sasfin beyond a bank

# The Daily Market

10 January 2023

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|---|---|---|---|
| **USD-ZAR** | 16.93/16.9438 | **USD-JPY** | 131.76/131.79 |
| **GBP-ZAR** | 20.6058/20.6298 | **GOLD** | $1873.72 |
| **EUR-ZAR** | 18.1853/18.2023 | **BRENT** | $79.19 |
| **GBP-USD** | 1.2171/1.2223 | **DJI** | 33 517,65 |
| **EUR-USD** | 1.0739/1.0743 | **R 186** | 8.2% |
| **AUD-USD** | 0.6909/0.6912 | **3m JIBAR** | 7.283 |

## Events (GMT)

| Time | Country | Event | Month | Fc | Prior |
|---|---|---|---|---|---|
| 09:00 | SA | Vanilla auction (R3.9bn R2030, R213 and R2035) | | | |
| 11:00 | SA | Manufacturing production n.s.a y/y | Nov | -2.30% | 1.00% |
| 09:30 | US | Powell, Bailey, Schnabel Speak at Riksbank in Stockholm | | | |
| 14:00 | US | Powell Discuses Central Bank Independence at Riksbank Event | | | |
| 15:00 | US | Wholesale inventories m/m | Nov F | 1.00% | 1.00% |
| 15:00 | US | Wholesale sales m/m | Nov | | 0.40% |

## Factors on the radar

### US CPI

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|---|---|
| **What happened?** | Focus this week will be on the latest US CPI figures, with investors looking to see if the recent easing of price pressures has continued |
| **Relevance** | Global inflation and its impact on monetary policy continue to drive the markets |
| **Importance** | 5/5 (economy, monetary policy) |
| **Analysis** | Expectations are that inflation eased further in December when looking at both the headline and core numbers, with risks now tilting to the downside after Friday's wage data |

### Fedspeak

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|---|---|
| **What happened?** | Fed Chair Powell will speak later today at a central bank symposium organised by the Riksbank, with more Fedspeakers due through the week |
| **Relevance** | Investors will look to Powell to see if he corroborates the view of the likes of Daly and Bostic |
| **Importance** | 4/5 (monetary policy) |
| **Analysis** | Hawkish commentary from Powell could keep risk assets under pressure and help the USD rebound as the markets wait for the next hard data on inflation out of the US |

### World Bank Report

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|---|---|
| **What happened?** | The World Bank will release its global economic prospects report today, with the expectation that global growth outlooks have been downgraded |
| **Relevance** | The World Bank will join the likes of the IMF in downgrading economic growth forecasts |
| **Importance** | 4/5 (economy) |

| | |
|---|---|
| **Analysis** | The report is expected to highlight the pressures facing global economies through higher inflation, tighter monetary policy, the war in Europe and de-globalisation |

## Today's Talking Point

**Manufacturing Production NSA y/y: Nov**

**Expected:**

**Prior: 1.00%**

**Analysis: Manufacturing output for South Africa is likely to have remained under pressure in November, owing to the notable load shedding seen during the month. The PMI figures managed to rise back into expansionary territory, but the correlation between the two in recent months has deteriorated. December will also likely have been a poor month in terms of performance for the sector, although the one positive is that input cost pressures are now seen as having peaked, providing some relief to manufacturers whose margins were getting squeezed by higher costs.**

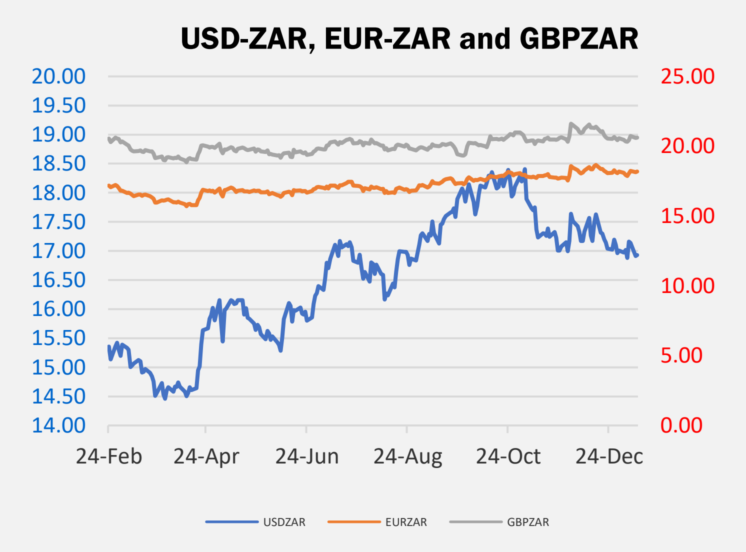
## Rand Update

Inflation is a central theme driving financial markets at the moment. It has forced central banks to tighten monetary policy aggressively to enhance price stability, and the perceived differences in monetary policy have determined sentiment across different FX markets. It was one of the main reasons why the USD appreciated as much as it did, but it could also be one of the main reasons why the USD could lose ground throughout 2023.

Just as the US led the world into tightening and forced many central banks to respond, so the Fed might lead many developed economy central banks into cutting. But only once the Fed has reduced its interest rates and only when inflation in other jurisdictions has also softened. The result is that the perceived monetary policy disparity that worked in the USD's favour will likely reverse.

GDP growth will be more difficult to come by, especially through H1 2023. Having done what they've done, central banks will turn their attention back towards supporting economic activity by softening their stance on inflation and turning their monetary policies. It will be a year of inflexion in the business cycle but one where investors will look through the difficult growth climate towards improved times ahead. Therefore, weak GDP growth need not automatically translate into enormous volatility in equity markets to drive a wholesale rotation to safety. Even if there is, SA bonds offer tremendous attraction in a world where investors are pricing lower future interest rates.

It is less clear whether investors will price in the change in US monetary policy upfront or phase their expectations into FX markets over time. Given the resilience of the US labour market, the latter is more likely. In their view, most investors would prefer to see more inflation data released and the Fed's response before turning convicted in their position-taking. That may imply a phase of consolidation for Q1 before the ZAR adopts a firmer appreciative bias. Recall that ETM models continue to point to a very constructive year ahead for the ZAR, especially against the USD.

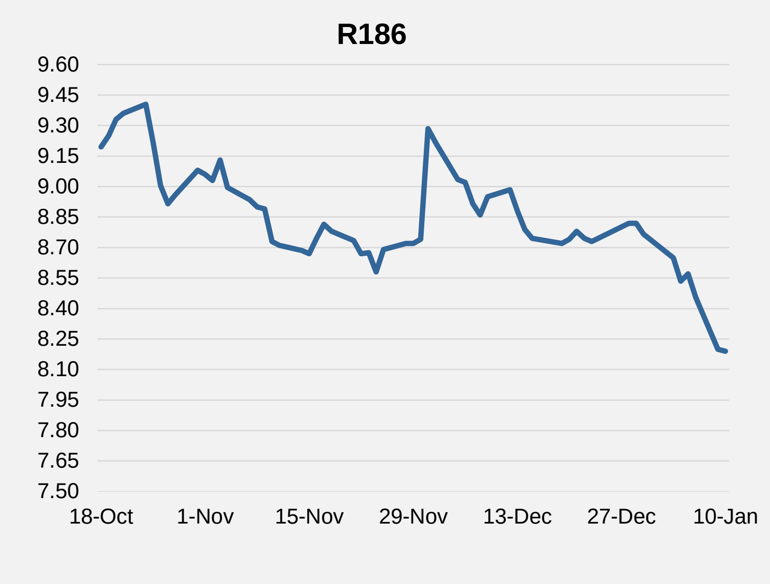



## Bond Update

**Bonds/Yield Curve:** Bonds enjoyed a strong performance yesterday and are starting the week on a firm footing, and well they should. The ZAR has appreciated impressively, and increasingly, the market may come around to the idea that a change in the SARB's mandate might enhance the SARB's inflation-fighting credentials rather than detract from it. Furthermore, inflation in many jurisdictions is showing signs of topping out and retreating. With US inflation expected to moderate sharply this week, on top of the moderation of domestic inflation as fuel prices drop, domestic bonds offering impressive real yields become attractive. 2023 will likely generate an outstanding bond market performance that may even outpace equities, notwithstanding the solid start for the year.

**FRA:** Another day and more receiving interest in the middle to longer end of the curve. The market is coming to terms with the turn in the cycle and the possibility that rate cuts need to be priced in. Inflation is softening rapidly now and will continue to do so in the months ahead. In SA that will be enhanced by a USD-ZAR that retreats back below 15.00/dlr through the months ahead. Again the point is made that this is more likely a function of a weaker USD than it is a stronger trade weighted ZAR. Repo: The SARB has thus far kept in lockstep with the Fed to ensure that negative speculation against the ZAR is discouraged. They have been successful in that, and their conservative stance on monetary policy means that the monetary space for inflation to take hold no longer exists. There may be one more 50bp hike at the first meeting of 2023, but after that, the SARB may signal that they have done enough.

**Global:** US Treasury yields continued to slide yesterday, but they have come off their intraday lows and are ticking marginally higher in early trade this morning. Hawkish talk from two Fedspeakers yesterday, who both suggested that rates should rise above 5.00%, has put an end to the decline in yields seen since Friday, with the 2yr seemingly bottoming out at around 4.215% and the 10yr around 3.540%. Focus will now turn to Fed chair Powell's speech today before the US CPI report is released later this week. Powell will undoubtedly continue to strike a hawkish tone which could keep the flattening pressure along the curve and deepen the inversion of key spreads. Meanwhile, in Europe, bonds were under pressure yesterday as investors digested bond sales ahead of auctions today in Germany, Netherlands, and Austria. UK bonds outperformed on the day, however, following comments from the BoE's Pill that inflation could soften. The market has now priced in a peak rate of 4.56% for the UK, the lowest since September last year.

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