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The Daily Market

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28 June 2021

USD-ZAR	14.1566/14.17	**GBP-ZAR**	19.6629/19.6869
GBP-USD	1.3892/1.3943	**AUD-USD**	0.7588/0.7593
GOLD	$1781.31	**DJI**	34433,84
EUR-ZAR	16.886/16.8931	**EUR-USD**	1.1923/1.1927
USD-JPY	110.61/110.64	**R 186**	7,32%
BRENT	$76.09	**3m JIBAR**	3,683

EVENTS

08:00	SA	BER consumer confidence	2Q	-9,00
O/N	JN	BOJ Summary of Opinions		
12:00	UK	BOE's Haldane speaks on "leveling up"		
12:00	EC	ECB's Weidmann Speaks		
13:00	US	Fed's Williams Takes Part in BIS Panel Discussion		
15:00	EC	ECB's Guindos Speaks		

FACTORS ON THE RADAR

Middle East tensions

What happened?	>	The US has carried out another round of airstrikes against Iran-backed militia in Iraq and Syria in response to attacks on US personnel and facilities in Iraq
Relevance	>	This may have consequences for the revival of the nuclear deal with Iran signed back in 2015
Importance	>	2/5 (geopolitics)
Analysis	>	Biden will need to weigh whether Iran can be trusted and if diplomacy can continue in one stream while military attacks continue in another. This is a development to watch

OPEC Meeting

What happened?	>	OPEC+ are set to meet on the 1st July and may agree on a further 500k bpd output increase. Fuel demand appears to be recovering as economies reopen
Relevance	>	Given how high prices are, there is some flexibility to reduce any output curbs that may exist
Importance	>	3/5 (economic, markets)
Analysis	>	At the same time, a balanced and measured approach is needed, with the US adding a further 13 oil and gas rigs into production through June. This is the 11th consecutive month of additions.

US labour market

What happened?	>	The US will release the latest update on its key labour market metrics this week, and they will be keenly watched events. Investors will be keen to see what guidance the data offers
Relevance	>	Specifically, investors will be looking for signs the recovery is gathering momentum and that the Fed may need to respond
Importance	>	4/5 (economy)
Analysis	>	Unemployment cheques have meant that there has been no hurry for workers to return back to full employment. Those will soon be drawing to an end, and the true underlying strength of the labour market will be revealed

TODAY'S TALKING POINT

BER Consumer Confidence: Q2
Expected:
Prior: -9

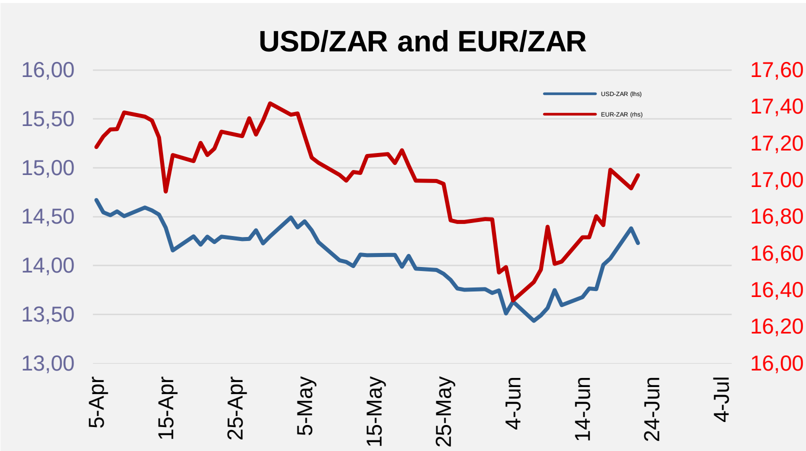
Analysis: While consumer confidence at the start of the year showed signs of an ongoing recovery, it is unlikely that the recovery will have been sustained in Q2. The realisation that the economy's recovery remains fragile with a slow vaccine rollout exposing South Africans to a third wave of infections, triggering fresh restrictions and a higher lockdown level will no doubt have dented sentiment. In addition to the above, constrained household finances amid fuel and electricity price increases and high unemployment are some of the factors that present downside risks to the Q2 sentiment reading. Subdued consumer sentiment will weigh on household consumption, which will detract from any prospects of a meaningful recovery in economic growth in the near term.

RAND UPDATE

The ZAR ended last week with its third consecutive daily advance against the US dollar, taking its weekly gain to 1.45%. The local unit strengthened to an intraday high of 14.0200/$, after beginning the day at the 14.2000/$-handle, as supportive risk appetite aided the emerging market basket of currencies at the end of the week. However, the ZAR settled near 14.1500/$ after encountering resistance at its 50-day moving average, suggesting a stronger catalyst is needed to break back below the 14.0000/$-handle.

Meanwhile, there were no surprises on the US inflation front at the end of the week as the Fed's preferred measure of inflation, core personal consumption expenditure (PCE), rose in line with expectations. Nevertheless, the PCE core index advanced 3.4% y/y, its largest gain since April 1992. While this hasn't broken the Fed's script that inflationary pressures will be temporary as economic activity normalises, the market will remain skittish over higher inflation prints, especially as they come alongside signs of a recovering US labour market, raising concerns of longer-term price pressures.

The week ahead heats up on the labour market front, with US private payrolls data and the official US jobs report for June likely to steal focus from an equally heavy domestic data week. For the Fed's employment targets to be met, there still needs to be several months of solid hiring before the central bank materially considers tightening policy, but that will unlikely limit the potential for kneejerk reactions and FX volatility in the week ahead.



The week ahead will feature a host of economic data that will provide colour to the South African business cycle. Another core focus remains the new lockdown restrictions as the government attempts to control a rising level of infections with containment protocols. Reduced contact time, extended curfew, no alcohol sales and no gatherings for the next 14 days are some of the latest developments. This will further crimp the consumption cycle and raise uncertainty levels.

The major global data release of the week will be US-non-farm payrolls. Expectations for a solid recovery in the US labour market are supported by a successful vaccination rollout, the reopening economy, another massive fiscal stimulus package, with more to come. Although US inflation risks could rise, indications are that the Fed is unlikely to budge from its current ultra-accommodative policy stance until at least the latter part of 2022. The uneven nature of the economic recovery and considerable fragility in various parts of the US economy will be key concerns.

In terms of the SA data, there would need to be some significant upside surprises to the growth-relevant figures to unsettle the outlook for SARB rates. Barring a major sell off in the ZAR or significant upside pressure on oil prices, there is a limited reason for rates to be hiked higher than the QPM projections for 50bp of rate hikes by year-end, while SARB members have laid the groundwork for a hold on rates despite the projections.

Evidence of a weakening growth cycle, on the other hand, would increase the chances that rates remain on hold through to the end of the year. The deepening in lockdown regulations amid rising cases of coronavirus suggests that downside risks to the growth outlook are emerging.