sasfin beyond a bank

# The Daily Market

25 November 2021

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|---|---|---|---|
| **USD-ZAR** | 15.8765/15.8824 | **GBP-ZAR** | 21.1767/21.2007 |
| **GBP-USD** | 1.3341/1.3345 | **AUD-USD** | 0.7197/0.7203 |
| **GOLD** | $1792.24 | **DJI** | 44524,00 |
| **EUR-ZAR** | 17.7994/17.8094 | **EUR-USD** | 1.121/1.1214 |
| **USD-JPY** | 115.36/115.41 | **R 186** | 8.095% |
| **BRENT** | $82.35 | **3m JIBAR** | 3,850 |

## Events (GMT)

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|---|---|---|---|---|---|
| 09:30 | SA | PPI y/y | Oct | 8,00% | 7,80% |
| - | US | Thanksgiving Day | | | |
| 07:00 | GE | GfK consumer confidence | Dec | -1,00 | 0,90 |
| 12:30 | EC | ECB Publishes Account of October Policy Meeting | | | |
| 13:30 | EC | ECB's Lagarde Speaks at Legal Conference | | | |
| 14:05 | UK | BOE's Haskel gives introductory remarks at BOE/Niesr workshop | | | |

## Factors on the radar

### Fedspeak

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| **What happened?** | The US has launched an auction for 32mn barrels of crude from their strategic oil reserves, to be delivered between Dec and April |
| **Relevance** | China, S Korea, Japan, India and Britain will join the US and do the same |
| **Importance** | 4/5 (market, geopolitics) |
| **Analysis** | The objective is to stop oil prices from rising any further and even drop the price, placing pressure on OPEC+ to increase their production |

### Covid resurgence

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|---|---|
| **What happened?** | Europe is experiencing a strong resurgence which could result in several lockdowns and far tougher restrictions through the foreseeable future |
| **Relevance** | Slovakia, Czech, Netherlands and Hungary have all posted record daily infection numbers |
| **Importance** | 5/5 (economy, markets) |
| **Analysis** | Although infections are running rampant again, the expectation is that severe illness and hospitalisation numbers will be well down. Nonetheless, this spread will likely weigh heavily on the EUR |

### Thanksgiving week

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|---|---|
| **What happened?** | Investors are reminded that the US will effectively enjoy a long weekend, with Thanksgiving on Thursday |
| **Relevance** | Markets will likely trade very thinly, and much data will be packed into Wed |
| **Importance** | 4/5 (economy) |

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|---|---|
| **Analysis** | It will make for a quieter end to the week but a busy first few days as investors square off positions for the long weekend and Black Friday |

## Today's Talking Point

**PPI y/y: Oct**

**Expected: 7.90%**

**Prior: 7.85%**

**Analysis:** Producer price inflation jumped in September to reach 7.85%, its fastest pace of growth in more than five years, reflecting the persistent global supply chain disruptions, as rising energy and global commodity prices. Market expectations are for producer price inflation to have increased further in October. Supply-side inflation risks are stoking broader price growth pressures as producers transfer some of the cost to consumers. This could see South Africa's headline consumer inflation print remain buoyed above the 4.5% mid-point of the SARB's target band in the coming months. However, given the weak economic backdrop, depressed domestic demand and low money supply growth, there is limited monetary space for inflation to take hold. This suggests that inflation is likely to remain within the 3% to 6% official target range.

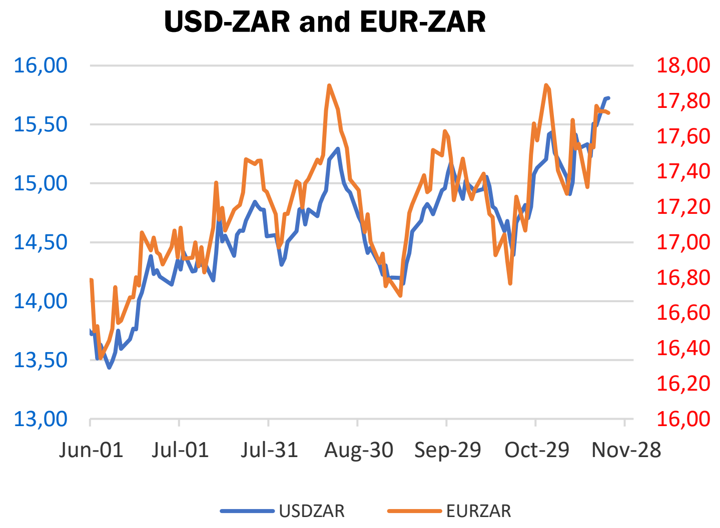
## Rand Update

As we head into the US Thanksgiving long weekend, the USD remains firmly on the front foot after another strong trading session yesterday, although it is trading off yesterday's highs this morning. There is no data scheduled for today, but what was released yesterday was strong and reflected a US economy that is not only expanding robustly but that could easily withstand further monetary policy normalisation. In fact, the data was so strong, that some in the market have begun to speculate on whether the Fed could even bring forward the timing of rate hikes once the taper ends.

The next big international event will be Black Friday and the strength of sales. With so much pent up demand and savings that many households can unleash, this festive season could be a very buoyant one, although there may be a stronger shift to online sales given the unresolved pandemic and the risk of a fourth wave unfolding in the US as well.

USD appreciation of this magnitude typically induces some volatility into currency markets. It is not surprising that some of this is reflected in the USD-ZAR that found itself staring at the 16.00 handle through yesterday's trade. However, this is not a ZAR story so much as it is a USD story. Most currencies are on the back foot vs the USD, with those that carry inherently higher levels of risk, proportionately more affected. The ZAR is one such currency, although it is important to note that the ZAR is roughly mid-table on the performance stats for the year-to-date.

Domestically, the one factor that could further impact the performance of the ZAR will be the gradual emergence of the fourth wave in Gauteng and the risk that the authorities start to lock down again given the relatively low take-up of the vaccine. Currencies faced with the prospect of locking down or stricter restrictions have depreciated, and there is no reason to believe that the ZAR might be any different. Therefore, the ZAR remains vulnerable for the time being, and although the last two trading sessions could generate a slight correction, a full-blown ZAR recovery may need to wait a little longer.

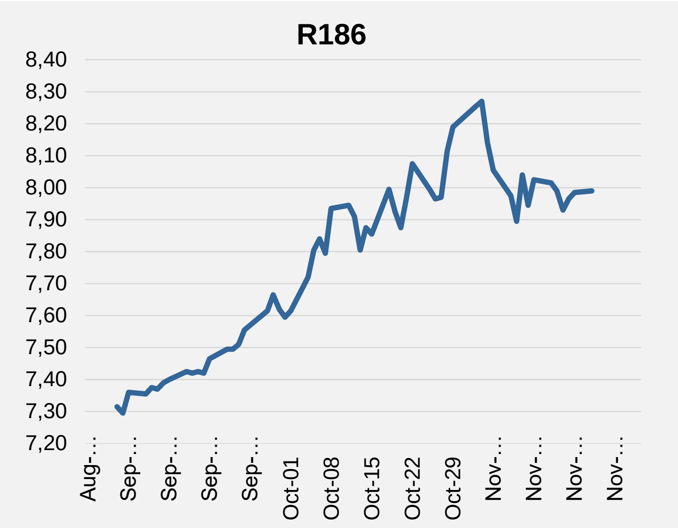



## Bond Update

The BER business confidence index was flat q/q at 43 in Q3, yet underlying details showed a concerning trend. Gains from a shallow base in the construction sector masked a deterioration in sentiment in all other sectors. The manufacturing, retail, and wholesale sectors were all lower on the month, although retail has seen a rise in confidence with an index level north of 50. Construction's Q3 confidence level of 30 still suggests that confidence is low although above the score of 18 in Q2. This feeds into the notion that loadshedding and some worker strikes could raise downside risks, while the banks have been appreciably conservative in loan policies through 2020/2021. PPI data may hold further clues in this respect, yet we should reiterate that the pass-through effect into CPI has been weak.

There is some inflation risk sue to the weakening ZAR, with commodity price weakness and slower growth indollar liquidity driving ZAR depreciation. It could gain momentum if technical indicators are anything to go by. It was timely that SARB MPC members discussed the risk of a market repricing event yesterday at the release of the second 2021 edition of the financial stability review. Should such a repricing occur, SA’s financial assets would be subject to the knock-on effects of global portfolio reshuffling. Governor Kganyago reiterated that “global growth concerns, alongside domestic structural challenges - such as electricity constraints and high unemployment levels - are expected to affect the domestic economic recovery negatively.”

The presentation also highlighted additional stressors in the form of possible COVID restrictions and rising political tensions that have reduced bank risk appetite, which will reduce credit extention to the private sector. Concerningly, the total default rate on the bank portfolios has nearly reached 2008/2009 GFC highs. The latter underscores the impact of lockdowns on households and businesses, particularly when considering how regulations (enacted since the GFC) focus on improving bank credit quality in addition to solvency. It follows that banks are likely to remain conservative in lending while incomes are constrained, particularly amid higher supply-side inflation and low levels of economic activity. This supports the idea that broader inflation risk is likely to remain constrained, in turn tempering the need to hike as aggressively as is reflected in the SARB's QPM. However, this could change in an environment of significant ZAR weakening, which will impact import prices.

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