sasfin beyond a bank

The Daily Market

14 December 2021

USD-ZAR	16.0354/16.0487	**GBP-ZAR**	21.1694/21.1934
GBP-USD	1.3203/1.3254	**AUD-USD**	0.7107/0.7109
GOLD	$1786.49	**DJI**	44543,00
EUR-ZAR	18.0844/18.101	**EUR-USD**	1.1279/1.1281
USD-JPY	113.58/113.6	**R 186**	7.875%
BRENT	$74.06	**3m JIBAR**	3,875

Events (GMT)

08:00	SA	BER consumer confidence	4Q		-10,00
09:00	SA	Bond auction (R3,900mn of R 2032, 2037, 2048)			
04:30	JN	Industrial production y/y	Oct F		-4,70%
07:00	GB	ILO unemployment rate (3mths)	Oct	4,20%	4,30%
10:00	EZ	Industrial production (wda) y/y	Oct	3,40%	5,20%
13:30	US	PPI final demand y/y	Nov	9,20%	8,60%

Factors on the radar

ECB decision time

What happened?	The ECB has some tough decisions to make this week, and it will affect how the EUR-USD and bonds will trade
Relevance	Key to the meeting will be what the ECB does with the PEPR and a taper
Importance	3/5 (monetary policy)
Analysis	Although the ECB will be in no hurry to remove accommodation amid a slowdown, such stimulus cannot continue indefinitely

FOMC

What happened?	With inflation rising to very buoyant levels as seen last week against the backdrop of a strong economy, the Fed is expected to turn more hawkish in its guidance
Relevance	Investors expect the Fed to accelerate its taper and the dot plot to show more hikes next year
Importance	4/5 (economy, monetary policy)
Analysis	It will likely be an FOMC decision that will seek to tighten monetary policy a little sooner than anticipated. At the margin, this should be supportive of the USD vs major trading partners

US spending bill

What happened?	Democrat moderate Manchin was non-committal on Monday after discussions with President Biden about a $1.75trln spending initiative
Relevance	Manchin remains concerned about the size of the bill and how it will ultimately be financed
Importance	3/5 (fiscal policy, economy)
Analysis	Machin is singlehandedly restricting the bill and acting as a counterweight to the enormous appetite for spending that the Democrats want to deploy in extending the social safety net and green energy

Today's Talking Point

BER consumer confidence: O4

Expected:

Prior: -10

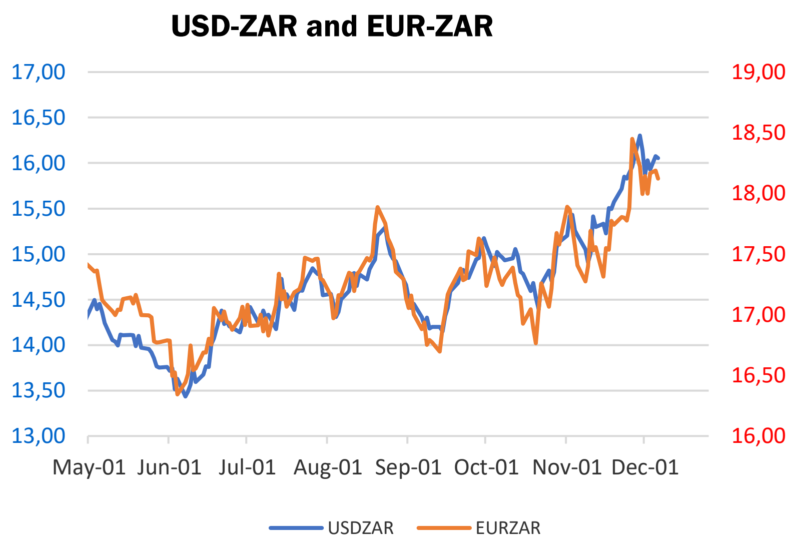
Analysis: SA's consumer confidence, as measured by the FNB/BER consumer confidence index (CCI), improved in Q3 but continued to reflect a less than optimistic outlook. As the last reading was reported during the civil unrest/looting in parts of Gauteng and the KZN and the re-imposition of restrictions, the outlook for Q4 is somewhat rosier. Since then, the government has relaxed restrictions, stepped up its vaccination efforts, and the economy continued its recovery. However, these positives would have been weighed down by the disruption of rolling blackouts, declining disposable household income, further job losses and the threat of a fourth wave of infections. As such, it is unlikely we will see the CCI index report a substantial pick-up in consumer confidence in Q4.

Rand Update

Ahead of the FOMC decision and statement tomorrow, the market is trading with some apprehension. On the one hand, investors are pricing in a Fed that will want to respond to the highest inflation numbers in forty years, a labour market that is tightening rapidly and a strong economic recovery. On the other, the threat of Omicron will have people concerned that the global economy could be in for another bumpy patch where growth is negatively affected. On aggregate, investors are trading as though the Fed will look straight through the fourth wave and focus on the economic data that remains strong and the inflation episode that is a threat.

Equity markets this morning have corrected lower, and the VIX (fear factor index) has risen off yesterday's lows. Emerging market currencies are reflecting some vulnerability to depreciation, and the ZAR this morning is no different as it trades on the defensive. It is telling that the ZAR has been unable to sustain any recovery for the second day in succession. It is trading like a currency waiting for some bad news to trade on and shows the potential to depreciate further, especially if the Fed persists with a more hawkish tone and offers the USD further support.

One bit of good news in the press this morning are indications that the UK may look to remove SA off its red list as the worldwide spread of Omicron means that these bans are pointless. The travel bans could be scrapped as early as this week and replaced with requirements to be double vaccinated with a negative PCR test. It is unclear whether it also comes attached to a quarantine stay, but it is encouraging that these foreign countries are coming to their senses. However, the damage to the tourism industry is complete, and SA's recovery to pre-Covid economic activity levels may now need to wait until deep into 2022 or longer.

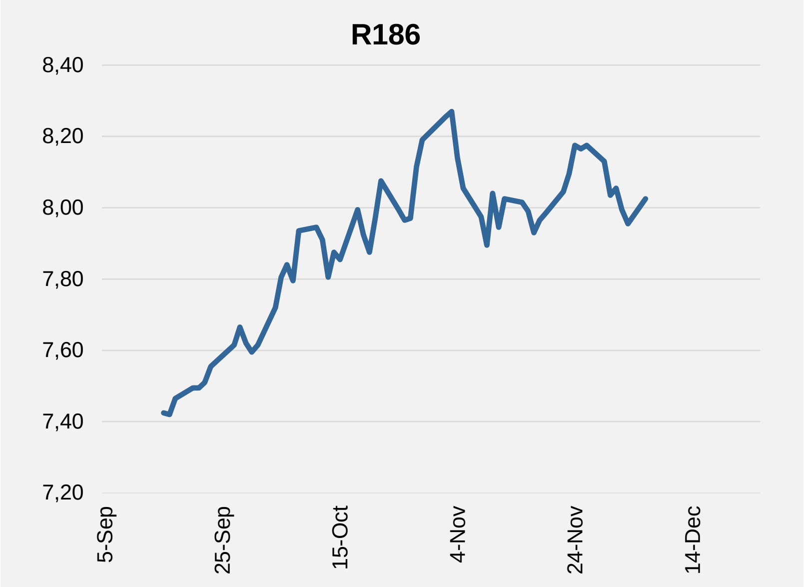


Bond Update

The market has taken on a consolidative tone ahead of the Fed policy announcement on Wednesday. Offshore, investors are positioned for the announcement that QE tapering will continue. Some Fed commentary since the last meeting has favoured increasing the pace with which monetary policy normalisation takes place due to high inflationary pressures in the US. Consumer price inflation was at a forty-year high in the latest print. The US labour market has also been tightening, raising the risk that low rates support excessive borrowing and credit extension. To some degree, this is mitigated by the potential that the US economy slows amid risks of further lockdowns and restrictions amid rising Omicron prevalence. Policymakers remain primarily focussed on reducing the impact on hospitals, suggesting that industries exposed to the movement of people, such as tourism and leisure, will remain under pressure.

Emerging markets (EMs) are generally at risk of a dip in sentiment in the context of Fed policy tightening, with newswires reporting that EM ETFs are seeing massive outflows at present. While South Africa remains in a better place from a trade balance perspective, a high degree of external ownership of SAGBs and rising fiscal risks continue to suggest that a deterioration in foreign sentiment could impact local markets. Seasonally, the market has reduced liquidity, which could exacerbate any selling pressure in the weeks and months ahead. Note that as Thursday is a local holiday for SA, the market will be unable to price in any major shifts in Fed sentiment. As a result, risk shedding could be seen today and through tomorrow.

The USD-ZAR is hovering around R16.05/USD, now undervalued and on a weakening trajectory since bottoming out around R14.90 in November. While the pair has taken on more of a consolidative tone into December, the currency remains on a concerning trajectory relative to fair value that we estimate between R14 and R15. This could once again support a rise in inflation expectations, particularly as import prices could remain additionally buoyed by shortages across the global supply chain.



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