sasfin beyond a bank

The Daily Market

14 February 2022

USD-ZAR	15.2185/15.2297	**GBP-ZAR**	20.608/20.632
GBP-USD	1.354/1.3598	**AUD-USD**	0.712/0.7121
GOLD	$1853.32	**DJI**	44603,00
EUR-ZAR	17.2684/17.285	**EUR-USD**	1.1347/1.1351
USD-JPY	115.45/115.47	**R 186**	7.765%
BRENT	$95.73	**3m JIBAR**	4,167

Events (GMT)

11:30	EZ	Bloomberg Feb. Eurozone Economic Survey
12:30	UK	Bloomberg Feb. United Kingdom Economic Survey
12:35	GE	Bloomberg Feb. Germany Economic Survey

Factors on the radar

US Fed speak

What happened?	Focus will be turning to more Fed speak as investors try to gauge how to interpret recent comments from the Fed's Bullard, amid the higher than expected inflation
Relevance	Normalisation of monetary policy will be a key theme throughout the year and will drive markets
Importance	4/5 (economy, monetary policy)
Analysis	Bullard will be taking to CNBC today and will be pressed on his views that the Fed Funds rate needs to be 100bp higher by June, implying a much more aggressive rate hike trajectory than first thought

Ukraine stand-off

What happened?	Propaganda remains in full swing on both sides of the border. NATO allies continue to warn of a high probability of invasion and the probability that Russia may fabricate pre-text to "retaliate."
Relevance	Russia, for its part, says it is simply protecting its border and has no plans to invade Ukraine. Markets are on edge
Importance	5/5 (geopolitics)
Analysis	This stands as the single biggest geopolitical risk at the moment and one that holds the potential to derail global financial markets and deal overall risk appetite a blow. All eyes will remain on the Ukraine standoff this week

Global risk appetite

What happened?	Equity markets will have a lot to digest this week, from the ongoing standoff in Ukraine, to the rapidly rising oil price, to indications that the Fed will hike much more than expected
Relevance	Risks to global growth are now elevated, and equity markets may reflect that added risk through selling off
Importance	4/5 (markets)
Analysis	A global rise in risk aversion is something to keep track of as it holds implications not just for risk appetite but for emerging market currencies and any other markets that are sensitive to global growth

Today's Talking Point

Oil Update:

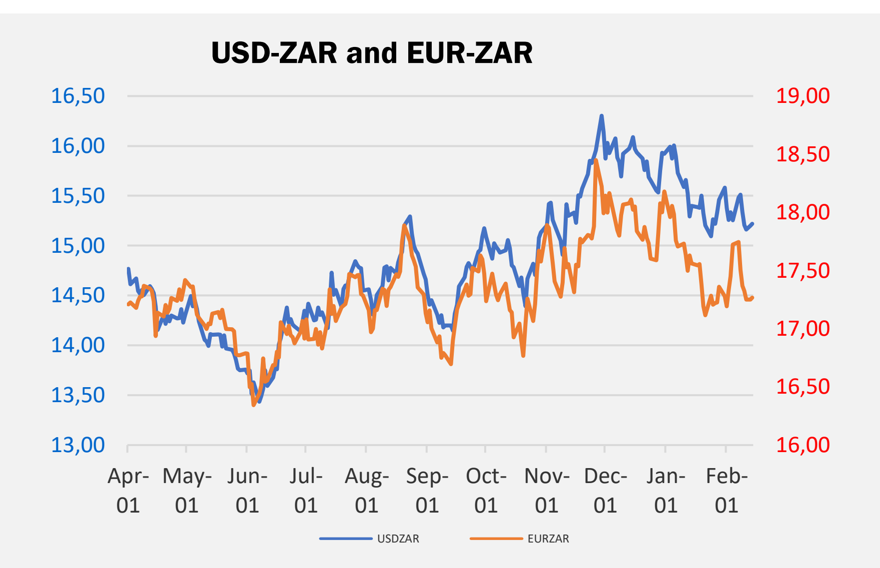
Analysis: Oil was heading for its first weekly loss since December last week, but a surge in prices on Friday meant that it continued with its bullish rally for an eighth straight week now. The commodity remains bid this morning, with Brent rising above the $95 per barrel handle as concerns remain over the Russia-Ukraine situation. Traders are also increasingly struggling to get their hands on actual barrels of oil, with prompt spreads widening out further while the dated-front-line swap spread has widened out to a record level at over $2.35 per barrel. These swaps are used to hedge against the difference between physical prices and futures prices.Brent's prompt spread, meanwhile, has surged to $1.92 per barrel, up from 70cents a month ago, in a sign that oil likely still has topside to come, bringing the $100 per barrel mark into view. Our view remains, however, that the current bullish momentum will not be sustained into the second half of the year, with US supply set to rise as rigs increased by their most in four years last week, while talks with Iran are progressing to suggest supply levels should be ramped up. The risk to this view, of course, is the Russia-Ukraine saga. If tensions erupt here and Russia chooses to invade Ukraine, the oil market will be sent into a tailspin and prices will surge.

Rand Update

After promising to end the week on a firmer footing, the ZAR backtracked and lost ground. As Wall St trades at the moment, so goes the ZAR, and given the selling that unfolded on Friday, fears of a major correction triggered some profit-taking, especially out of EM currencies, including the ZAR. This week will start, in much the same fashion, with all eyes on Wall St and how it trades.

Also, of interest this week will be the domestic inflation data. Consensus anticipates a decline in inflation to 5.7% from 5.9% ensuring inflation remains within the target band for a little longer. The final arbiter on whether this will remain the case will be the ZAR price of oil. Regular readers will know that the outlook for domestic inflation is a factor to consider when searching for longer-term guidance on the ZAR and stands as a barometer for the kind of price stability that should reflect in the ZAR over time. For now, domestic inflation remains well below that of the US and suggests that the ZAR's resilience is, therefore, somewhat justified.

Also on the ZAR's radar, but unlikely to be market-moving, will be the President's Q&A session in parliament. Ramaphosa is likely to face some tough questioning concerning the recent SONA, although history tells us that this is not a big risk event for the market, implying that beyond the inflation reading, the bulk of the focus will rest with offshore developments.



Bond Update

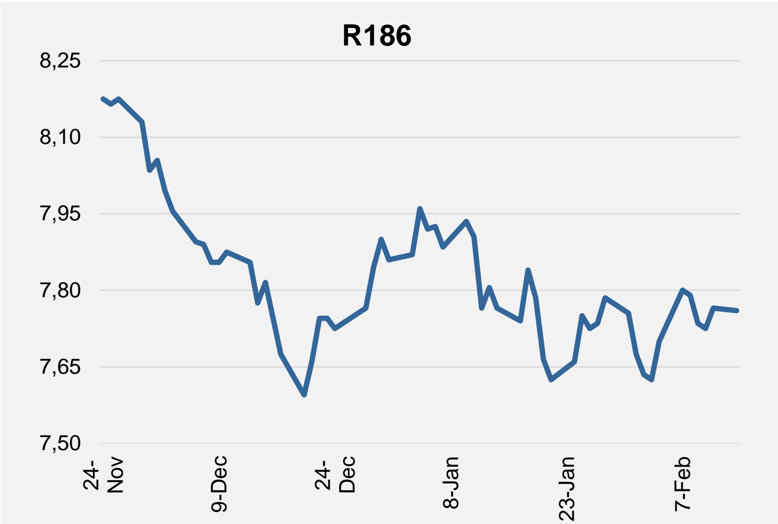
The data card this week features CPI and retail sales. While South Africa's consumer price growth has been above the SARB's 4.5% mid-point of the 3-6% target range for eight straight months, it is expected to decelerate through the course of 2022. January CPI is expected to soften to 5.7% y/y from 5.9% prior. Looking ahead, the SARB expects a deceleration in price growth down to an average of 4.3% y/y through Q4 2022 as base effects work out of the index.

There are upside risks, as the transport component could continue to increase in line with higher oil prices, while administered price inflation remains buoyed. Rentals for housing also seem to be picking up. Energy, commodity, and food inflation have been sustained. Fuel prices have topped R20/litre at the pumps, up 28% y/y.

Despite the higher supply-side inflation risks, core inflation (which excludes volatile prices such as fuel and food) has been relatively contained with a print of 3.4% y/y in December. We can link this to weak overall money supply, and credit growth figures remaining negative in y/y terms while the labour market has yet to recover from its COVID-induced slump.

Although the relaxation of restrictions would have bolstered domestic demand and could well be supporting a VAT recovery, aggregate spending has remained weak. As a result, policymakers are not under pressure to tighten policy like the Fed is expected to as there is limited 'monetary space' for inflation to take hold. Instead, higher fuel, electricity and food prices will be driving reductions in spending elsewhere in the economy. Yet the relaxation of COVID-19 restrictions remains a potential driver of some inflationary pressure, mainly if there is significant upside pressure on consumer spending. The retail sector could well benefit from a relatively more open economic environment. There is still a very significant

divergence among retail categories with durable goods sales remaining relatively weak given still significant levels of economic uncertainty.



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