The Daily Market

10 September 2021

USD-ZAR	14.1694/14.1794	**GBP-ZAR**	19.6176/19.6416
GBP-USD	1.3849/1.39	**AUD-USD**	0.7384/0.7385
GOLD	$1797.63	**DJI**	44448,00
EUR-ZAR	16.7656/16.7741	**EUR-USD**	1.1831/1.1832
USD-JPY	109.87/109.9	**R 186**	7.37%
BRENT	$71.93	**3m JIBAR**	3,667

Events (GMT)

09:00	SA	ILB auction (R1.40bn)			
06:00	GE	CPI y/y	Aug F	3,90%	3,90%
06:00	GB	Industrial production y/y	Jul	3,10%	8,30%
06:00	GB	Manufacturing production y/y	Jul	6,10%	13,90%
14:00	US	Wholesale inventories m/m	Jul F	0,60%	0,60%
14:00	US	Wholesale sales m/m	Jul		2,00%

Factors on the radar

Corporate tax reform

What happened?	G7 finance ministers indicated that they needed to make more progress on the details governing the minimum corporate tax rate before the G20 in Oct
Relevance	The global minimum tax rate of 15% has been agreed to by 130 countries and will be implemented
Importance	4/5 (fiscal policy)
Analysis	Governments desperate for tax revenue will quickly agree to any deal that could generate more tax revenues than they had previously. This will likely be implemented quickly

UK furlough

What happened?	The UK's furlough scheme is set to expire by the end of the month, and estimates suggest that as many as 1mn Britons could still be on the scheme
Relevance	Despite the economic recovery, the pace of those returning off furlough has slowed significantly
Importance	4/5 (economy, fiscal policy)
Analysis	It is unclear whether there is reluctance on the part of the employees or the companies to reabsorb those workers and whether there will be a big knock to employment once the scheme ends

French budget deficit

What happened?	Due to the strength of the economic recovery, the French budget deficit will likely be smaller than first anticipated
Relevance	A budget deficit of 8.4% is expected in 2021, with 4.8% expected in 2022

Importance	3/5 (economy, fiscal policy)
Analysis	This is moderately good news and is a trend seen in many other countries, too, that will help reduce overall levels of risk aversion.

Today’s Talking Point

GB Industrial production y/y: Jul

Expected: 3.1%

Prior: 8.3%

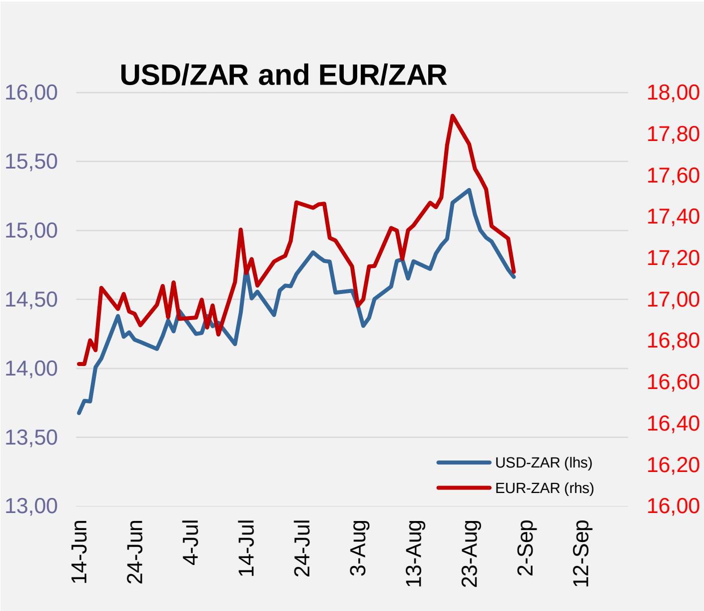
Analysis: UK industrial production accelerated at a slower pace of 8.3% y/y in June, keeping the downtrend since April intact as base effects are filtered out. While the headline figure remains buoyed well above historic levels, production levels contracted 0.7% on a month-on-month basis, suggesting some slowing of production was caused by rising rates of infection. While the UK has had a relatively speedy vaccination drive, risks to production were evident amid rising virus cases which saw large numbers of people self-isolating, affecting consumption and labour supply. Looking ahead though, production is likely to pick up once again into the end of the year which would result in a re-acceleration in UK growth. This is the likely scenario UK policymakers will be hoping for as the government's furlough programme is set to end in September.

Rand Update

Quite aside from market talk of bank hedging behaviour that partly explains the recent appreciation in the ZAR, it was worth noting the very impressive current account data for Q2 that was released yesterday. Although quite historical, it was nonetheless instructive. It offered investors some perspective as to just how strongly the tailwinds to the ZAR and other commodity currencies are blowing and why the ZAR might appreciate despite all the difficulties South Africa is facing at the moment. It highlighted the power that a massive trade surplus can exert on the country, just how important the commodity cycle is to SA and why as a strategic plan, SA should focus more squarely on making the mining industry more attractive to foreign investors.

Recovering global demand and rising commodity prices have combined with an exceptionally weak domestic credit cycle to tilt the scales in favour of some massive surpluses. Once again, there is evidence that the ZAR performs better in a weak domestic economy. When the country starts to live within its means and begins to save, the economic climate stabilises. One can only imagine how much stronger the ZAR might've been had it not been for the lockdown measures that continue to keep the tourism industry operating well below potential.

Furthermore, the impressive performance of the mining sector has played a key role in restoring some resilience to South Africa's fiscal position. The budget deficit is well below what was first anticipated, not only because mines have produced supernormal profits and paid taxes on that, but because the country's GDP is performing a little better than anticipated. There may well be some momentum behind the recovery if the economy continues to recover, lockdown measures are eased, and the labour market absorbs more work-seekers. It is, in other words, an environment that is decidedly more positive and constructive than SA has known in the past five years.



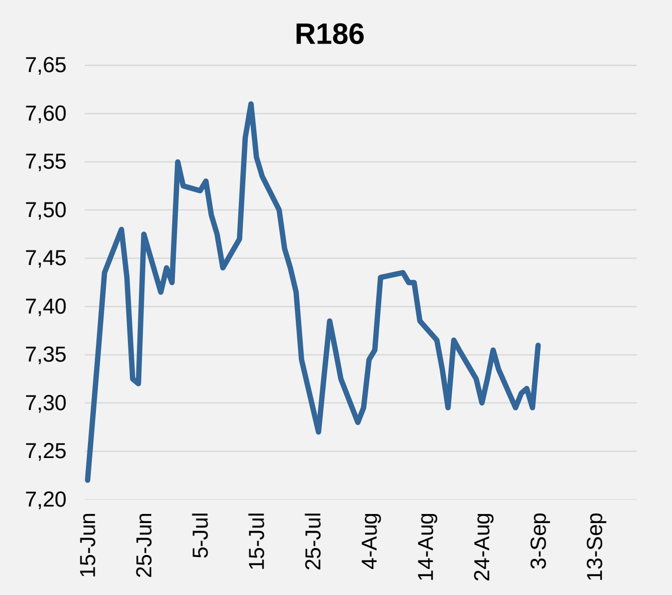
Bond Update

The data card highlighted both SA’s challenges and blessings yesterday, with the weak performance of the manufacturing sector more than offset by a record current account surplus. The latter highlights how a commodities rally has ensured that the mining sector remains a major supporting factor for SA’s macroeconomic balance. Manufacturing snapped into a -4.1% y/y contraction from an 11.9% y/y expansion in June while underperforming expectations for growth of 3% y/y. The unrest that was seen in July and tightening COVID restrictions clearly took the wind out of the sector's sails. This feeds into the view that the economic downturn could become more protracted, particularly when considering that destruction to supply chains in SA's key ports could lead to permanent loss of some growth capacity.

The current account data have meanwhile continued to suggest that the mining sector is to thank for the ZAR's uncharacteristic stability at present. "South Africa's terms of trade (including gold) improved further in the second quarter of 2021 as the rand price of exports of goods and services increased more than the price of imports," the SARB said, and that "The higher value of exports of goods and services reflected a larger increase in prices than volumes while imports mostly reflected an increase in prices".

As a percentage of GDP, the CA surplus rose to 5.6%, advancing from a downwardly revised reading of 4.3% in the prior quarter. SA's strong terms of trade were reflected in the trade surplus at a record high of R614bn in Q2 from R451bn in Q1.

Meanwhile, the shortfall on the services, income and current transfer account widened noticeably to R271bn from a relatively small deficit of R190bn in Q1. Relative to GDP, the deficit increased to 4.4% from 3.2% over the same period. This was to be expected amid SA's weak investment and economic growth outlook. Nevertheless, the favourable current account balance will help alleviate some pressure on a ZAR as investors grapple with severe fiscal risk. The government is mulling an increase in social spending despite not technically being able to afford it over the medium-to-longer term while support for the ruling party continues to dissipate.



S Forex

sasfin.com

29 Scott Street, Waverley, 2090
PO Box 95104, Grant Park, 2051 | +27 11 809 7500

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