sasfin beyond a bank

The Daily Market

25 February 2022

USD-ZAR	15.2833/15.2859	**GBP-ZAR**	20.5197/20.5437
GBP-USD	1.3431/1.3484	**AUD-USD**	0.7196/0.7198
GOLD	$1915.31	**DJI**	44616,00
EUR-ZAR	17.15/17.1564	**EUR-USD**	1.122/1.1224
USD-JPY	115.19/115.2	**R 186**	7.89%
BRENT	$101.24	**3m JIBAR**	4,217

Events (GMT)

09:00	SA	ILB auction (R1.20bn)			
00:01	GB	GfK consumer confidence	Feb	-17,00	-19,00
09:00	EZ	M3 money supply sa y/y	Jan	6,70%	6,90%
13:30	US	Durable goods orders m/m	Jan P	0,60%	-0,70%
13:30	US	PCE core y/y	Jan	5,10%	4,90%
15:00	US	Michigan consumer confidence	Feb F	61,70	61,70

Factors on the radar

Russia Sanctions

What happened?	In the coming days, we will fully understand the length and depth of the sanctions that will be imposed on Russia and whether they will have any effect
Relevance	Crippling the Russian economy will test Putin's popularity and control but may not change the outcome
Importance	4/5 (geopolitics, economy)
Analysis	Sanctions are imposed after the fact, so the damage is already done. Knowing what sanctions might be imposed, Putin obviously felt the rewards would be worth the cost

Oil prices

What happened?	The oil price had at one point surged impressively, with Brent crude trading above 105 yesterday. That reversed on news that strategic reserves may be released as an interim measure
Relevance	The effect would be to help contain the rise in oil prices and mitigate the effect on inflation and household finances
Importance	5/5 (economy, markets)
Analysis	Pressure will also build on OPEC to do more to help offset any shortfall in Russia as sanctions start to bite and demand outstrips supply. The release of strategic supplies only offers interim support

China – Taiwan

What happened?	There are fears that the invasion of Ukraine has given China some perspective on what to expect from any invasion of Taiwan, as Taiwan reported Chinese aircraft in its airspace
Relevance	China views Taiwan as its territory and has warned that foreign interference in its domestic affairs will not be tolerated
Importance	4/5 (geopolitics)
Analysis	There is no suspicious build-up of troops in China, but it has not gone unnoticed that China has not condemned Russia for its invasion of Ukraine and will be paying close attention to the impact of sanctions on the Russian economy

Today's Talking Point

US Michigan consumer confidence: Feb F

Expected: 61.7

Prior: 61.7

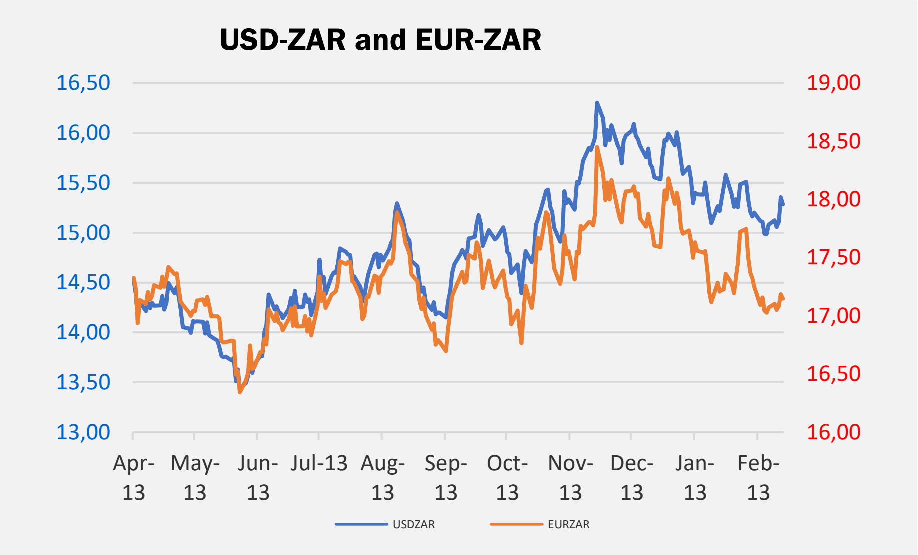
Analysis: The preliminary print of the University of Michigan's sentiment index showed a sharp decline in consumer confidence in February to levels last seen more than a decade ago. Specifically, the index fell from 67.2 to 61.7, with the final print expected to confirm this drop. Red-hot inflation and falling real incomes are the main factors driving subdued sentiment, and pose a major risk to the US economy's ongoing boom. That is to say that if weak consumer sentiment is sustained, the outlook for the US economy could gradually turn less rosy in the months ahead.

Rand Update

Financial markets will be difficult to trade until the dust has settled on global geopolitics that for now remain fraught with uncertainty. Strong cross winds dominate, as the fear of war in Europe contrasts starkly with the buying opportunities a sharp sell-off in assets offers investors, brave enough to believe that the world will recover, and the effects of all the stimulation applied in previous months will eventually manifest in higher asset prices.

The ZAR has been caught up in these crosswinds in the past few trading sessions, and if one can avoid trading such a wild market, one should. It is clear that volatility will be with us for a while to come and that such volatility makes directional momentum difficult to identify. What is unfolding has precious little to do with anything fundamental, and applying traditional analysis is not helpful. Therefore, position-taking has become a lottery, and trading is nothing more than speculative.

Moreover, investors will not understand the full consequences of Russia's invasion of Ukraine for a long time to come. It will affect monetary and fiscal policies, change defence budgets across Europe, alter geopolitical strategies for decades to come, impact commodity prices, especially oil, and likely influence how Europe and the world choose to utilise energy. This event will likely prove a catalyst for some deep-rooted changes that will probably have far-reaching consequences not yet understood.



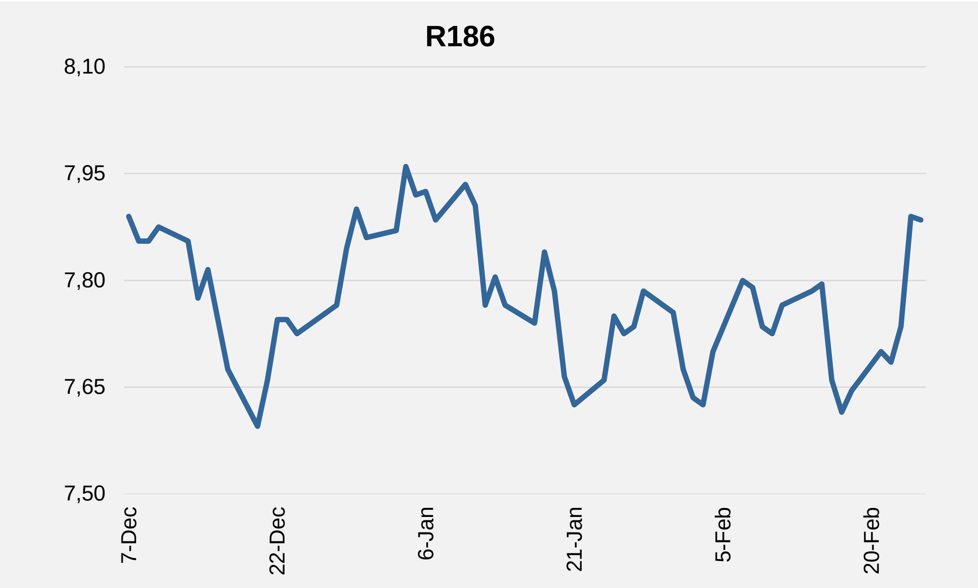
Bond Update

Yesterday, the National Energy Regulator announced that it would allow Eskom to increase its tariffs by an average of 9.61% for 2022-23, well below the 20.5% tariff increase urgently applied for. The power utility had argued that the hike was necessary to help it service its R392bn of debt and pay for the maintenance.

The lower permitted increase has several implications. While the lower increase will come as relief to consumers, it also suggests that maintenance backlogs may not be resolved. Furthermore, when hydrocarbon prices are incredibly high and rising, there is the risk that Eskom could exacerbate its funding shortfalls in its coal-dominated production structure. Diesel-based power generation is also often used when the grid is constrained at a significantly higher cost than coal.

Therefore, the constrained funding environment will continue to limit the utility's ability to keep the lights on, while buoyancy in the price of energy inputs implies that Eskom's financials could deteriorate further. The outdated model of a set cost structure to consumers ultimately leaves a large burden on the SOE's shoulders in oil bull markets.

The ILB auction will be of particular interest today, given various inflationary risks following on from the national budget speech. We maintain that a relatively low level of bank credit extension limits the degree to which inflation pressures can take hold. Yet, with risk appetite significantly deteriorating offshore, there is some reason to think that the ZAR could be left vulnerable. Its current safe-haven status through its link to gold is one thing, but a protracted economic slowdown in Europe could undermine SA's export sector and strengthen the headwinds for ZAR.



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