

The Daily Market

Make it your business

20 July 2021

USD-ZAR	14.5538/14.5688	GBP-ZAR	19.8933/19.9173
GBP-USD	1.3667/1.3721	AUD-USD	0.7326/0.7331
GOLD	\$1817.33	DJI	33962,04
EUR-ZAR	17.1612/17.1714	EUR-USD	1.1787/1.1788
USD-JPY	109.47/109.48	R 186	7.535%
BRENT	\$68.73	3m JIBAR	3,692

EVENTS

07:00	SA	Leading Indicator	May		125,80
09:00	SA	Bond auction (R3,900mn of 2030, 2032, 2035)			
07:30	EC	ECB's Villeroy speaks			
08:00	EC	ECB Survey of Bank Lending			
12:30	US	Building permits	Jun	1690k	1681k
12:30	US	Housing Starts	Jun	1590k	1572k

ECB

- What happened? > The ECB will hold its first policy meeting this week following the announcements made recently regarding its policy strategy review
- Relevance > This meeting will set the tone for the ECB's monetary policy for the foreseeable future
- Importance > 4/5 (monetary policy)
- Analysis > No changes are expected to rates but some guidance will be provided on the PEPP programme which could see it extended or expanded from the Sept meeting

EM Political Risk

- What happened? > Recent protests in South Africa have brought political risk in emerging markets back onto the investment radar
- Relevance > Rising political risk will expose the vulnerabilities of EM assets
- Importance > 4/5 (economy/ risk sentiment)
- Analysis > The political and economic impact of the pandemic is manifesting and the emerging market political sphere is becoming more fragile

BoE

- What happened? > BoE member Haskel has said that it would be a mistake to tighten monetary policy now amid tightening fiscal support
- Relevance > The BoE is being eyed as one of the next CBs to begin tapering their stimulus policies
- Importance > 3/5 (central banks)
- Analysis > Haskel is one of the more dovish BoE members but his comments coupled with rising UK COVID cases could see traders scale back tightening bets

US Michigan consumer confidence: Jul P

Expected: 86.5

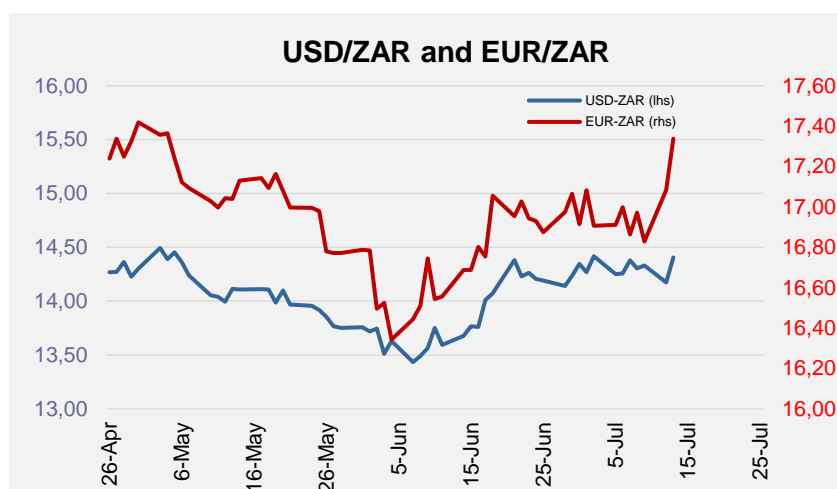
Prior: 85.5

Analysis: US consumer sentiment has gradually improved in recent months, reflected in the US Michigan consumer confidence index rising from 80.7 to 85.5 between December and June. This uptrend is expected to persist in the coming months, as the economy's reopening continues and the tidal wave of monetary and fiscal stimulus filters through into the real economy. That being said, sentiment remains well below pre-pandemic levels, and there is still plenty of uncertainty over the labour market's recovery and the duration of prevailing inflation pressures. Nevertheless, the US economic recovery will likely continue in the months ahead, in no small part due to improving consumption dynamics.

RAND UPDATE

The USD-ZAR rose from session lows of 14.3600 to end at 14.5700. While these moves were primarily attributed to dollar strength, with the trade-weighted dollar index (DXY) rising intraday to its highest since early April, a subsequent pullback for the USD left little room for the ZAR to swing losses. The recent violent protests will have exacerbated fiscal and political risks in South Africa to the detriment of the ZAR. Furthermore, weak fundamentals will continue to weigh on the currency and domestic assets ahead of a domestic rate announcement from the SARB scheduled for Thursday. On a larger scale though, data compiled by Bloomberg on US-listed emerging market ETFs suggests that appetite for riskier emerging market assets remains supported. In the week ending July 16, emerging market ETFs drew \$1.24 billion in net inflows compared to the previous week's net outflow of \$64 million, the first week of outflows in 36. Meanwhile, ETFs tracking South African assets attracted \$32.4 million of inflows.

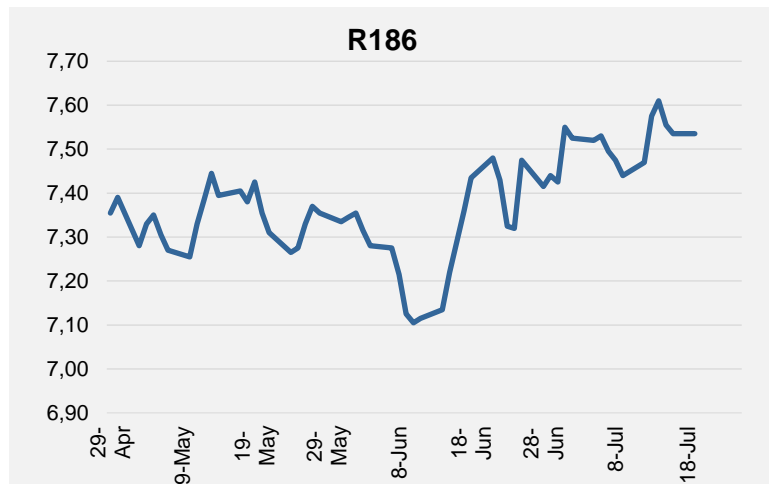
As such, the currency could still turn the tide of the past month with trade dynamics continuing to support ZAR demand. Given the currency's depreciation through June, the latest CFTC data shows that speculators saw the potential for an upside correction for the ZAR. Specifically, the data shows that speculators upped their net long ZAR bets to their most bullish in three weeks. This being until the week ending July 13, some speculators may have been caught off guard by the subsequent currency weakness amidst the countrywide riots and looting. However, the ZAR's only temporary weakness has instead been a sign of resilience and stands to reason that a retracement back to the 14.0000/\$-handle could be possible barring tapering risks from the US Fed or worries over a global economic slowdown.



An application to postpone the court proceedings until ex-president Zuma can physically appear in court was delivered by Zuma's defence yesterday. Zuma is looking to establish that a virtual hearing would violate his constitutional rights, despite being granted access to lawyers through video and with the right to the physical presence of a lawyer granted by the Estcourt correctional facility. The prosecution has primarily held that the application is yet another move at stalling legal proceedings, with evidence delivered in line with that.

The judge's ruling is scheduled for 10 A.M. SA time (GMT+2). It will primarily rest on whether the Constitution suggests that a court can function in criminal matters with digital representation and still be in line with the Constitution or whether proceedings should only continue when physical presence in court is possible. This will hold implications for the rest of the case and set a precedent over digital hearings. Given recent violent riots by Zuma loyalists and reports by newswires that voice notes are circulating inciting violence on the courts, not to mention COVID, many will believe that it is safer to proceed digitally. The world will be watching when Judge Piet Koen delivers his ruling today. While it appears that order has been restored in KZN and Gauteng, there is a residual risk of political flare-ups when considering that the army is still deployed. Any further deterioration into violence could kick up risk aversion in the financial markets, although ZAR and bonds have been performing remarkably well.

The other event of the session will be a bond auction, with the R2030, R2032 and R2035 all on offer. The R2030 is the current benchmark. It will be interesting to see what investors are willing to pay today with fiscal risks amplified by political disorder and the continued downside pressure on the tax base. The R2032 and R2035 are effectively the next run of benchmark bonds and hold some interest from a rotation perspective. Note that the R2035 has the highest coupon rate at 8.75%. On the data front, the leading indicator will be released today. It is unlikely to be all that market moving given limited relevance amid economic shifts underway since the data for the indicator was collected. We expect it to reflect an improving rate of macroeconomic activity still. Yet in some key sectors such as tourism and restaurant retail, this is not the case. While Woolworths announced yesterday that it was resuming trading in some of its looted stores for instance, it is unlikely that turnover will recover for some time still.



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

DISCLAIMER: Sasfin Bank Limited ("Sasfin") does not guarantee the accuracy or completeness of its analyses or any information contained herein. Sasfin makes no warranties, expressed or implied, with respect to its analyses or any information contained herein or with respect to the results obtained by any person or entity from the use of its analyses or the information contained herein. In no event shall Sasfin be liable for indirect or incidental, special or consequential damages, regardless of whether such damages were foreseen or unforeseen. Sasfin is hereby indemnified and held harmless from any actions, claims, proceedings or liability with respect to its analyses or the information contained herein. A recipient should be fully aware of the risks involved in trading stock market-related products. All illustrations, forecasts or hypothetical data is for illustrative purposes only and Sasfin does not give any guarantees, warranties or undertakings in this regard. The information contained herein does not constitute an offer, advertisement or solicitation for investment or financial or banking services. The information contained herein has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient and shall in no way be construed to constitute a recommendation or advice in any form.