

# The Daily Market

## Make it your business

03 May 2021

|                |                 |                 |                 |
|----------------|-----------------|-----------------|-----------------|
| <b>USD-ZAR</b> | 14.3073/14.3231 | <b>GBP-ZAR</b>  | 19.9477/19.9717 |
| <b>GBP-USD</b> | 1.3939/1.399    | <b>AUD-USD</b>  | 0.7774/0.7775   |
| <b>GOLD</b>    | \$1767.51       | <b>DJI</b>      | 34060,36        |
| <b>EUR-ZAR</b> | 17.3428/17.353  | <b>EUR-USD</b>  | 1.2115/1.2119   |
| <b>USD-JPY</b> | 108.82/108.83   | <b>R 186</b>    | 7.355%          |
| <b>BRENT</b>   | \$68.08         | <b>3m JIBAR</b> | 3,675           |

## EVENTS

| GMT   | Country | Event                        | Period | F/C   | Prior  |
|-------|---------|------------------------------|--------|-------|--------|
| -     | SA      | Naamsa vehicle sales y/y     | Apr    |       | 31,80% |
| 09:00 | SA      | Absa manufacturing PMI       | Apr    |       | 57,40  |
| -     | US      | Total vehicle sales          | Apr    | 17,50 | 17,75  |
| 07:55 | GE      | Markit/BME manufacturing PMI | Apr F  | 66,40 | 66,40  |
| 08:00 | EZ      | Markit/BME manufacturing PMI | Apr F  | 63,30 | 63,30  |
| 13:45 | US      | Markit PMI manufacturing     | Apr F  | 60,70 | 60,60  |

## India – Covid-19

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- What happened? > India has had a torrid time lately, and it does not appear to be over, with new infections rising above the 400k per day mark
- Relevance > India is singlehandedly skewing the global infection numbers
- Importance > 4/5 (economy)
- Analysis > Hospitals are overwhelmed, resources have run out, and it is impossible to cope with this surge. The size of the population means it could rise further

## Pandemic progress

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- What happened? > Excluding India, Covid infection numbers are falling across the globe as vaccination efforts gather momentum, with the US, UK and Israel leading the way
- Relevance > Europe's numbers are now starting to fall, and the summer holiday season will likely go-ahead
- Importance > 4/5 (economy)
- Analysis > More than 1bn vaccine doses have already been distributed with vaccine production increasing. Within the next six months, much of the threat related to Covid-19 will have receded.

## House prices

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- What happened? > House prices across many different countries are rising strongly due to the low interest rates and savings that are now being deployed
- Relevance > This represents yet another asset price that is being distorted through very loose monetary easing
- Importance > 3/5 (economy)
- Analysis > Whether this trend is sustained is doubtful. House price increases in the UK, US, China, Australia and Canada are countries whose property market is becoming less affordable

## Naamsa Vehicle sales y/y: Apr

**Expected: 62.9%**

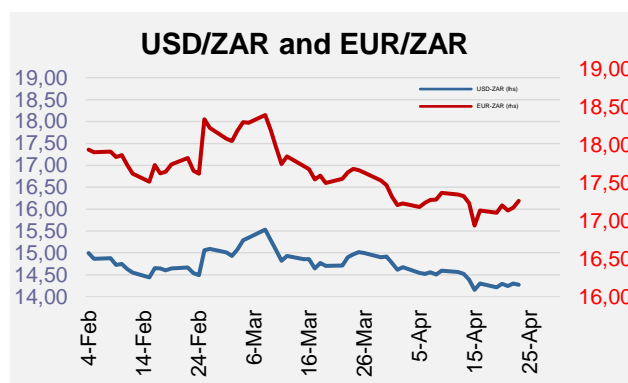
**Prior: 31.8% y/y**

**Analysis:** Vehicle sales in March moved out of contractionary territory for the first time since February 2020. It is, however, worth pointing out that's was primarily due to base effects given this period coincides with the onset of the coronavirus pandemic and subsequent lockdown restrictions last year. Future releases are expected to show a further pick-up in vehicle sales, owing to the low base effects, but this should not mask the fact that the sector has a long way to recover its losses from 2020. Aside from deeply entrenched structural challenges, the rising cost of living poses further headwinds to the vehicle sector.

## RAND UPDATE

The USD-ZAR ended off last week with a sustained break above its late April range with a risk-off mood denting the ZAR and providing support to the greenback. Stateside, Treasury yields had been edging back up over the course of last week, from which the dollar finally took cues later in the week as strong US economic data backed up the recent rise in yields. While the USD still ended the month 2% weaker against a basket of currencies, Friday saw the monthly loss trimmed as it gained 0.75%, with the ZAR similarly paring its monthly gain to 1.85% against the USD as it lost 1.20% on Friday to close at 14.4950/\$.

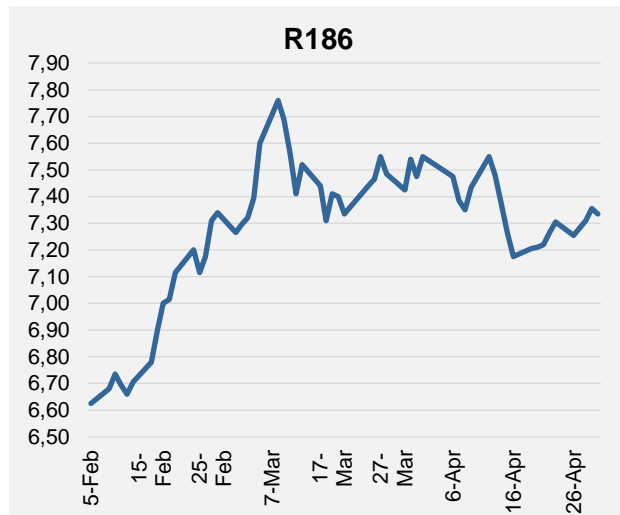
However, last week's final moves were not ZAR-specific as emerging markets experienced losses on aggregate against the USD, but ZAR losses were incurred on a day where domestic data showed South Africa's trade balance rose to a record high in March. The trade surplus widened to R52.8 billion from a prior figure of R31.2 billion, due to a 28.9% rise in exports and 16.3% rise in imports. The sharp increase in exports was driven by greater shipments of precious metals and stones, and mineral products. With commodity prices remaining elevated, we are likely to see the trade balance supported for some time still, and in turn give the ZAR some level of resilience. Despite the data release which would usually be ZAR-positive, the final risk-off sentiment proved too strong as the local unit succumbed to losses. Data released earlier in the day also failed to spark any positive sentiment, as money supply statistics and private sector credit extension (PSCE) highlighted the continual weak demand dynamics in South Africa. In fact, PSCE fell on an annual basis for the first time since 2010 and was the largest on record since Bloomberg began tracking the series. Ending Friday's data deluge, SA's monthly budget deficit was recorded at R29.8 billion in March, ending two months of declining shortfalls. Government's fiscal slippage is likely to continue given that it is yet to materially embark on a path of fiscal consolidation. Ratings agencies are likely to keep a close eye on SA developments, despite revenue collection returning to pre-pandemic levels, albeit slowly.



The week ahead will feature several core developments for investors to track, with politics at centre stage. Data and events hold the potential to sway the SAGB market too. The macroeconomic data releases of the week will feature NAAMSA vehicle sales, both ABSA and Standard Bank PMIs and some FX reserves data. While the FX reserves data is seldom used for informational content, the other three releases will be useful in informing the growth cycle following a very sharp rise in net exports at the last trade balance for March. Political risks are acute with the ANC set to rule on its step-aside rule for ministers embroiled in corruption allegations, while a Moody's Ratings update hangs over the bond market into the end of the week.

Macroeconomic indicators have been pointing to scope for a growth rebound in the months ahead, with NAAMSA and the SARB leading indicator rising quite consistently in recent months. Banking sector data suggest that savings rates have been rising substantially through the COVID period, which suggests that there could be a rise in consumption demand as lockdown restrictions are lifted. Yet, with unemployment rates still sky-high, there are still many question marks hanging over true recovery prospects. Tepid gross fixed capital formation levels point to incredibly low investment, and this suggests that corporate SA is still erring on the side of caution.

JSE bond flows data suggests that foreign investors shed SAGB exposure through April, but we will need to wait for the NT data to be released shortly before confirming. Price action corroborates, however. The rise in yields through the second half of April suggests that investors seem to be lightening up on holdings. This could reduce demand at the vanilla auction this week, where NT will be offering the R213, R2035 and R2048.



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