sasfin | Forex
beyond a bank

The Daily Market
Make it your business

06 July 2021

USD-ZAR	14.2237/14.2387	**GBP-ZAR**	19.7515/19.7755
GBP-USD	1.3885/1.3939	**AUD-USD**	0.7565/0.7566
GOLD	$1798.51	**DJI**	34786,35
EUR-ZAR	16.894/16.924	**EUR-USD**	1.1874/1.1878
USD-JPY	110.83/110.86	**R 186**	7.525%
BRENT	$77.54	**3m JIBAR**	3,692

EVENTS

09:00	SA	Bond auction (R3,900mn of R 2030, R 2037, R 2040)			
04:30	AU	RBA rate decision	Jul 6	0,10%	0,10%
06:00	GE	Factory orders y/y	May	60,00%	78,90%
09:00	EZ	ZEW economic sentiment	Jul		81,30
09:00	GE	ZEW economic sentiment	Jul	75,00	79,80
14:00	US	ISM non-manufacturing composite PMI	Jun	63,80	64,00

FACTORS ON THE RADAR

UK normalisation

What happened?	>	PM Johnson has laid out a plan to end all restrictions on the 19th of July. Although cases are soaring, deaths are not as the vaccines are proving effective
Relevance	>	Given the added protection of the vaccines, society will now have to learn to live with the virus
Importance	>	4/5 (economy)
Analysis	>	So long as hospitalisation does not take place, new infections are less important if, in most cases, those infected are asymptomatic and can live a normal life. Those unvaccinated are at risk

Canadian recovery

What happened?	>	Business sentiment in Canada continues to improve, with companies becoming more confident that business will pick up after the vaccine rollout
Relevance	>	H2 2021 will shape up as a vastly improved period of economic activity and recovery
Importance	>	3/5 (economy)
Analysis	>	Given the high intentions of spending, it is fair to assume that there are reasonably high degrees of pent up demand that exist and will be unleashed into the economy when free to do so

Central bank minutes

What happened?	>	On Wed the Fed will release its minutes of the latest FOMC when the taper was debated, while the ECB will release its meeting minutes on Thursday
Relevance	>	The former in particular will be closely watched and has market-moving potential
Importance	>	4/5 (monetary policy)
Analysis	>	The timing of the taper and normalisation is central to any portfolio positioning at the moment and will be key to determining broader USD direction.

TODAY'S TALKING POINT

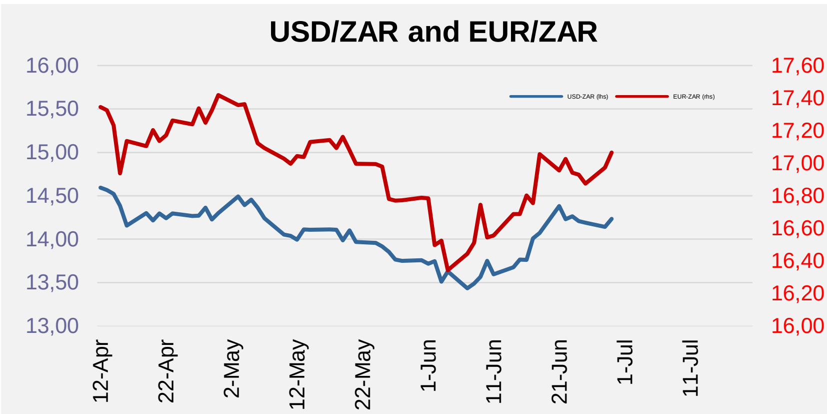
AU RBA rate decision: Jul 6
Expected: 0.10%
Prior: 0.10%

Analysis: At its last meeting, the RBA chose to maintain its current policy rate and three-year target bond yield at 0.10% which it has held since November 2020. The central bank noted its commitment to maintaining accommodative monetary policy until inflation is sustainably in the 2-3% range and is placing a high priority on a return to full employment. However, it was also noted that economic recovery is progressing faster than expected, with the RBA keeping a watchful eye on a buoyant property market due to record low rates. Nevertheless, with inflation coming in at just 1.1% in the first quarter, we will unlikely see any mention of rate hikes in the coming months. The July meeting will assess whether to roll over its yield target bond to the November 2024 maturity from the April 2024 maturing bond, while at the same time the RBA will need to decide whether to extend its bond-buying program. With further outbreaks on the virus front, triggering lockdown restrictions, the RBA may thus continue to err on the dovish side.

RAND UPDATE

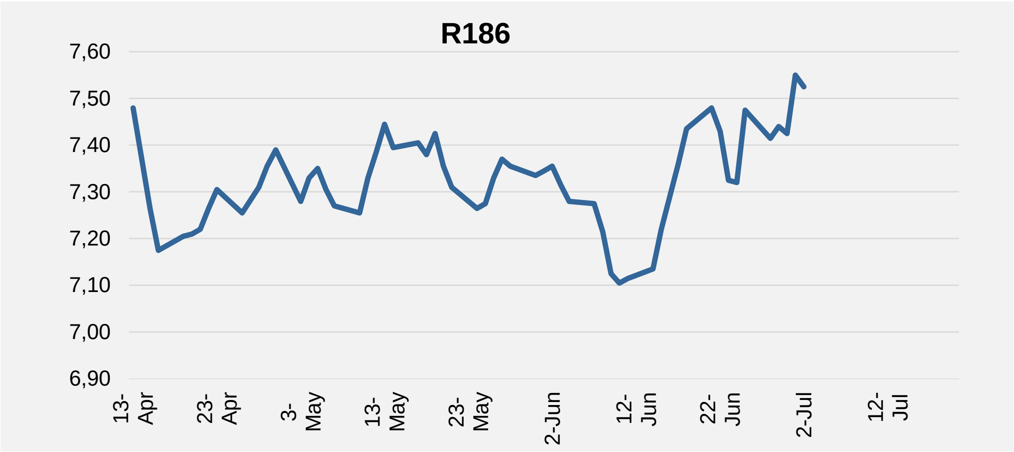
The ZAR treaded water yesterday not far from last week's close, as emerging market currencies were a mixed bag and the US dollar flat amid US holiday-thinned trade, resulting in limited opportunities in FX markets. On the back of a US payrolls report Friday, which did little to speed up Fed tapering expectations, the ZAR traded positively against the USD initially. Yet, domestic political developments and the continuation of the second week of level 4 lockdown restrictions weighed on the currency and local stock markets. As a result, gains were pared and the local unit closed flat against the USD at 14.2600/$.

Domestic markets shrugged off the economy-wide Standard Bank PMI earlier in the day as it left more to be desired despite the headline gauge holding above the 50-neutral mark for the ninth consecutive month. Specifically, the PMI fell for the second month to 51 from 53.2 in May as demand conditions were hampered in June by the reintroduction of harsher lockdown restrictions. With this marking the second consecutive month of stalling growth, it also suggests current lockdown restrictions added more to the already underway trend. While current limitations are not as economically damaging as those seen last year, there are still clear risks of the private sector falling back into contractionary territory, especially given the fragile business environment constrained by long-term structural challenges. Should these risks play out, SA may ultimately fall behind on growth projections and lag other emerging and developed nations as the global economic recovery progresses. While this could still keep domestic trade dynamics supportive for the ZAR in the near term, the longer-term implications will be on the economy's readiness for rate hikes, both domestically and abroad.



National Treasury data flags approximately R6.2bn in foreign outflows in June, with the outflows primarily concentrated in the front-end to the belly of the curve. Note that this is well below the R10.6bn that JSE figures estimate outflows at, while a closer look at the individual bond data shows a weak correlation with official NT figures. The NT data show that the largest outflows were recorded for the R2030 at R9.3bn on the month, while the R2023 experienced foreign selling of R5.4bn. This R2023 outflow seems to have been driven by a switch auction, as the total issuance of the R2023 fell by nearly R7bn on the month.

However, the outflows were partially offset by an inflow of R3.1bn into the low coupon and suitably discounted R213, and a further R6.6bn into bonds with higher maturity in the 2035-2048 region of the curve. This suggests that foreign investors are trading out of shorter-term risk exposures, while the R2030 has been the recipient of recent inflows and is perhaps most exposed to a deterioration in sentiment to SA. This explains the upside pressure that was seen on the front end of the curve, as tightening monetary policy expectations are priced into the curve. Equity outflows were far more brutal with the JSE data signalling that R24.6bn ($1.4bn) worth of equities were sold in June by foreigners. These equity outflows were primarily driven by the selling of China-exposed Naspers of approximately R13.5bn. At the same time, mining lost a little over R4bn in foreign equity capital and banks R1.9bn. Weak macroeconomic fundamentals remain a bugbear in SA, and this will be reducing the value proposition of SA equity.
Note that the ferocity of the outflows seems to have reduced heading into July with equity outflows according to JSE data, meaning that SA asset prices could have reached a state of calm now that Q2 has come to a close. This could have been profit-taking after all.



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.