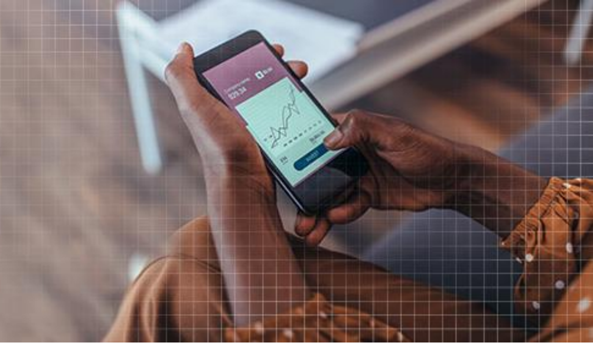


sasfin beyond a bank

The Daily Market

25 November 2022

USD-ZAR	16.9927/17.0074	**USD-JPY**	138.51/138.52
GBP-ZAR	20,579/20,603	**GOLD**	$1756.26
EUR-ZAR	17.7069/17.7213	**BRENT**	$85.47
GBP-USD	1.2109/1.2164	**DJI**	34 194,06
EUR-USD	1.0419/1.0421	**R 186**	8.58%
AUD-USD	0.6768/0.677	**3m JIBAR**	6,717

Events (GMT)

Time	Country	Event	Month	Fc	Prior
09:00	SA	ILB auction (R1.2bn)			
O/N	JN	PPI Services YoY	Oct	2.1%	2.1%
07:00	GE	GfK Consumer Confidence	Dec	-39.6	-41.9
07:00	GE	Private Consumption QoQ	3Q	0.3%	0.8%
08:00	GE	Government Spending QoQ	3Q	0.9%	2.3%
10:00	GE	GDP NSA YoY	3Q F	1.1%	1.1%

Factors on the radar

Black Friday and Thanksgiving

What happened?	This week signals Black Friday, which also implies a long weekend in the US, with Thursday marking Thanksgiving
Relevance	Not only will Black Friday give insight into consumption, but liquidity will be thin
Importance	5/5 (markets, economy)
Analysis	This will ensure that investors are a little more cautious in their trading this week, which will be characterised by consolidation

Aus House Prices

What happened?	Australian house prices are forecast to fall as much as 16% next year after gaining 25% since 2020 according to a survey conducted by Reuters
Relevance	Falling home prices in a rising rate environment pose threats to financial stability
Importance	3/5 (economics/ monetary policy)
Analysis	Prices are already down 6.5% this year and more is to come as interest rates will rise further and the lagged impact of that will spread to other areas of consumption and investment

Italian Budget

What happened?	Certain aspects of Italy's new proposed budget may skirt the line in terms of what is accepted by the EU, according to a former Treasury official
Relevance	If Italy continues to push the limits with the EU, it could find itself without access to funding
Importance	4/5 (fiscal policy)
Analysis	The proposals favour Italians using cash, which not only increases the risk of fraud and tax avoidance, but goes against the direction Brussels is looking to take.

Today’s Talking Point

Oil update

Expected:

Prior: 123.4

The front-month Brent crude contract is holding just above the $85 per barrel mark this morning, putting the contract on course for a third-straight weekly loss. Demand concerns persist, with China’s COVID caseload reaching 30k new infections a day for the first time on record, prompting worries that even harsher restrictions are coming, which will impact their demand for fuel. The IIF, meanwhile, has forecast that the global economy will be as weak next year as it was in 2009, a further hit to demand prospects which suggests that the tightness of the market may unwind over the coming months, even with the supply issues it currently faces. This is reflected in near-dated timespreads, with WTI’s in contango and Brent’s narrowing to just 7 cents in backwardation, pointing to reduced pressures in the market.

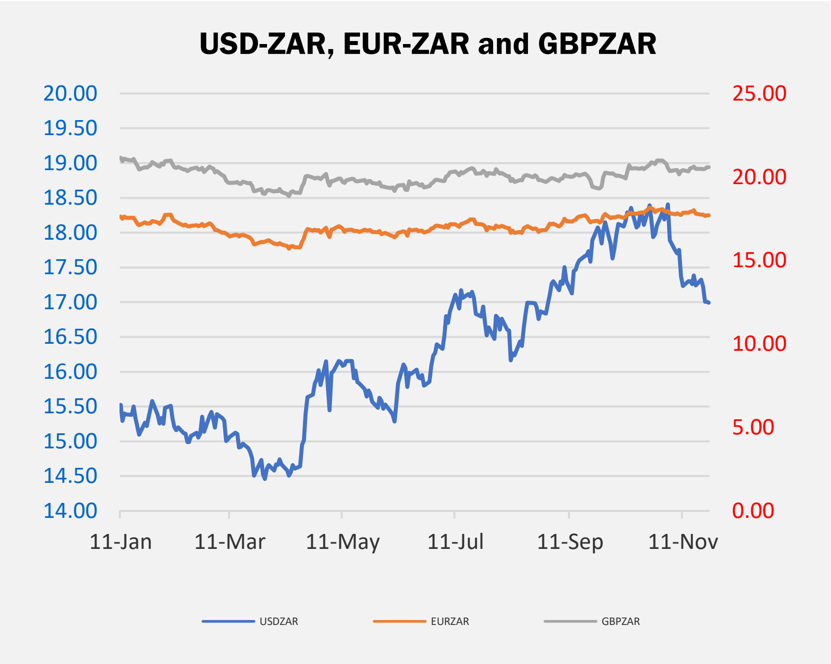
Rand Update

In line with expectations, the South African Reserve Bank increased the Repo Rate by 75bps to 7.00% at yesterday's meeting. Three members of the committee were in favour of the 75bp hike, while the other two members preferred a smaller 50bp increase. This compares to the September meeting, where two members voted for a 100bp increase. The voting pattern suggests that the SARB is likely to ease off its rate hikes in early 2023 with growth concerns mounting and as the global monetary policy direction shifts. ETM expects the SARB to deliver one or possibly two more rate hikes of a smaller magnitude (25bps) in the first quarter of 2023, taking the Repo Rate to a peak of 7.25% or 7.50% in the current cycle.

It is worth noting that the minutes of the last US Federal Reserve meeting showed that the world's de facto central bank is willing to hand out smaller interest rate hikes in the coming months if inflation slows. Given this backdrop and the fact that we are seeing local growth risks intensifying, we expect rates to begin to fall in the second half of next year. This notion is underpinned by the SARB's forecast for the Repo rate to average 6.55% in the final quarter of 2023.

The impact of the adjustment of rates on the rand was negligible with the market priced for the outcome. Movements in the USD-ZAR of late have been more a function of the market recalibrating its expectations for the USD than adjusting its view on ZAR. The currency pair is currently pivoting around the R17.00 mark as we enter the final day of trade for the week with liquidity expected to be less than optimal given the fact that many in the U.S. are still out for the Thanks Giving weekend, although today is not an official holiday.

Pulling back the lens we see the tailwind experienced by exporters for the past four months diminishing. The USD remains overvalued, and it will correct further during 2023. Up until a week ago, exporters could have secured 12m hedges at 17.80, while mid-October levels of 18.80 were achievable. Currently we are looking at levels closer to 17.40 and these may be viewed as good within the next couple of weeks.



Bond Update

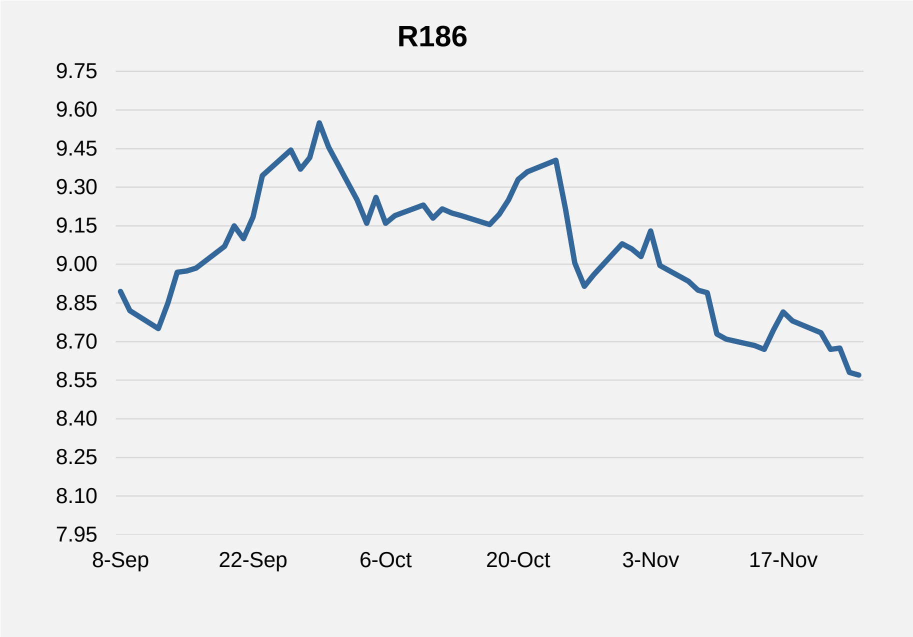
Notwithstanding the market’s readjustment for the higher-than-expected inflation data on Wed, and another robust 75bp rate hike yesterday, bonds found support and the IRS curve turned received. FRAs readjusted marginally at the short to medium end of the curve, but over the longer dates the curve actually flattened. While the SARB remained bold in its move and left nothing to chance, buying extra insurance against inflation, the fact that the MPC board was split 3-2 in favour of 75bp vs 50bp gives one a sense that this will be the last 75bp hike and that the next move will either be 25bp or 50bp depending on the circumstances.

A global slowdown is underway, and in H1 2023, the slower international growth will impact SA’s growth dynamics. Add to that more conservative fiscal policy as National Treasury tries to consolidate spending and a recovery in the ZAR, and the cocktail exists for inflation to trend firmly lower. Recall that ETM’s inflation risk indicator, which measures the underlying momentum behind inflation, has already tilted into disinflation territory, signalling that price pressures in the coming months will abate, and that inflation could soften faster than expected.

It is also worth noting that the receiving interest noted across the curve only means that the SARB has front-loaded more of the tightening and that the end of the hiking cycle has been brought forward rather than halted. There may be more tightening to come, but that will depend on how the Fed chooses to behave, whether the USD weakens as a result, and how the domestic growth situation amid persistent load shedding holds up. Most indicators are pointing to the Fed pivoting, the USD losing ground, and a material slowdown in some of the world's most advanced economies.

At the heart of the SARB's cautiousness was the rise in underlying core inflation, which stripped out food and energy prices. Second round effects of the higher inflation readings have materialised, and the SARB will respond. However, those second-round effects are less about underlying demand and the scope for inflation to take hold longer-term and more about the effects of the weakness of the ZAR in the parity pricing mechanism of food and energy. In both cases, the pressures could moderate significantly if the ZAR makes a solid recovery through 2023, and on that front, ETM's ZAR Sentiment Indicator (a leading indicator for ZAR) is pointing to a significant bout of ZAR appreciation vs the USD.

Ultimately, the point is that through 2023, inflation could surprise investors and the SARB to the downside. Judging by the SARB's forecasts, it is not working on the premise of a ZAR recovery all the way back to 15.00/dlr or below. That would change the inflation picture considerably as it would lead to significant deflation in fuel, energy and even food prices throughout the year to drag overall inflation lower. Against this backdrop, it will be interesting to see whether inflation expectations, as reflected in this week's ILB auction, moderate even further. R1.2bn of the R210, I2030 and the I2046 will be auctioned off.



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