

23 June 2022

USD-ZAR	15.9104/15.9203	GBP-ZAR	19.5026/19.5266
GBP-USD	1.2261/1.2312	AUD-USD	0.6896/0.6898
GOLD	\$1832.58	DJI	44734,00
EUR-ZAR	16.8149/16.8312	EUR-USD	1.057/1.0574
USD-JPY	135.47/135.48	R 186	8.59%
BRENT	\$109.88	3m JIBAR	4,950

Events (GMT)

07:30	GE	Markit/BME manufacturing PMI	Jun P	54	54,8
08:00	EZ	Markit/BME manufacturing PMI	Jun P	53,8	54,6
08:30	GB	Markit manufacturing PMI	Jun P	53,7	54,6
12:30	US	Initial jobless claims	Jun 18	232k	229k
12:30	US	Current account balance	1Q	\$-279bn	\$-217,9bn
13:45	US	Markit PMI manufacturing	Jun P	56,3	57

Factors on the radar

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

EU shift to coal on Russia threat

What happened?	The IEA has warned that Russia could cut gas supplies to Europe completely, forcing the EU to shift temporarily back to coal to meet energy needs
Relevance	Renewable energy is not advanced or integrated enough to pick up the shortfall in energy supply
Importance	4/5 (economy, market, geopolitics)
Analysis	Prices of energy are set to remain elevated and keep inflation buoyant for the foreseeable future with no end in sight to Russia's war on Ukraine, or disruptions to energy supply.

Canada rate hikes

What happened?	As inflation in Canada surges to a 40yr high, calls are growing for the BoC to follow the Fed's lead and raise interest rates by 75bp
Relevance	Aggressive tightening by central banks the world over is raising recession risks
Importance	5/5 (monetary policy)
Analysis	There is no jurisdiction that has been spared and rate hikes appear to be the only solution even though the pressures are supply-side driven

Today's Talking Point

Oil Update

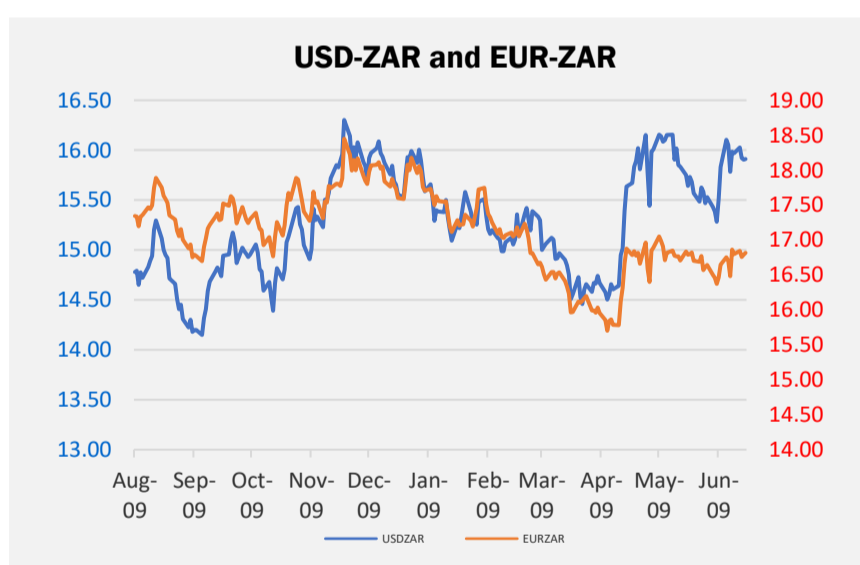
Analysis: Oil remains under pressure this morning, tracking a broader slump in commodity prices as recession fears continue to rip through the markets. Brent has sunk to \$108 per barrel, extending its decline from yesterday and posting a loss of more than 6% over the last two sessions so far. WTI, meanwhile, has plunged to \$103 per barrel, but at one point, was trading below \$100. Global recession fears were amplified yesterday by Fed Chair Powell's testimony to Congress, where he said that a soft landing for the US was very challenging but that more rate hikes are still needed to contain inflation. A slowdown in US and global growth will help to lessen some of the tightness in the market at the moment, but as we have noted before, there is still a long way to go before the market will return to a more balanced structure. Nevertheless, we are seeing demand for downside protection on oil rise, indicating that traders are becoming a bit more concerned over the impact of weaker demand. Oil price forecasts, therefore, are likely to be revised a bit lower over the next few weeks.

Rand Update

The big news out of SA this morning is that Health Minister Phaahla has signed off on the removal of the last remaining COVID-19 restrictions in SA. These include the wearing of masks in public, curbs on gathering sizes, and border checks for COVID-19. This is welcome news, and will allow for a more complete recovery of the South African economy. Recall that the economy already experienced some improved momentum at the start of the year due to SA's initial phase of reopening, and although it is unlikely to last, it will have a material impact on the ZAR's performance through SARB policymaking and trade balance dynamics.

Concerning the former, note that CPI stats released yesterday showed headline inflation in SA topped the ceiling of the SARB's 3%-6% target range for the first time in more than five years. Specifically, CPI growth accelerated to a five-year high of 6.5% y/y, while core inflation, which strips out food and fuel costs, accelerated to 4.1% y/y. While this all but confirmed that a 50bp rate hike is on the cards for July, the ZAR's reaction was muted as this was, by and large, already priced in.

As for the session ahead, the market will be digesting the final chapters of the Zondo report into state capture that were released yesterday. Wrapping up nearly four years of work, the final parts of the report deal with a number of topics, including the SABC and the state security agency, the Vrede dairy scandal, parliamentary oversight, and also money flows and how money that was obtained through state capture was moved out of the country. Notably, President Ramaphosa has been implicated as a by-stander in the Prasa scandal. There is therefore some reputational risk at stake, and Ramaphosa will need to respond to the allegations or face a loss of legitimacy in his anti-corruption drive that could be argued to be nebulous without a deep clean of those in power through State appointment.



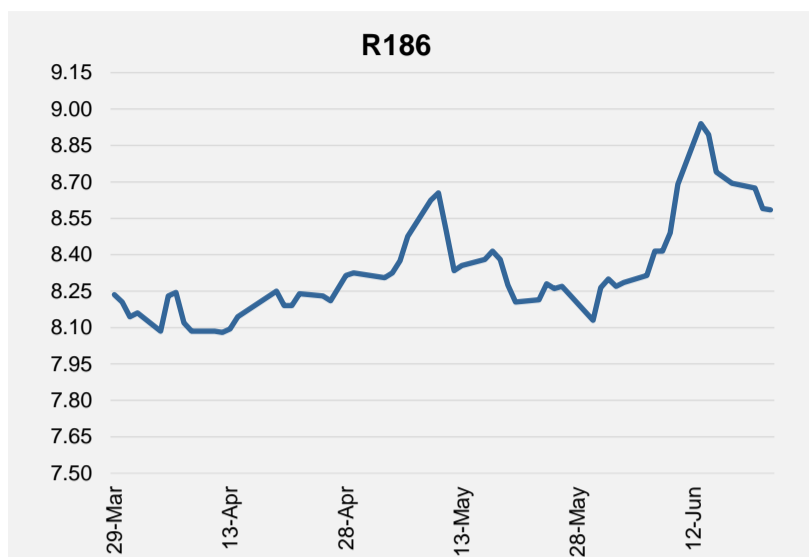
Bond Update

Investors will have a flurry of new information to digest in the session ahead as the Zondo Commission's findings make their way to public discussion. Notably, incumbent president Ramaphosa has been implicated as a bystander in the Prasa scandal. There is, therefore, some reputational risk at stake. Ramaphosa will undoubtedly need to respond to the allegations or face a loss of legitimacy in his anti-corruption drive that could be impeded without a deep clean of those implicated.

The report said that "people who wielded public power, whether as leaders of the ruling party, cabinet ministers, MPs or members of law enforcement agencies, were obstructive, refused to assist or simply stood by when there was a duty, whether constitutional, legal or moral, to actively assist the [Prasa] board." Note that the board was unfairly dismissed and had to go to court to get reinstated. The report highlighted that "President Jacob Zuma gave [allegations of corruption from the board] no support. The then deputy president of the ANC and of the country, now President Cyril Ramaphosa, gave it no support. Indeed, all the top six officials of the ANC gave it no support. The parliamentary portfolio committee on transport was openly hostile to this board,".

This is a politically difficult time for the ANC, which remains prone to infighting with its commitment to rooting out corruption, leaving a narrow road to political salvation. The whistleblower on the theft of illegally held foreign capital at Ramaphosa's farm was Arthur Fraser, who has been directly implicated in the report with the recommendation to investigate for "prima facie [or apparent] criminal acts".

What follows is an open question concerning the future of the governing party, with ANC support levels clearly under pressure when looking at polling and recent municipal by-election results in historically strong support areas like Soweto. There is likely to be a further legal inquiry into those implicated, which forms considerable tail risk when considering what the market still might not know. This supports the view that SAGB yields could remain buoyant in the long end in particular, perhaps barring an environment characterised by the continued outperformance in fundamentals and clear evidence of fiscal consolidation.



S Forex

sasfin.com

Beyond a bank | sasfin.com

140 West Street, Sandown, Sandton, Johannesburg, 2196

Sasfin Bank Limited ("Sasfin") does not guarantee the accuracy or completeness of its analyses or any information contained herein. Sasfin makes no warranties, expressed or implied, with respect to its analyses or any information contained herein or with respect to the results obtained by any person or entity from the use of its analyses or the information contained herein. In no event shall Sasfin be liable for indirect or incidental, special or consequential damages, regardless of whether such damages were foreseen or unforeseen. Sasfin is hereby indemnified and held harmless from any actions, claims, proceedings or liability with respect to its analyses or the information contained herein. A recipient should be fully aware of the risks involved in trading stock market-related products. All illustrations, forecasts or hypothetical data is for illustrative purposes only and Sasfin does not give any guarantees, warranties or undertakings in this regard. The information contained herein does not constitute an offer, advertisement or solicitation for investment or financial or banking services. The information contained herein has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient and shall in no way be construed to constitute a recommendation or advice in any form.

This report is provided by Sasfin Bank Limited and is prepared by ETM Analytics (Pty) Ltd.
www.etmanalytics.com