

The Daily Market

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15 July 2021

USD-ZAR	14.4811/14.4961	GBP-ZAR	20.0351/20.0591
GBP-USD	1.3838/1.3892	AUD-USD	0.7466/0.7467
GOLD	\$1826.84	DJI	34933,23
EUR-ZAR	17.1441/17.1533	EUR-USD	1.1835/1.1837
USD-JPY	109.84/109.87	R 186	7.575%
BRENT	\$74.22	3m JIBAR	3,692

EVENTS

02:00	CH	Real GDP y/y	2Q	8,00%	18,30%
12:30	US	Empire manufacturing	Jul	18,70	17,40
12:30	US	Import price index y/y	Jun		11,30%
12:30	US	Initial jobless claims	Jul 10		373k
13:15	US	Industrial production m/m	Jun	0,60%	0,80%
13:15	US	Manufacturing production m/m	Jun	0,30%	0,90%

BoC on inflation

- What happened? > The BoC adopted an optimistic outlook on the country's economy stating that the pandemic had now mostly passed and warned that inflation could be a problem
- Relevance > Downside risks to economic growth have diminished, but inflation is expected to remain buoyant
- Importance > 4/5 (economy, monetary policy)
- Analysis > As yet, the BoC is not showing signs of an imminent reaction to the inflation outlook. However, they will be forced to respond if the buoyant inflation continues to surprise to the topside

US infrastructure bill

- What happened? > As Biden made his case for his sweeping infrastructure package worth some \$3.5trln, the Reps predictably criticised it and questioned the funding for it
- Relevance > Biden is determined to complete this as it resonates with the electorate and will use his majority
- Importance > 3/5 (fiscal policy)
- Analysis > The Democrats will no doubt face many challenges in pushing for this, but given their Senate majority, it is possible that at best, the Republicans will only be able to offer resistance, not stop it

UK inflation and BoE

- What happened? > June's CPI rose 2.5% y/y and is at uncomfortable levels for the BoE. The outlook for inflation is similar to that of the US
- Relevance > Inflation spike linked to the post-pandemic recovery and supply constraints
- Importance > 4/5 (monetary policy)
- Analysis > The BoE will be more tolerant of rising inflation than it has been in the past but will still need to position itself for the likelihood of removing stimulus soon

US Industrial production m/m: Jun

Expected: 0.6

Prior: 0.8%

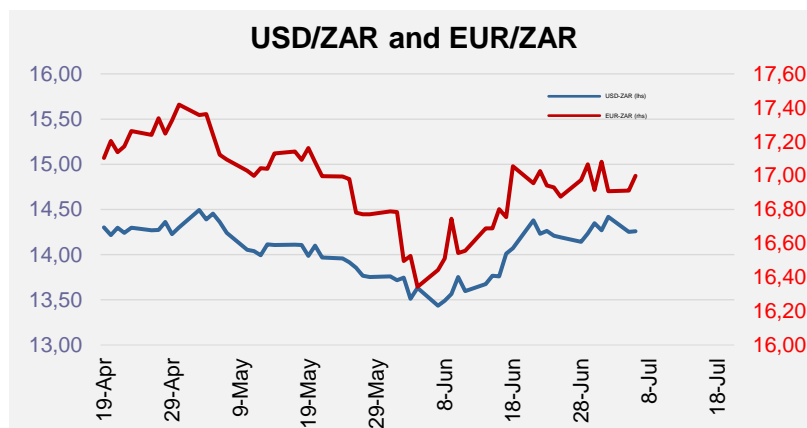
Analysis: US industrial production rose 0.8% m/m in May, while April's m/m rise was revised down to 0.1%. Manufacturing of motor vehicles and parts, and mining contributed to the higher growth from the previous month where production in both sectors had declined in the previous month. With total industrial production now at levels 1.5% below February 2020, there are promising signs that pre-pandemic levels will be reached this year. However, producers continue to grapple with supply constraints and unfilled job openings, which may hold back the ongoing recovery. Nevertheless, robust consumer spending suggests stronger growth could be seen in the months ahead as factories' ability to keep up improves, while supply catching up with demand could quell rising price pressures.

RAND UPDATE

The ZAR hit a three-and-a-half-month low in intraday trade against the USD yesterday with heightened volatility continuing due to deadly riots and amassed damage in several of the nation's provinces. The cost of hedging against rand weakness also surged with implied volatilities for one-month and three-month option tenors rising to their highest since mid-April.

However, the USD-ZAR ran into some resistance as it headed towards its 200-day moving average at 14.8300, while the local unit was also offered some reprieve from a weakening dollar in afternoon trade. Meanwhile, greater army presence appeared to quell the domestic unrest, with reports of more army troops to be deployed, which managed to stave off further losses for domestic equities and the ZAR.

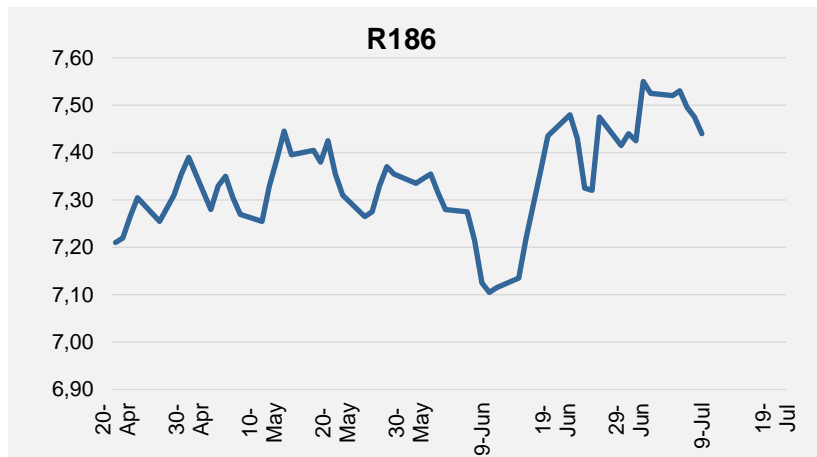
Amidst domestic tensions, some positive news flow came in the way of retail sales data which surprised to the upside in May. Specifically, retail sales growth swung from a contraction of 0.60% m/m in April to expand 2.10% m/m in May, beating expectations of a less pronounced increase to 0.90% anticipated by analysts surveyed by Bloomberg. The easing of lockdown restrictions continued to help drive the rebound in retail sales growth. However, the recovery in the retail sector is unlikely to be sustained going forward amid the reintroduction of restrictions in June and civil unrest this month. Despite the continued recovery, the implications of current developments would be for weaker demand dynamics to persist. However, should current sentiment impact broader economic activity and demand as we advance, this may ultimately prove supportive for SA's trade surplus given high commodity prices and now the weakening of the currency.



Newswires talk of a semblance of stability that is starting to emerge following two days of violent and destructive riots in South Africa. This is mostly due to an increased army presence. Much damage has been done, but the government is taking some proactive steps. There are reports that troop deployment is expected to rise to 25k per city in Gauteng and KZN in a clear step toward re-establishing order.

We expect to see ultimately defensive asset management strategies remaining front and centre against this backdrop. Financials and cyclical consumer stocks have been hardest hit in this context, and one can only wonder how much worse the sell-off could have been in an environment where offshore monetary policy was in a tightening phase. Yet the ZAR manages to hold up against the backdrop of some soothing words from the Fed yesterday, which feed into the view that US monetary policy is likely to remain accommodative for some time still.

There is some short-term inflation risk that the SARB will have to address at the MPC meeting that is now just a week away. Supply chains will be under pressure following the riots and it is not clear when trucking will re-commence, food and goods inflation could be expected in this context as the social disorder threatens civility. All eyes will be on tax intake numbers in the months ahead and in the shorter term of course, ex-president Zuma's sentencing.



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