overnight and in early morning trade, trading weaker with little signs of the heightened social unrest easing.



Political instability and market volatility will detract from the information capacity of May's retail sales data set to be released later today. Moreover, the sector's nascent recovery will be in jeopardy for obvious reasons. It is interesting to note that mining stocks and diversified exposure were favoured, perhaps due to superior risk characteristics if downside pressure on the ZAR extends. Risks to the currency market are clearly being priced in when looking at options prices, with 3-month implied volatility levels rising quite sharply. The 3-month is now trading at 14.98%, up over 100bp from July lows while testing fresh July peaks.

While the usual knock-on effect of a bear move in other SA markets is towards support for traditional safe-haven assets such as SAGBs, it is interesting to note that a bear steepening move has been underway. The R2048 yield gained over 11bp on the session yesterday and is now 27bp higher than last week's lows at a yield of 10.67%. The R186 is lagging the move with yield gains of around 13bp. The All-Bond Index has meanwhile lost 0.94% since Friday's close.

South Africa's emergent political fragility is shining through. All eyes will be on the Constitutional Court's judgement on whether ex-president Zuma will face his sentence and the resulting reaction among supporters. The US Beige Book will meanwhile be a focus internationally today as investors attempt to determine whether the US recovery is underway while yesterday's data suggests that inflation pressures are rising up over there.