sasfin beyond a bank

The Daily Market

13 September 2021

USD-ZAR	14,2134/14,2234	**GBP-ZAR**	19,6514/19,6754
GBP-USD	1,3827/1,3881	**AUD-USD**	0,735/0,7352
GOLD	$1790,89	**DJI**	44449,00
EUR-ZAR	16,7676/16,7778	**EUR-USD**	1,1795/1,1796
USD-JPY	109,95/109,96	**R 186**	7,39%
BRENT	$73,25	**3m JIBAR**	3,667

Events (GMT)

18:00	US	Monthly budget statement	Aug	$-302,10bn

Factors on the radar

US Taxes

What happened?	Expectations are rising that to fund their ambitious infrastructural spending bill; the Democrats will target an array of tax hikes to fund it
Relevance	Corporate tax may rise to 26.5%; foreign income may be taxed at 16.5% and a 3% surcharge on the rich
Importance	4/5 (fiscal policy)
Analysis	These are expectations reportedly outlined in the WSJ. The tax changes are anticipated to raise as much as $2.9trln, which would go a long way to funding the infrastructural package

UK Budget

What happened?	On the 27th Oct British Fin Min Sunak will present his budget and spending plan for the next three years, and business is urging him not to raise taxes
Relevance	The CBI has warned of the possible negative consequences of taxing business
Importance	4/5 (economy, fiscal policy)
Analysis	The CBI is concerned that taxing business harder will make Britain unattractive as an investment destination and ultimately prove to have long term consequences

SNB on rates

What happened?	The SNB needs to maintain negative interest rates to prevent the CHF from surging, prompting deflation, a growth collapse and unemployment
Relevance	The SNB will remain ultra-accommodative even if labelled a currency manipulator to protect growth

Importance	3/5 (monetary policy)
Analysis	This remains a case of a fight for devaluation, where the authorities remain petrified of allowing their currency to degrade their trade account such that it detracts from growth

Today’s Talking Point

Oil Update

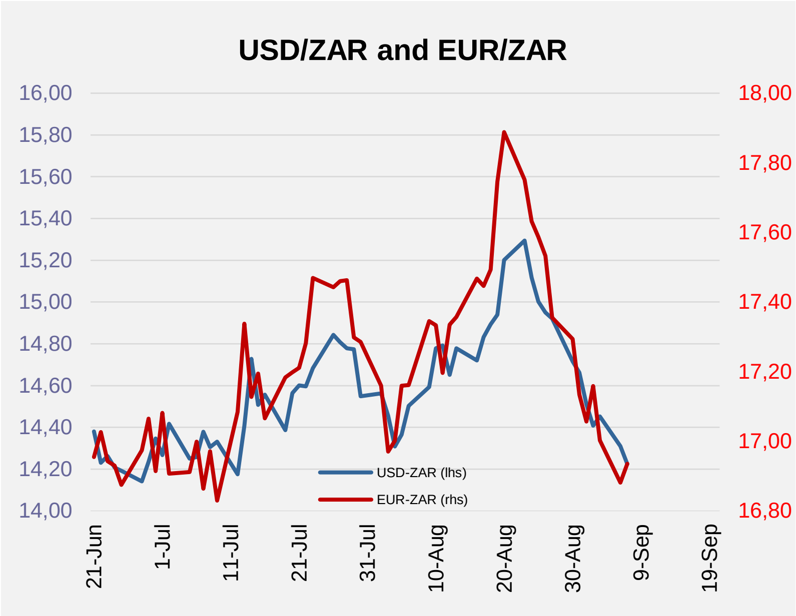
Analysis: The US-based EIA released a new oil sector report last week and kept its average Brent price forecasts unchanged from July’s report. “We expect Brent prices will remain near current levels for the remainder of 2021, averaging $71 per barrel during the fourth quarter of 2021,” the EIA wrote while adding that “in 2022, we expect that growth in production from OPEC+, U.S. tight oil and other non-OPEC countries will outpace slowing growth in global oil consumption and contribute to Brent prices declining to an annual average of $66 per barrel.” The organization also estimates that global oil consumption will rise to 101 million barrels per day in 2022, almost back at pre-COVID levels and about 4 million barrels more than what is estimated for 2021. Note that for the week ahead there is some speculation that OPEC will release its own updated forecasts, and that the organization might lower its demand forecast for 2022. At present, OPEC is forecasting oil demand well above the EIA’s forecast, which is being questioned amid a slow recovery in some parts of the world. In the primary markets, supply concerns are buoying prices in the short term. Crude prices have been finding support overnight amid US supply concerns. Hurricane Ida’s wake of destruction seems to be the major driver here, with about 75% or 1.4 million barrels per day of the Gulf of Mexico’s production capacity on halt since the end of August.

Rand Update

The ZAR initially led emerging market currencies into the end of the week, hitting a 14.0600/$ intraday high, the unit’s strongest level since late June. However, the local currency ultimately reversed gains, with the USD-ZAR currency pair sticking to support around the 14.2000/$-handle. Nevertheless, the ZAR still led weekly gains amongst a broadly depressed EM currency basket, securing its third weekly gain as it advanced 0.75% from the previous week’s close. Meanwhile, the US dollar stabilised enough during the week for it to post its first trade-weighted weekly gain in a month.

Some positive news over the weekend has followed with President Ramaphosa announcing last night that virus restrictions will be relaxed by one level from the government’s alert level three. Included in the changes, alcohol sales will now be permitted on Fridays, non-essential establishments such as bars and restaurants will be allowed to remain open until 10pm, with shortened curfew hours and increased sizes of gatherings permitted. The relaxation of ongoing restrictions, allowing more freedom of trade and economic activity, is undoubtedly positive for the broader economy and economic recovery underway. However, this will likely have only a marginal effect in the near term, especially given July’s domestic unrest.

Furthermore, the stop-start nature of restrictions and potential risks from a fourth wave of infections will likely see business confidence subdued for some time until there is greater clarity of an exit to the pandemic and no more return of restrictions. On that front, Ramaphosa urged the public to get vaccinated so that risks from a fourth wave of infections could be mitigated, while he also announced plans to introduce “vaccine passports” with more information to follow in the next two weeks.

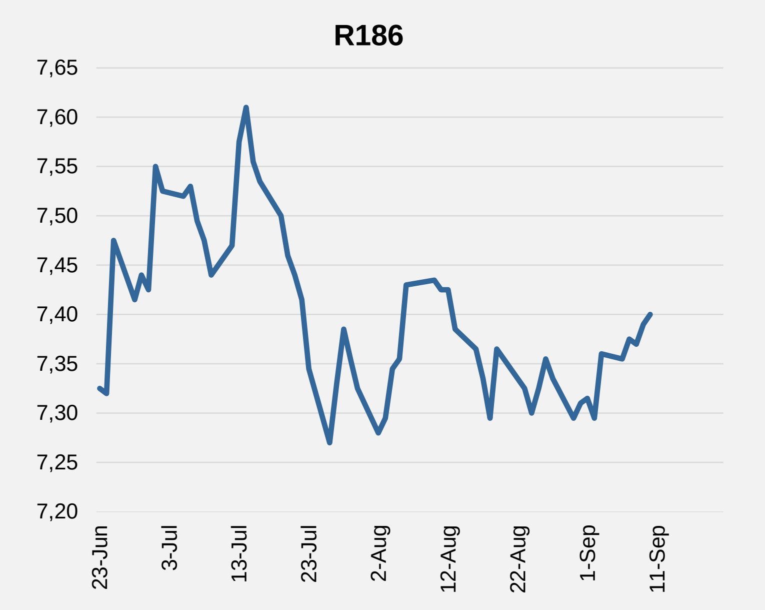


Bond Update

The South African growth outlook could receive a little boost this morning following the relaxation of COVID-19 restrictions overnight. President Ramaphosa has announced a return to "level 2" lockdown, relaxing restrictions on the size of gatherings, allowing restaurants to stay open a little later and for liquor stores to operate on Fridays, but still not on weekends. While the economic impact of bans and restrictions has been to limit growth, the relaxation of restrictions will assist in a recovery of sorts.

Similarly, it is an open question whether a return to normal levels of tourism can be expected, especially given the host of unsettling events that have taken place this year. South Africa has reflected poorly in the media, with looting, crime and violence well telegraphed in July. Reduced overall volume of business could become more permanent, suggesting that a more K-shaped recovery could persist. In coming weeks and months, a major focus will be on the rollout of preventative treatment for COVID-19, with only 18% of the 70% vaccination target achieved so far.

Ramaphosa also highlighted that nearly 13 million applications were received for the special COVID grant, and 8.3-million of those approved with the remaining 3.7 million disqualified due to other sources of income. This speaks to a high degree of turmoil in the labour market, which will keep pressure on the tax base given that the unemployed will remain social obligations to the state.



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