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The Daily Market

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08 July 2021

USD-ZAR	14.341/14.356	**GBP-ZAR**	19.7693/19.7933
GBP-USD	1.3783/1.3837	**AUD-USD**	0.7458/0.7459
GOLD	$1797.79	**DJI**	34681,79
EUR-ZAR	16.914/16.94	**EUR-USD**	1.1793/1.1797
USD-JPY	110.38/110.39	**R 186**	7.53%
BRENT	$73.45	**3m JIBAR**	3,692

EVENTS

O/N	JN	Current account total	May	¥1807,20bn	¥1321,80bn
O/N	JN	Trade balance	May	¥247,90bn	¥289,50bn
06:00	GE	Trade balance	May		15,50bn
12:30	US	Initial jobless claims	Jul 3		364k

IMF on US inflation

What happened?	>	IMF Chief Georgieva anticipates a more sustained rise in US inflation and inflation expectations which could require an earlier response from the Fed
Relevance	>	IMF is warning countries not to overreact to a transitory period of inflation
Importance	>	4/5 (economy, fiscal policy)
Analysis	>	Georgieva highlighted how a rise in US rates could lead to a tightening in global monetary conditions and lead to some painful readjustments of capital away from emerging market economies

Chinese monetary policy

What happened?	>	China will utilise changes in the bank Reserve Requirement Ratio to support the real economy, especially smaller businesses, by ensuring lower borrowing costs
Relevance	>	Monetary policy will remain relatively stable, but the cost of borrowing for small companies could dip
Importance	>	3/5 (monetary policy)
Analysis	>	Reducing the cost of borrowing at the margin could help some companies better deal with the rising cost associated with the surge in commodity prices

ECB guidance

What happened?	>	With the FOMC minutes now behind us, focus turns to the ECB where it is anticipated the ECB will unveil a new inflation target and role to play in combatting climate change
Relevance	>	The combination will have implications for how future policy will unfold, although it may not be market moving
Importance	>	4/5 (monetary policy)
Analysis	>	It is anticipated the ECB may follow the Fed's lead by offering some flexibility in case inflation rises beyond 2%. They will do so by introducing policy target symmetry to allow the ECB to stomach higher inflation for a while without acting

TODAY'S TALKING POINT

Oil Update

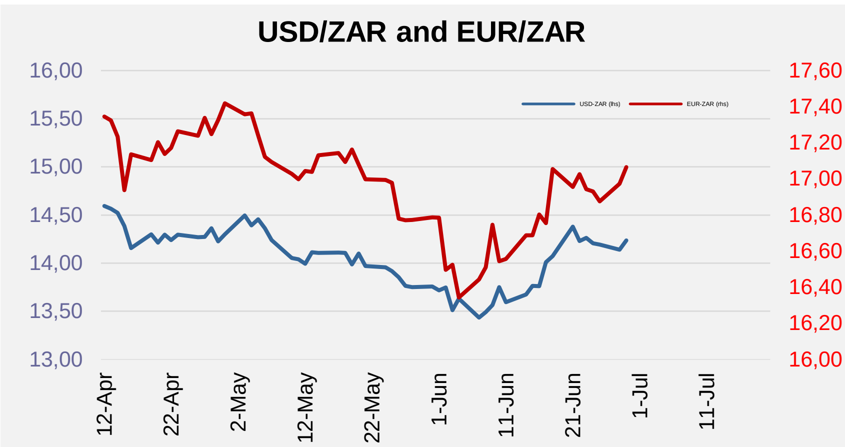
Analysis: Oil prices are steady this morning after another sell-off yesterday, which took the front-month Brent back down to $73.45 per barrel and WTI near $72. The selling pressure yesterday came as concern over the economic impact of the delta variant of the coronavirus continued to rise, and while traders waited for any clues on the way forward for OPEC+ following this week's disastrous meeting. With yesterday's losses, both Brent and WTI are heading for their largest weekly losses since March. The significant gains seen for oil that began late last year have resulted from OPEC+ discipline as they managed supply levels amid surging demand as the global economy recovers. This discipline is now threatened just as concerns have started to mount over the economic recovery. The market appears to be positioning for a possible UAE exit from the cartel, which could lead to a price war amid an opening of the supply taps as the Saudis could look to punish the UAE by driving prices lower. Unless we see the two reach an agreement soon, the outlook for oil will be tilted towards the bearish end of the spectrum.

RAND UPDATE

On the domestic front, the ZAR had an apparent tailwind yesterday as ratings agency S&P Global raised its growth forecast for the South African economy from 3.6% to 4.2% for this year. While the revision comes amid adjusted base effects, the ratings agency also noted greater than expected improvements in SA's terms of trade owing to elevated commodity prices. Furthermore, S&P forecast South Africa's debt-to-GDP ratio at 80.9% for the year ending March 2022, which is more optimistic than National Treasury's estimate of 81.9%. In terms of risks, it was also noted that government may ultimately settle on a wage-hike agreement closer to inflation, which will put further strain on government finances. At the same time, the ratings agency also highlighted the weak pace of economic reforms, which will continue to constrain medium-term growth.

Nevertheless, the ZAR took the positive aspects from this revision in its stride as it went on to a 0.5% gain to end London trading hours at 14.3300/$. The ZAR was among a handful of currencies that were stronger against the US dollar on the day yesterday, with riskier currencies broadly kept in check as the dollar remained supported ahead of the Fed's June FOMC meeting minutes.

In terms of domestic developments overnight, newswires have been flooded by announcements that former President Jacob Zuma handed himself in to authorities to begin serving his 15-month jail sentence. While unlikely to move markets in the day ahead, this still bodes well for the ruling ANC's battle against corruption and South Africa's broader reform prospects.



BOND UPDATE

Buoyancy in government hiring and wages remain major challenges with the uptick in provincial government hiring in the latest QES release suggesting that the political will for labour reform has yet to be established. Both wages and the outright numbers of government workers need to be reduced substantially before international norms are reached, barring which fiscal sustainability concerns remain.

Disappointingly, positive political developments still do not detract from the fiscal quagmire that the country finds itself in. Recent downgrades of many of the country's metros into the end of June have been followed by some bearish comments by Moody's overnight in reference to South African growth prospects. Moody has said that SA's banking system has among the least additional capacity for credit extension to the private sector after funding fiscal requirements. This is likely to exacerbate soft growth pressures that have emerged since lockdown policy was introduced in March last year, not to mention that South Africa was already in a technical recession.

Fiscal conservatives argue that high deficit spending in a weak growth environment can exacerbate the downturn. There is some evidence of this in the economic data, with money supply growth barely accounting for the government's issuance in recent months. Private sector credit extension is also under pressure and is contracting quite substantially when considered in inflation-adjusted terms. This is yet another reason to doubt the SARB's likelihood of hiking rates all that aggressively. Structural factors such as a bloated government balance sheet and deteriorating consumer finances suggest that the country is going to struggle to "grow its way" out of high government debt levels. Sweeping out of corrupt politicians and growth-enhancing reforms will be required first.