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The Daily Market

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01 July 2021

USD-ZAR	14.2954/14.3054	**GBP-ZAR**	19.75/19.774
GBP-USD	1.3819/1.387	**AUD-USD**	0.7488/0.7489
GOLD	$1774.5	**DJI**	34502,51
EUR-ZAR	16.9376/16.9454	**EUR-USD**	1.1846/1.185
USD-JPY	111.08/111.11	**R 186**	7.44%
BRENT	$74.8	**3m JIBAR**	3,692

EVENTS

-	SA	Naamsa vehicle sales y/y	Jun		197,80%
09:00	SA	Absa manufacturing PMI	Jun		57,80
-	US	Total vehicle sales	Jun	17,05	16,99
12:30	US	Initial jobless claims	Jun 26		411k
13:45	US	Markit PMI manufacturing	Jun F		62,60
14:00	US	ISM manufacturing PMI	Jun	61,00	61,20

FACTORS ON THE RADAR

Fedspeak

What happened?	>	Dallas Fed President Kaplan has argued that he would like the Fed to trim its asset purchases before year-end.
Relevance	>	While he argued for an earlier taper, he also added that it should be gradual
Importance	>	3/5 (monetary policy)
Analysis	>	He too added that he expects an improvement in the labour market but that the gains would not be explosive, allowing the Fed time to normalise

US labour market

What happened?	>	The ADP data posted a solid increase which has raised expectations for a strong rebound in the weekly jobless claims figures today and the payrolls data due tomorrow
Relevance	>	Specifically, investors will be looking for signs the recovery is gathering momentum and that the Fed may need to respond
Importance	>	4/5 (economy)
Analysis	>	Unemployment cheques have meant that there has been no hurry for workers to return back to full employment. Those will soon be drawing to an end, and the true underlying strength of the labour market will be revealed

Brexit frustrations

What happened?	>	The EU and Britain have agreed to a three-month ceasefire concerning the Northern Ireland border with Britain
Relevance	>	Practical trade difficulties still need to be overcome to ease trade frictions
Importance	>	3/5 (economy, trade, politics)
Analysis	>	A Swiss-style agreement where 80% of goods would not need to be checked is possible, but it would require Britain to conform to some EU standards

TODAY'S TALKING POINT

NAAMSA Vehicle sales y/y: Jun
Expected: -
Prior: 197.8%

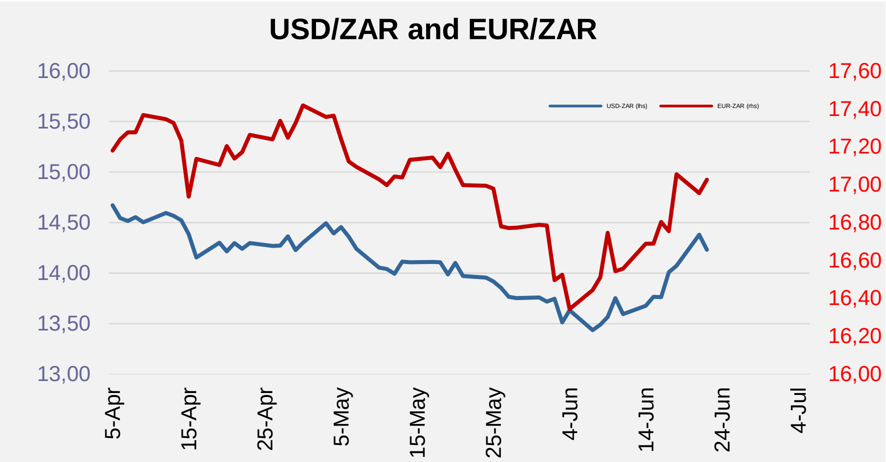
Analysis: Year-on-year NAAMSA vehicle sales growth rates have been distorted by statistical base effects during the months SA entered into hard lockdown last year, and so little insight has been derived from these readings. The same can be expected with June's print. However, less favourable base effects should somewhat normalise vehicle sales. Investors should, therefore, look to the m/m readings for a greater sense of how the sector is performing. Notwithstanding the impact of base effects, the severity of the global chip shortage, supply chain disruptions, and still recovering demand domestically and abroad may continue to stifle vehicle sales, which remain well below their pre-pandemic lows.

RAND UPDATE

The ZAR ended June on the front foot, albeit appreciating a marginal 0.15% against a stronger USD as solid private payrolls data out of the US drove the trade-weighted dollar index (DXY) to a near three month high. However, the local currency likewise had its own supportive data to snap the broader moves in currency markets yesterday after initially swinging between gains and losses as the domestic trading session kicked off. The ZAR eventually closed near 14.3150/$ as it firmed on data showing South Africa's trade balance rose to a record high in May while the government's monthly budget balance fell to its lowest since December.

Specifically, the trade balance surplus increased to R54.6 billion from April's print of R51.3 billion, as exports rose by 1.5% m/m to R163.5bn while imports fell by 0.9% to R108.9bn. Overall, high commodity prices continue to support exports while weak demand amid a slow recovery weighs on imports. This goes some way to explain the ZAR's more than 5% rise in May and suggests there could be further upside should these dynamics persist, barring weakness from mounting expectations for monetary policy tightening in developed markets.

Released earlier in the day, M3 money supply growth sunk for the fifth straight month in May, and private sector credit growth remained in negative territory for the third consecutive month. With these signalling a weak domestic economic backdrop, domestic imports will likely remain under pressure while, in addition, sustained global demand should keep SA's trade surplus buoyed in the near term. All in all, indications are for South Africa's favourable terms of trade to continue for some time, especially given the resumption of harsher lockdown restrictions.



The government revenue figures were in line with the notion that a recovery is partially underway. In May, gross tax revenue increased by R29.9bn y-y to R94.8bn. The increase was primarily driven by a rise in taxes on goods and services, up by R22bn to R42.2bn, while personal income tax intake rose R5.2bn to R45.6bn. While still nominally around R1.7bn lower than 2019's levels, this suggests that taxes from the labour market have been a lot more stable than many had expected.

However, government employees still account for a large part of this income stream. Given that government employees are paid out of taxes yet pay tax, there is an underlying tax fragility. If private market revenue streams continue to hollow out, it could exacerbate government funding pressures in the coming years. The Quarterly Employment Statistics (QES) report shows that about R715tn was paid to employees in Q1, of which 27% went to the government sector. This does not include electricity, water, and sanitation, which is primarily held by the public sector at another 1.2% of all wages, according to QES released earlier this week.

Personal income tax and taxes on the goods and services that government employees buy will therefore be being partially held up by buoyant government wages, its structural risks notwithstanding. As we saw through 2020, revenue shortfalls tend to be filled with borrowing from the bond market. Recall that government revenue remains insufficient to fill commitments on wages, social grants and interest payments on government debt, which is why a roughly 9-10% of GDP fiscal deficit is forecast in 2021/2022.