sasfin beyond a bank

The Daily Market

12 December 2022

USD-ZAR	17,376/17,3911	**USD-JPY**	137,03/137,04
GBP-ZAR	21,2432/21,2672	**GOLD**	$1787,52
EUR-ZAR	18,2638/18,2831	**BRENT**	$76,49
GBP-USD	1,2228/1,2279	**DJI**	33 476,46
EUR-USD	1,0512/1,0514	**R 186**	8,95%
AUD-USD	0,6773/0,6775	**3m JIBAR**	7,217

Events (GMT)

Time	Country	Event	Month	Fc	Prior
O/N	JN	PPI	Nov	8.8%	9.1%
00:00	UK	Rightmove House Prices y/y	Dec	--	7.2%
06:00	JN	Machine Tool Orders y/y	Nov P	--	-5.5%
07:00	UK	Industrial Production y/y	Oct	-2.6%	-3.1%
07:00	UK	Manufacturing Production y/y	Oct	-5.4%	-5.8%
07:00	UK	Trade Balance	Oct	-£3500m	-£3135m

Factors on the radar

Massive central bank week

What happened?	This week, three major central banks will decide their respective monetary policies. The most important will be the Fed, followed by the BoE and the ECB.
Relevance	All three central banks are expected to lift rates again by a further 50bp in a bid to control inflation.
Importance	5/5 (Monetary Policy)
Analysis	Although central banks are nearing the end of their tightening cycle, they have not yet decisively dealt with inflation, which remains a major constraint to growth and which is stubbornly buoyant.

UK Mortgage market

What happened?	UK Finance forecast that mortgage extensions would fall by 27% through 2023 and that property sales would drop by a similar percentage.
Relevance	Rising rates amid sky-high inflation and the cost of living crisis mean the property is less affordable.
Importance	4/5 (monetary policy, economy)
Analysis	This will likely be cyclical, but for the time being, the property industry in the UK is expected to go through a very tough time and for house prices to correct materially lower.

US inflation outlook

What happened?	US Treasury Secretary Yellen weighed in on the inflation debate and predicted that inflation would be substantially lower through 2023.
Relevance	Yellen’s comments come just days ahead of the FOMC’s meeting to decide on monetary policy
Importance	4/5 (monetary policy)
Analysis	She felt that the spike in inflation seen this year would be temporary and that the tide has already turned. That would be in keeping with the turn in the monetary credit cycle.

Today's Talking Point

Oil Update

Analysis: Oil prices collapsed more than 10% last week as growing concerns over demand are now more than outweighing supply constraints. Brent crude neared $75 per barrel on Friday, and while we are seeing a minor rebound this morning, the bias for the market remains to the downside, given the uncertainty surrounding the global economy for 2023. The supply side of the equation remains tight, with OPEC+ sticking to its output cuts, while Russia has stated that it could cut production further now in response to the price cap imposed by the EU earlier this month. However, as major central banks continue to hike interest rates and push their economies closer to recession, the outlook for demand is weakening, and the market is shifting into a structural surplus, as evident by timespreads across the future curve. These spreads show higher prices for future-dated contracts, a sign that the market is quite bearish over the near term. The one piece of the demand puzzle that remains supportive is China, who continues to ease its COVID curbs and reopen its economy. We should see demand for fuel pick up in China over the next few weeks, which should prevent a further collapse in oil prices, for now. The risk, of course, is that more curbs are introduced again as infection rates rise amid the reopening. Traders will be keeping a close eye on this as it can swing the market significantly, given the low levels of liquidity into the end of the year.

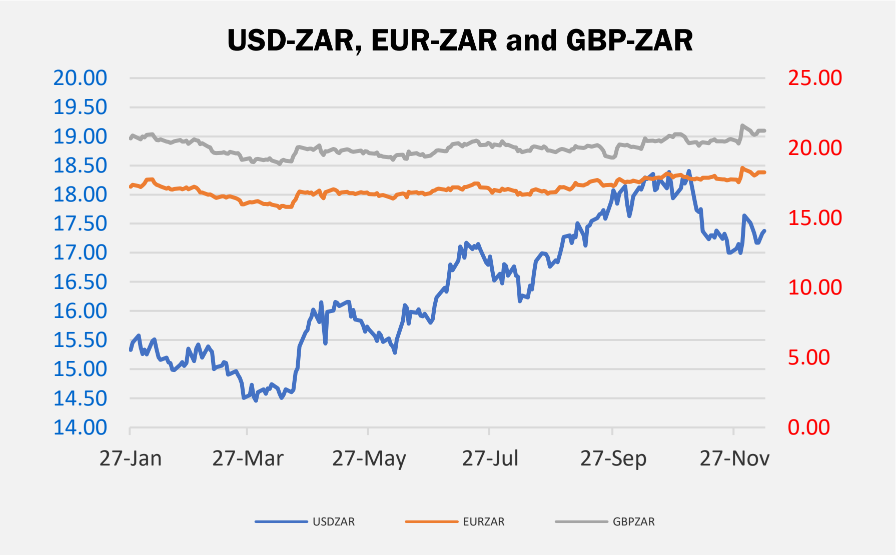
Rand Update

For all the optics of an angry ANC hauling Eskom ministers over the coals, it all means very little. The utility remains dysfunctional and operates well below potential. Power generation units are not maintained as they should be, and sabotage has now become a theme, as has intimidation for those wanting reforms. Add to that the dismal finances and the inability to procure what is needed to reduce the incidents of load shedding and the maladministered utility will generate the downfall of the ANC if left unresolved.

As always, it is impossible to separate dysfunctional SOEs from the cadre deployment policies of the ANC. So long as deployments were more political than based on merit, the chances are that they degraded the substance of the leadership of the institutions. That has eventually caught up to an ANC that is struggling for legitimacy in an economy that is failing to generate a better life for all South Africans. Roll forward to the week ahead, and this will form the backdrop against which the ANC elective conference will kick off on Friday.

It is a very difficult time politically for the ANC and economically for SA. The outcome of the ANC's elective conference will directly affect economic policy for the next seven years and is, therefore, an important development. It is market-moving and, unfortunately, fraught with risks given the balance of political forces at play and the different factions within the ANC wanting to regain some leverage and the ability to influence economic decision-making.

Internationally, all eyes will turn to the central bank decisions of the Fed, the ECB and the BoE. They are arguably the most influential collection of central banks, and all three are likely to raise rates by at least 50 bp as they fight back against inflation. Although rate hikes are already priced into the market, the guidance offered could influence how financial markets end the year. For now, the ZAR still looks set to recover against the USD through 2023, but the US data and the Fed will need to soften for that to happen more sustainably.



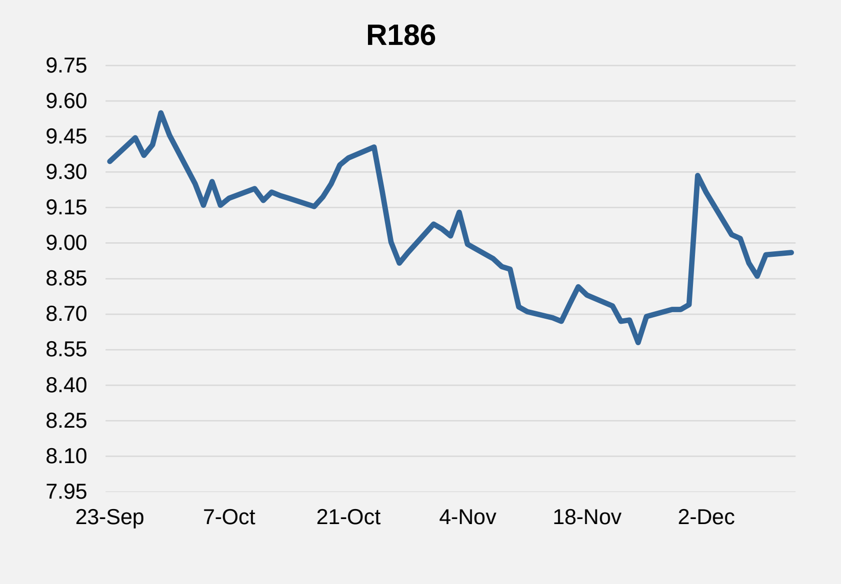
Bond Update

While this time of year traditionally sees markets winding down for the year, note that there are a host of economic data for the market to digest and rate decisions by the Fed, BoE and ECB. In addition, the BoE will be releasing a financial stability report, which could hold some interest for those interested in the context of the UK's significance in maintaining the global financial system. Just a few months back, there were serious concerns about the solvency of Credit Suisse, while the monetary system has been subjected to significant volatility, which will raise the significance of the report.

Of all the central banks, the Bank of England is dealing with the highest rate of inflation while the US is dealing with the strongest economy. The ECB sets policy amid a high degree of political uncertainty as the Russia-Ukraine conflict leaves kicks up a lot of dust for investors. Domestically the market will be trading ahead of the ANC elections that take place over the weekend, which could lead to some position squaring and relatively low liquidity regardless of what happens in external markets. On the macroeconomic data front there will be a host of data to keep an eye on, in order: mining, CPI, retail, the SARB quarterly bulletin, non-farm payrolls and PPI. The inflation data will hold the most market-moving potential while we are likely to hear that petrol prices will be coming down quite sharply in the next month.

Over in the US, a 50bp rate hike is expected from the Fed. After several 75bp hikes and with headline CPI slowing, the Fed seems to believe it is time to begin slowing the pace of the central bank's tightening as inflation is seen as having peaked. Our view is that the Fed will likely keep to the script that more rate hikes are coming and that rates will remain at elevated levels for longer, at least for as long as the growth data holds up. Some leading indicators are, however, suggesting that the US is nearing a recession which will force the Fed to reverse its policy stance.

Over in the UK the economy is facing stagflation, with GDP growth weak while inflation was north of 11% at the last print and was climbing. Despite slowing growth, the BoE will therefore need to keep hiking rates. The MPC committee is expected to raise rates by 50bp too, taking the key rate to 3.50%. As rates continue to rise, there is the danger of exacerbating recessionary forces. The market will need to digest the latest GDP, CPI, and labour statistics will be available to the MPC before it makes its policy pronouncement.



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