sasfin beyond a bank

The Daily Market

16 March 2023

USD-ZAR	18,4103/18,424	**USD-JPY**	132,9/132,91
GBP-ZAR	22,221/22,245	**GOLD**	$1918,09
EUR-ZAR	19,5267/19,5469	**BRENT**	$74,47
GBP-USD	1,207/1,2124	**DJI**	31 874,57
EUR-USD	1,0606/1,061	**R 186**	8,4%
AUD-USD	0,6638/0,6641	**3m JIBAR**	7,517

Events (GMT)

Time	Country	Event	Month	Fc	Prior
12:30	US	Initial jobless claims	Mar 11		211k
12:30	US	Building permits	Feb	1350k	1339k
12:30	US	Housing Starts	Feb	1310k	1309k
12:30	US	Philadelphia Fed index	Mar	-14.8	-24.3
13:15	EZ	ECB deposit facility rate	Mar 16	3.00%	2.50%

Factors on the radar

US labour market

What happened?	Initial jobless claims data scheduled for publication today are expected to show a still-tight labour market in the week through 11 March
Relevance	Since jobless claims rose in the first week of March, investors are watching closely for further signs of the labour market loosening
Importance	4/5 (labour market, inflation, monetary policy)
Analysis	Jobless claims are expected to rise further in the coming months, which, if realised, could help catalyse a change in tone at the Fed that would have significant ramifications for global markets

ECB monetary policy

What happened?	The ECB is expected to continue its monetary tightening cycle today, although there is a risk that recent financial market turmoil limits its monetary tightening action today
Relevance	The ECB will need to weigh its inflation fight against rising financial market risks today
Importance	5/5 (monetary policy)
Analysis	The ECB must reconcile its inflation-fighting credentials with the need to maintain financial market stability in the face of imported turmoil, but could remain firm with small rate hike

US-Russia tensions

What happened?	Top Russian and US military officials traded threats after a US surveillance drone intercepted by Russian jets near Crimea crashed
Relevance	The incident risks an escalation of tensions between the two nuclear superpowers if not resolved quickly
Importance	5/5 (geopolitics, war)
Analysis	Since the onset of the Russia-Ukraine war, the US is finding itself in a growing number of confrontations with non-NATO military powers such as Russia and China, reflecting rising global geopolitical risks

Today’s Talking Point

US Housing Starts: Feb

Expected: 1310k

Prior: 1309k

Analysis: The US property market is taking significant strain, which is unsurprising given the Fed’s aggressive rate-hike cycle since last year. The sector was already vulnerable after a steep runup in property demand during the pandemic put prices out of reach for many, with surging mortgage rates thereafter making houses even more unaffordable for the typical American household. Consequently, we saw housing starts fall for a fifth consecutive month in January, with more of the same expected in February. That is to say that although borrowing costs have come off their peaks and homebuilder sentiment has risen slightly recently, the outlook for the US property market remains far from rosy. This is noteworthy as housing market corrections have traditionally pointed to economic weakness down the line; if not causally via the wealth effect, then because it reflects growing strain due to tightening financing conditions.

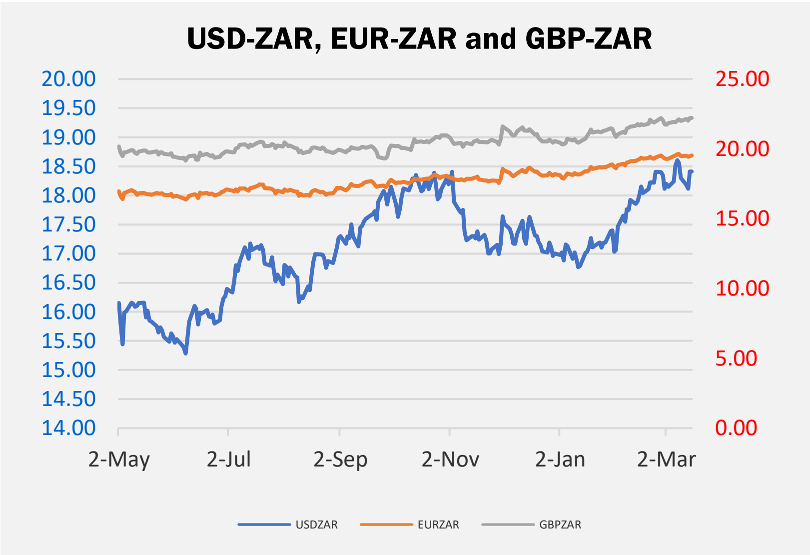
Rand Update

The ZAR came under significant pressure on Wednesday as a fresh bout of financial market turmoil sparked a rotation away from risk and into safe havens. This was driven by renewed fears of a global banking crisis after global lender Credit Suisse came under the gun. Subsequent financial support from the Swiss central bank has, however, shored up liquidity and investor confidence overnight, but broader market strain after the aggressive global rate-hike cycle remains a developing theme. More market stress is thus expected through the weeks ahead, which could test central banks’ inflation-fighting resolve and force them to hold off on rate hikes as they assess the situation.

The ECB will be the first major central bank facing this test as it convenes for its policy decision today. While consensus expectations as per Bloomberg surveys are pointing to a 50bps rate hike, these surveys were conducted last week prior to the recent episode of market stress. With the banking sector under increasing pressure, the central bank will need to debate whether or not such a large rate hike would do more bad than good. The situation has undoubtedly changed since a week ago, and an outsized rate hike may be tone-deaf in the current environment. There is thus plenty of uncertainty over what the ECB will do today, but a 25bp rate hike, or perhaps even a pause, seems more suitable than a 50bp move.

Should the ECB implement a relatively smaller (or no) rate increase today, it would ease pressure on the SARB to hike later this month. Disinflationary pressures in SA are gaining momentum with the local economy struggling, as was highlighted by soft retail sales data yesterday. Much of the argument for the SARB to hike rates rests in the need to defend the ZAR against further, potentially inflationary weakness by maintaining a healthy rates spread over funding nations. Local investors will thus be keeping a close eye on what the ECB does today, with its policy decision likely to be today’s biggest market-mover.

The ZAR’s recovery did not last long, with the currency trading back at the R18.5000 mark after yesterday’s retreat. It has, however, found some technical support at this level, and has been consolidating overnight. Having said that, market cautiousness remains heightened at the moment, meaning volatility will likely remain the order of the day over the near term. So while a relief rally is possible today, it is unlikely to provide strong or sustainable ZAR-bullish impetus at this time.

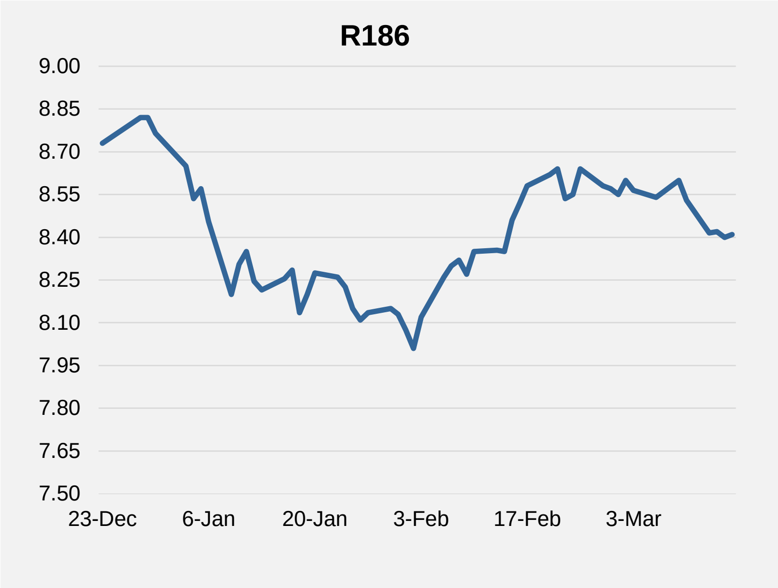


Bond Update

Bonds/Yield Curve: US data is turning weaker. Whether it be the NY Fed's manufacturing index, retail sales or the PPI data, all of them missed expectations to the downside. The data finally appears to be softening, accompanying the latest banking crisis. Investors will interpret this as a sign that the downturn is underway and that the Fed will be battling concerns about the banking system and a slowing economy. US Treasury yields have moderated once more and look set to dip further. As they do, they will ease the pressure on global markets and the domestic bond market will take heart. Any improvement in the ZAR's performance will further tilt the scales back in favour of the domestic bond market, which remains well-positioned to outperform equities this year. Furthermore, it is difficult to ignore the softening in domestic rate expectations, with FRAs no longer anticipating a hike at the upcoming meetings.

FRAs: Receiving interest remains the order of the day. Investors have moved swiftly to price back out the prospect of further monetary tightening by the SARB. SA's economy is in recession; the global banking system appears to be fragile, inflation is moderating albeit slowly, and global liquidity conditions are tightening up. Hiking into such an environment might come across as incredibly tone-deaf, given that protests have been planned for next week to express dissatisfaction with the country's unemployment rate and Eskom’s load shedding. As it stands, rates are set to remain flat throughout the year.

Repo: Expectations for interest rates are very fluid at the moment. Last week investors were convinced that the Fed would need to hike aggressively and the SARB would follow. This week, much of that has unwound as investors consider the Fed's response to two bank failures in the US. Fewer hikes in the US mean less pressure on the SARB, and although one might still argue for another 25bp hike at the next meeting, more hiking beyond that is no longer obvious. The terminal peak in rates has been brought forward and lowered.



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