sasfin beyond a bank

The Daily Market

20 June 2022

USD-ZAR	15.9847/15.9987	**GBP-ZAR**	19.5543/19.5783
GBP-USD	1.223/1.2281	**AUD-USD**	0.6954/0.6958
GOLD	$1841.8281	**DJI**	44729,00
EUR-ZAR	16.8303/16.8391	**EUR-USD**	1.052/1.0524
USD-JPY	134.9/134.93	**R 186**	8.74%
BRENT	$113.11	**3m JIBAR**	4,942

Events (GMT)

O/N	GB	Rightmove house prices y/y	Jun		10,2%
06:00	GE	Producer prices y/y	May	33,5%	33,5%
09:00	EZ	Construction output wda y/y	Apr		3,3%
19:30	EC	ECB's Lane Speaks			

Factors on the radar

Central Bank Minutes

What happened?	The RBA and BoJ will be releasing the minutes of their respective MPC meetings this week, providing more insight into their expected policy paths
Relevance	Rates markets are currently very sensitive and meeting minutes can generate some volatility
Importance	3/5 (monetary policy)
Analysis	The RBA's meeting minutes will confirm that more hikes are coming in the months ahead, while the BoJ minutes will be eyed to see if the bank will be intervening in the FX markets

PMIs

What happened?	Global PMIs for June will be released later this week, potentially providing more signs that major economies are coming under some pressure
Relevance	Any signs that economies are slowing will keep risk assets under pressure
Importance	4/5 (economics)
Analysis	Continued supply disruptions, high inputs costs, and weakening demand are all factors that can be highlighted in the PMIs and point to weaker growth dynamics ahead

China Budge Squeeze

What happened?	China's local governments are seeing a budget squeeze, giving them the choice to either increase debt or suffer through weaker economic growth
Relevance	This is a result of China's COVID Zero policies and goes against China's push to reduce debt
Importance	3/5 (fiscal policy)
Analysis	Governments are likely to opt for increasing leverage in order to sustain some form of economic growth and have any shot at reaching Chia's growth target of 5.5% for this year

Today’s Talking Point

Oil Update

Analysis: Oil prices have steadied in early trade this morning, following a near 7% plunge on Friday as global growth and recession concerns drove market action into the weekend. This saw oil prices post a weekly loss for the first time since April, taking Brent back near $112 per barrel after peaking at almost $125 during the course of the week. The front-month Brent contract has found some support at the 50DMA at $112.57, but it will be interesting to see if it can manage to hold above it through the week ahead, given recession fears and the upcoming data that could support a more bearish view on global demand for crude. If prices decline due to economic growth worries, the drop will still be fairly contained due to continued supply concerns. OPEC+ are still struggling to meet their monthly production targets, with the prospect of more crude being pumped in Libya looking very thin as the country’s Prime Minister said that he expected political uncertainty to persist through the course of the rest of the year.

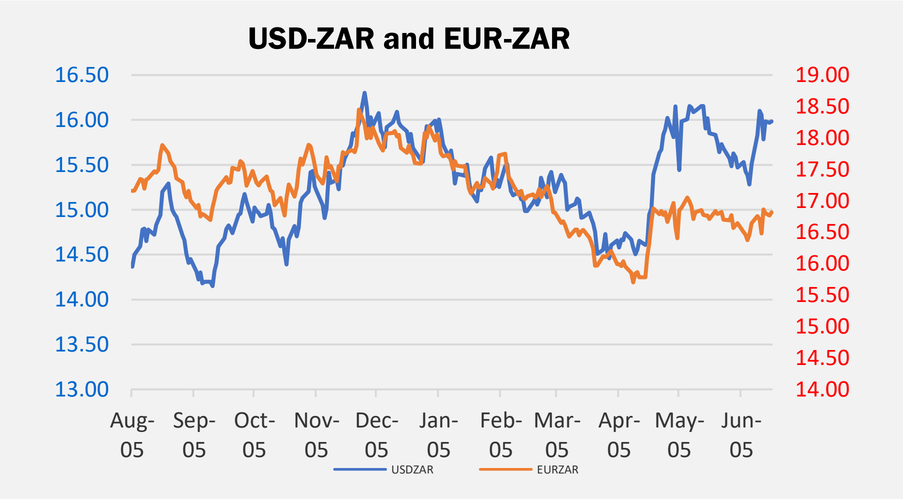
Rand Update

Last week, the spotlight was fixed on major central banks and the global war against inflation. Monetary authorities including the US Federal Reserve, Bank of England, and Swiss National Bank all turned more hawkish as they frontloaded their rate hike cycles in respective attempts to rejuvenate their credibility as an inflation fighters and anchor inflation expectations. This led to significant financial market volatility and a decline in risk appetite that the ZAR was not able to escape as it depreciated around 1.00% against the USD over the course of the week.

While heightened market volatility will likely remain the order of the day in near term, some of the focus may shift back to the domestic front with interesting local data releases in the pipeline. Specifically, the SARB’s leading indicator for April is scheduled for release on Tuesday, and, perhaps more importantly, SA CPI stats for May are scheduled for release on Wednesday. These prints will be viewed for fresh insights into prospective Reserve Bank policymaking, with Governor Kganyago and Co. coming under increased pressure to tighten monetary conditions more aggressively to keep inflationary pressures under control.

Furthermore, investors will also have the final instalment of Judge Raymond Zondo’s state capture report to digest this week. It is expected to shine the light on corruption related to the Estina dairy project, the SABC, the State Security Agency, the Passenger Rail Agency of SA, the 2013 landing of the Guptas’ private jet at Waterkloof air force base, and the machinery behind state capture.

The report marks the end of the beginning a cathartic process for the country still suffering from the effects of state capture. And while containing little market-moving potential in itself, the report lays the foundation for policy action that could markedly change SA’s political landscape and improve its attractiveness from an investment perspective. It will therefore be interesting to see whether the Ramaphosa administration acts on the report’s recommendations and implements much-needed reforms aimed at changing the government’s internal ethics code and working culture.



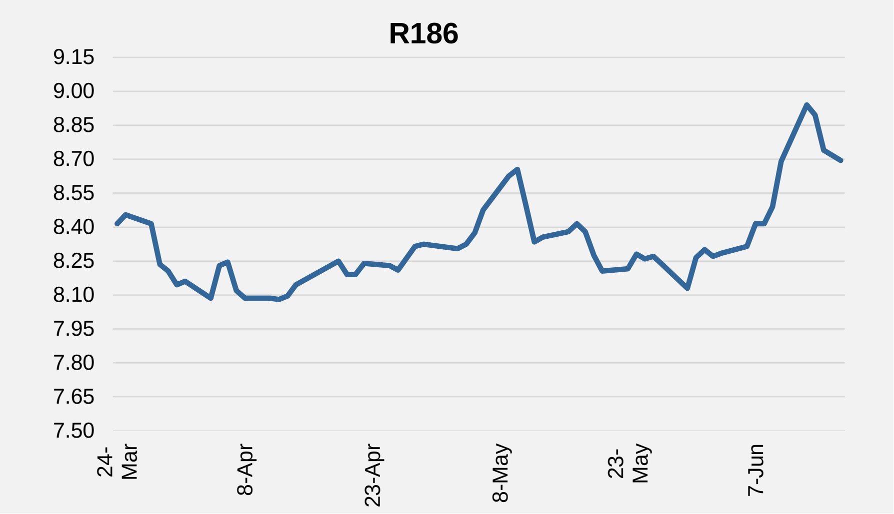
Bond Update

SA’s inflation data for May will be watched closely this week as sky-high fuel prices have raised the risk of an acceleration in the headline figure. Consensus estimates have a rate of 5.9-6.3% y/y pencilled in for the headline CPI figure (from 5.9% prior). Core inflation is expected to come in around 4.1% y/y from 3.9% in April.

Core inflation, which excludes the price of food, non-alcoholic beverages, fuel, and energy, is expected to have remained below the midpoint target of 4.5%. This indicates that external factors have mainly driven inflation as local demand remains relatively weak. A high level of domestic food production could also reduce the impact. Yet, high petrol prices remain a distinct inflation risk looking ahead.

The petrol price was some 26% higher y/y in May, while there has already been R2 under-recovery according to CEF data. The tax reduction could also be scrapped, potentially adding another 75 cents/litre. While the ZAR-denominated oil price has calmed a little to trade around 10% lower than June’s worst levels, in the absence of further adjustment to the level of taxes on fuel, current Brent crude levels could lead fuel prices to rise towards R26/litre in July. This would nearly double the inflationary impact by being 50%+ y/y higher than last year, and with the cessation of tax relief, a more than 50% y/y increase will be delivered.

In conjunction with SARB policy tightening, this will accelerate recessionary forces. Retail sales will undoubtedly be negatively impacted in the months ahead, post-COVID recovery notwithstanding. This speaks to an outlook for slowing growth as Q3 approaches. Second-round inflation risk is rising as businesses may need to pass on higher freight costs to consumers.



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