

24 June 2022

<b>USD-ZAR</b>	15.9061/15.9167	<b>GBP-ZAR</b>	19.531/19.555
<b>GBP-USD</b>	1.2281/1.2334	<b>AUD-USD</b>	0.6916/0.6917
<b>GOLD</b>	\$1825.54	<b>DJI</b>	44735,00
<b>EUR-ZAR</b>	16.7715/16.7839	<b>EUR-USD</b>	1.0543/1.0546
<b>USD-JPY</b>	134.65/134.66	<b>R 186</b>	8.58%
<b>BRENT</b>	\$110.39	<b>3m JIBAR</b>	4,975

## Events (GMT)

09:00	SA	ILB auction (R1.2bn)			
06:40	JN	BOJ Board Amamiya Speech at National Shinkin Conference			
08:00	GE	Ifo business climate	Jun	92,7	93
13:45	UK	BOE's Haskel speaks			
14:00	US	Michigan consumer confidence	Jun F	50,2	50,2
14:00	US	New home sales	May	595k	591k

## Factors on the radar

### China liquidity conditions

<b>What happened?</b>	China injected CNY60bn through a 7-day repo in a bid to keep liquidity stable at the end of the quarter, month and first half. Only CNY10bn was maturing
<b>Relevance</b>	It is interesting that the PBoC is concerned about tight liquidity conditions
<b>Importance</b>	4/5 (economy, monetary policy)
<b>Analysis</b>	This is something to keep an eye on, given the easing monetary policy in China against the backdrop of tightening monetary policy and finance conditions everywhere else on the globe

### EM rate hikes

<b>What happened?</b>	Even though Banxico has been raising rates steadily, it still felt the need to raise by a record 75bp yesterday and warned of even more to come
<b>Relevance</b>	Other EM central banks are looking to follow suit as inflation continues to surprise to the top side
<b>Importance</b>	5/5 (economy, monetary policy)
<b>Analysis</b>	This is a common theme not just throughout the DM world but amongst EMs as well. Property markets will likely be in the firing line as central banks raise rates to tackle inflation

### UK politics

<b>What happened?</b>	The ground is shifting under PM Johnson and the conservatives as they lose two by-elections. Although he won his vote of no-confidence, his tenure is fragile
<b>Relevance</b>	A shift in UK politics and a change in economic strategy would further inject uncertainty
<b>Importance</b>	4/5 (politics)
<b>Analysis</b>	Britain is facing a difficult time, with challenging conditions, Brexit and uncertain politics muddying policy making. Equities, bonds and FX will experience heightened volatility

## Today's Talking Point

### US Michigan consumer confidence: Jun F

Expected: 50.2

Prior: 50.2

**Analysis:** The final US Michigan consumer confidence reading for June is expected to confirm that sentiment plunged to a record low as surging inflation continued to weigh on household finances. Record gasoline prices and unrelenting food and shelter costs are adding strain to Americans' cost of living. In the preliminary reading, expectations and current conditions deteriorated, with the steepest decline seen in the year-ahead outlook for business conditions. While consumer spending has remained robust thus far, the continued deterioration in sentiment may lead consumers to cut back on spending, posing downside risks to the economic growth in the quarters.

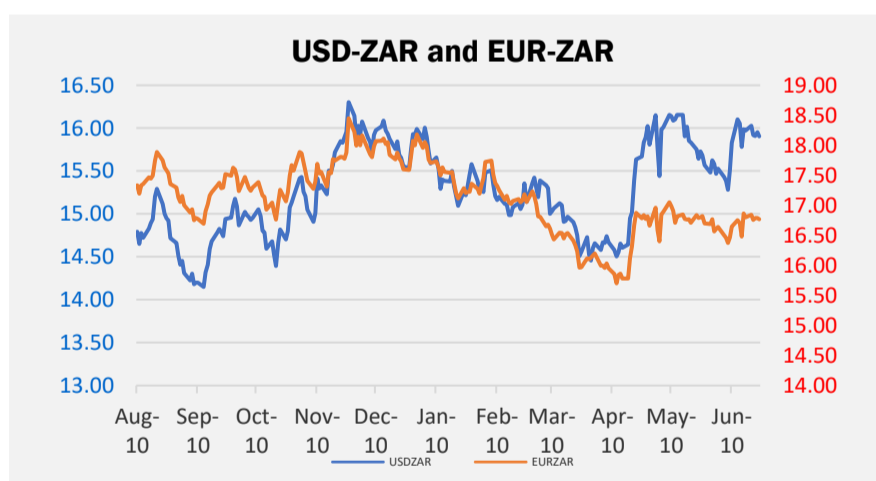
## Rand Update

It has been a rather unremarkable week for the USD, and the same might be said for the ZAR. Without any directional momentum from the USD, the USD-ZAR traded in range bound fashion and will finish the week only slightly firmer. That would suggest that some underlying support for the ZAR remains intact, but that would not reflect the vulnerability it exhibited through yesterday's trade when it appeared as though the ZAR would break out of a broader bull flag formation to the topside.

Local Zondo commission revelations have done little to change the overall trajectory of the ZAR, while this week's higher-than-expected CPI did not translate into much impetus either. Again, the ZAR remains driven by developments in the USD, and with so much uncertainty doing the rounds, global investors do not reflect any conviction concerning directional momentum.

And for all the escalating fears of a recession in the US and elsewhere, stock markets have not yet collapsed. Stronger Asian equity markets this morning will likely assist the ZAR in ending the week on a firmer footing if the gains help boost overall risk appetite levels. Other than the Ifo data out of Germany today, there is only New Home Sales out of the US that will hold much interest. The Michigan consumer confidence data is the final reading and will be priced in by now. Therefore, it is shaping up to be a calmer end to the week.

From a local data perspective, next week is arguably more interesting with the usual slew of end-of-month data scheduled for release. The combination will offer further perspective on some of the drivers of ZAR. At the moment, there is no obvious direction. However, it should be mentioned that ETM's ZAR Sentiment Indicator is still pointing to a strong ZAR performance through H2 2022 that should offer importers another opportunity to lock in some more attractive forward rates.



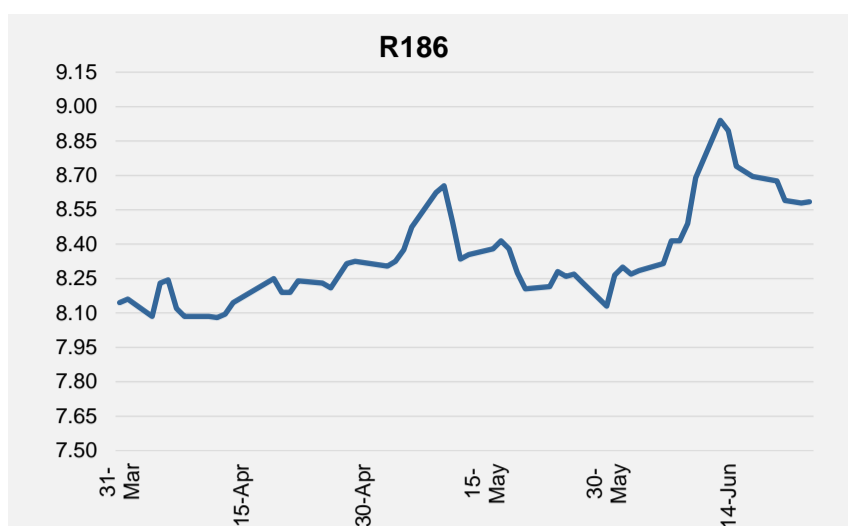
## Bond Update

Recession fears are emerging following a particularly weak set of PMI data out of the US. The data suggested that growth in both the manufacturing and services sectors is drying up, with significant underperformance relative to consensus estimates. The composite reading was at 51.2 from 53 prior, with consensus looking for a print of 53. Manufacturing slowed to 52.4 from 57 against expectations for a print of 56. Note that the new orders component of the manufacturing PMI slipped into contractionary territory, which is broadly considered a leading indicator of future economic growth.

The US 10y yield dropped sharply in response, ending the EU session nearly 25bp lower, which is a sharp move for the world's "safest asset". The potential for mean reversion should be considered in this context, with the current yield at 3.04% compared against a 10-year average yield of 2.05%. Such a move could deeply invert the yield curve and could depreciate the USD. The 2-year bond has also lost over 40bp from recent peaks 10 days ago. While weak growth tends to hurt stocks, the S&P 500 ended the session a little higher to suggest that pricing is benefitting from the lower yields.

With the UST curve shifting lower, SAGBs could enjoy some reprieve, which could continue into the weekend when the ZAR is now set to close the week a little stronger against the USD. The only major market event of the day will be the ILB auction, with ILBs highly valued when looking at breakeven rates that are unilaterally above 6%. A portion of this could be due to market segmentation, but with inflation generally a theme that asset managers are mulling over, one could expect the auction to remain well subscribed. Last week's auction saw the highest demand in five weeks, with demand skewed in favour of the lowest duration bond.

Offshore, the focus will sit with Fed speak, some US data with Michigan consumer confidence (final reading), and new home sales data due.



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140 West Street, Sandown, Sandton, Johannesburg, 2196

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