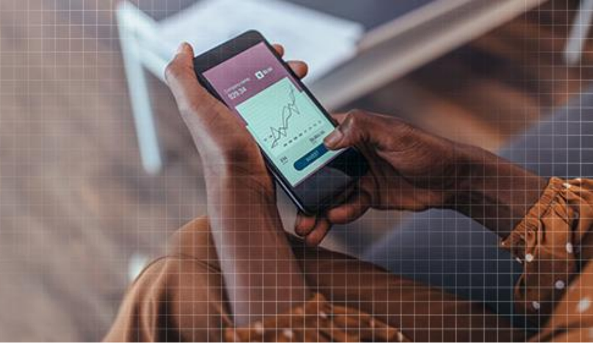
sasfin beyond a bank

The Daily Market



15 September 2021

USD-ZAR	14,3228/14,3348	**GBP-ZAR**	19.7752/19.7992
GBP-USD	1,3807/1,3808	**AUD-USD**	0.7325/0.7326
GOLD	$1803,57	**DJI**	44453,00
EUR-ZAR	16.913/16.9257	**EUR-USD**	1.1806/1.1807
USD-JPY	109.6/109.61	**R 186**	7.425%
BRENT	$74.07	**3m JIBAR**	3,675

Events (GMT)

11:00	SA	Retail sales constant y/y	Jul		10,40%
06:00	GB	CPI y/y	Aug	2,90%	2,00%
09:00	EZ	Industrial production (wda) y/y	Jul	5,70%	9,70%
12:30	US	Empire manufacturing	Sep	17,10	18,30
13:15	US	Industrial production m/m	Aug	0,30%	0,90%
13:15	US	Manufacturing production m/m	Aug	0,40%	1,40%

Factors on the radar

Euro clearing

What happened?	The BoE has advised banks that they should exercise patience and not necessarily switch all clearing activities to Frankfurt
Relevance	The concern is that doing so will split the market and raise trading costs
Importance	4/5 (markets)
Analysis	It is deemed the most prudent strategy while the authorities complete their negotiations. The costs of fragmenting the market and moving are very high

Fitch warning on Evergrande

What happened?	Fitch has warned that several sectors could experience heightened credit risk if China's 2nd largest developer, Evergrande defaults
Relevance	Fitch did add that the fallout to the banking system would be manageable despite a rise in NPLs
Importance	4/5 (economy, markets)
Analysis	Smaller banks may suffer relatively more, but the construction sector itself may suffer contagion risks. The problem, for now, does not seem systemic but must be closely monitored

Aussie vaccinations

What happened?	Australia has recently ramped up its vaccination drive, and confidence is building that the authorities will soon ease restrictions
Relevance	That will help stabilise economic growth and allow the economy to extend its recovery unhindered
Importance	3/5 (economy)

Analysis

Support from the fiscal and monetary authorities will continue, but with vaccination prevalence at 55% and rising fast, the easing up of restrictions could happen in the coming weeks

Today's Talking Point

Retail sales constant m/m: Jul

Expected: -

Prior: 0.6%

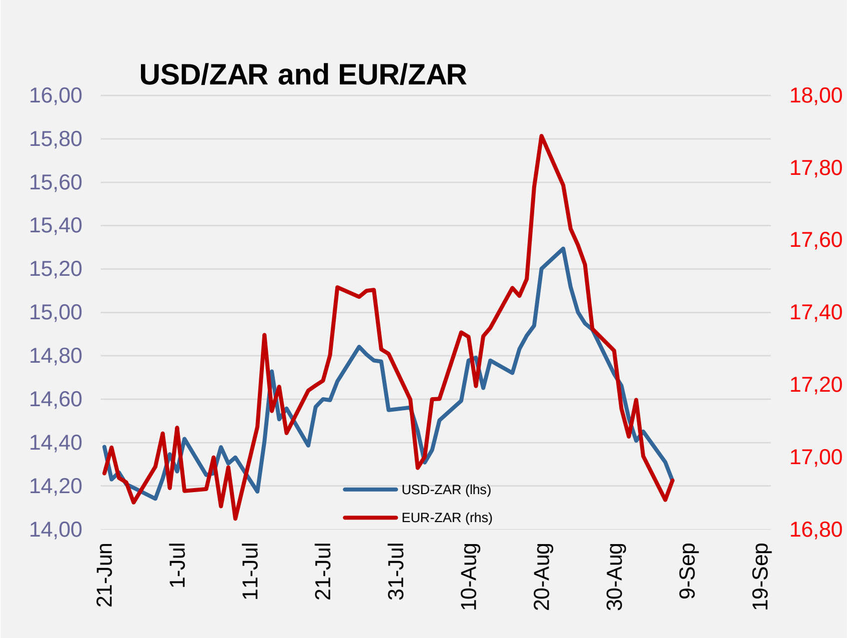
Analysis: SA's retail sales growth has waned due to a deterioration in economic fundamentals and sentiment, which as of late, has stemmed from the Delta variant and civil unrest. Moreover, the decline in credit extensions and money supply, against record-high unemployment figures, suggest that household budgets are being squeezed and consumers are not spending as they were pre-covid. Any significant rebound in the sector is therefore looking unlikely at present. We can expect the uncertainty around the Delta variant to continue to weigh on retail sales activity in the months ahead.

Rand Update

The ZAR traded through a comparatively wide intraday range yesterday, hurled around by souring risk appetite and US inflation data which came out softer than expected. Major currencies initially favoured the weaker US inflation outlook, as it weighed on the USD, but this proved to be short-lived as the greenback recouped losses to end the day flat. Meanwhile, the ZAR traded with more of an idiosyncratic bias, as it led EM currencies weaker through the day. Given the unit's month-to-date outperformance, now standing at 1.20% and the largest amongst both EM and DM currencies, the ZAR has traded well away from its initial Q3 trend. While the dollar's rally has tempered and allowed for part of this, these moves may be unjustified given the impediments to SA's economic recovery through Q3 and may thus spark some ZAR selling in the near term as investors book profits on the latest rally.

Internationally, trade was dominated by US inflation data which, despite the USD recovering from initial pressure, successfully kept any dollar rebound at bay. As for the data, while headline inflation was in line with expectations, core CPI came out softer than expected. This could ultimately temper bets that the Fed will announce any tapering at its FOMC meeting next week and, instead, push this to the November meeting. Should inflation prove to be topping out, as core CPI may suggest, it would ultimately follow the Fed's narrative that heightened inflation would be temporary, meaning looser-for-longer policy will persist.

As for domestic data, mining production data made for positive news as it showed mining activity rebounded in July. Specifically, mining production swung from a contraction of -1.6% m/m in June to an expansion of 4.1% m/m in July. On balance, given the civil unrest and lockdown restrictions at the start of July, which would've impacted activity in the sector, the July mining production figure was solid and points to favourable terms of trade in the months ahead.

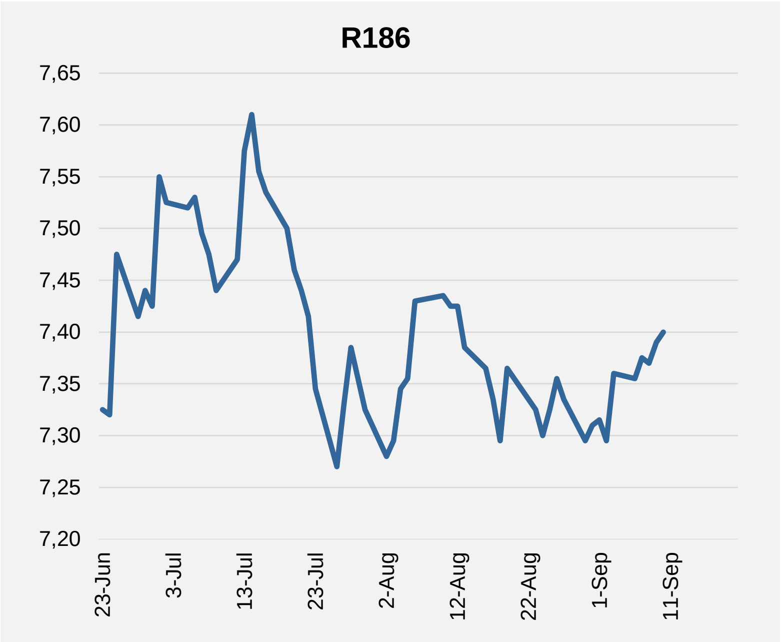


Bond Update

The mining data released yesterday held a few nuggets, with a still very buoyed level of revenue reflected in the figures when priced in ZAR. Total output volumes have merely stabilized after the COVID dip, suggesting that it is a rare environment in the global economy that has been primarily responsible for SA's current account surplus. The soft CPI data out of the US will support commodity prices at the margin, as it suggests that the Fed will sit on the side of looser-for-longer policy, thereby keeping the dollar weaker than it otherwise would be, although it is questionable whether the CPI data will alter the Fed tapering ambitions.

High commodity prices remain primarily driven by the confluence of supply bottlenecks and expansionary monetary and fiscal policy in the developed world, which has caused the prices of finite commodities to ramp up. For now, this is leading to higher mining sector revenues and suggests that the current account could remain in surplus for some time still. This helps the ZAR and SAGBs by reducing the overall offshore financing burden when SA needs to be treading carefully or face structural ruin. The higher mining revenues will also filter into state coffers, helping to reduce the pressure on the market that has had to absorb record-high fiscal deficits.

It is interesting to note that details of the mining report show slowing platinum group metal revenues, with the downside pressure on mining counters through September perhaps indicative of a market that remains core bearish on mining activity in SA. Stringent labour laws and low levels of development in the sector suggest that while the higher revenues from the sector have supported the ZAR, it is losing significance concerning SA's overall growth rates and remains prone to continued structural stagnation. It follows that the cyclical upswing in the sector could ultimately run out of steam, barring perhaps a significant reduction in legislative and energy supply bottlenecks that continue to hamper growth potential.



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