sasfin beyond a bank

The Daily Market

24 November 2021

USD-ZAR	15.8282/15.8431	**GBP-ZAR**	21.1762/21.2002
GBP-USD	1.3377/1.3378	**AUD-USD**	0.7213/0.7215
GOLD	$1794.61	**DJI**	44523,00
EUR-ZAR	17.7998/17.8117	**EUR-USD**	1.1241/1.1244
USD-JPY	114.99/115	**R 186**	8.045%
BRENT	$82.5	**3m JIBAR**	3,850

Events (GMT)

10:00	SA	BER business confidence	4Q		43,00
15:00	US	Michigan consumer confidence	Nov P	66,90	66,80
15:00	US	New home sales	Oct	800k	800k
15:00	US	PCE core y/y	Oct	4,10%	3,60%
16:00	EC	ECB's Schnabel Speaks			
19:00	US	Fed FOMC Meeting Minutes	03-Nov		

Factors on the radar

Oil market

What happened?	OPEC+ appears to be rebuffing calls to raise production, and ahead of their next meeting on the 2nd Dec, it is unlikely that they will buckle to pressure
Relevance	China, India, South Korea, Japan and Britain will coordinate a release of strategic oil reserves
Importance	4/5 (market, geopolitics)
Analysis	The aim is to protect the economic recovery against a steady rise in energy prices. OPEC is enjoying the solid demand and high prices and argues that there has been a supply surplus

ECB speak

What happened?	Governing Council member Gabriel Makhlouf acknowledged risks to the inflation outlook and indicated that the argument for a rate hike would strengthen if current trends persist
Relevance	The ECB will be in no rush to hike rates. However, it may be forced to tighten if inflation proves less transitory
Importance	3/5 (monetary policy)
Analysis	Inflation across the globe is proving stubbornly buoyant, and central banks will not want to leave such buoyancy unattended, lest it translates into a rise in inflation expectations that requires even stronger action.

Thanksgiving week

What happened?	Investors are reminded that the US will effectively enjoy a long weekend, with Thanksgiving on Thursday
Relevance	Markets will likely trade very thinly, and much data will be packed into Wed
Importance	4/5 (economy)

Analysis	It will make for a quieter end to the week but a busy first few days as investors square off positions for the long weekend and Black Friday

Today's Talking Point

US PCE core y/y: Oct

Expected: 4.1%

Prior: 3.6%

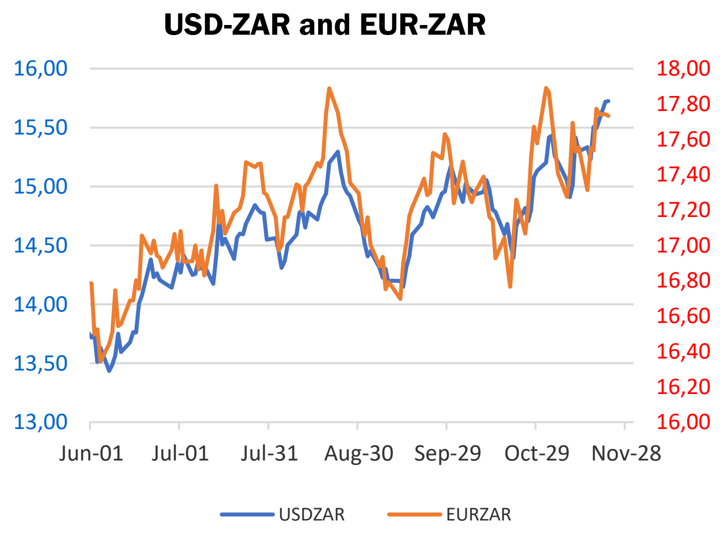
Analysis: With inflation a hot topic for traders at the moment, all eyes will be on the October PCE report, given that it is the Fed's primary inflation index. While the economic recovery remains fragile and uneven, inflation in the US has run hot this year. This has forced the Fed's hand to begin normalising monetary policy in a bid to rein in inflation expectations. Note that inflation expectations have reached multi-year highs. That said, it is important to note that while inflation risks remain skewed to the topside, the Fed is merely lifting its foot off the stimulus pedal and not yet pressing the brakes. We remain of the view that the Fed will only begin to hike rates at the backend of next year or in 2023.

Rand Update

Although the USD has paused in its performance, it has retained a firmer bias with the market still responding to the decision to reappoint Fed Chairman Powell for another term and focus on monetary policy disparities between the US and its major trading partners. Today, the focus will shift to the deluge of data the US will release, which may influence the US Thanksgiving long weekend.

Among the more important releases out of the US will be the FOMC minutes which will offer further insight into the Fed's decision making, home sales data for Oct, the core PCE data for Oct, Durable goods orders, the second GDP reading and the Michigan consumer confidence index for Nov. Add to that some labour data, and you have many potential sources of support if the general theme reflected in the data is that of a strengthening economy that will empower the Fed to normalise policy.

Domestically, some focus will shift to the BER Business Confidence data, but historically this data has never moved markets much, and there is no good reason to expect it to do so now. Some focus may instead shift to the news that the Department of Mineral Resources and Energy plans to change the mining laws to ensure compliance with the provisions of the mining charter thrown out by the high court. The downside to this is that the mining industry may very well enter yet another period of uncertainty which could have the regrettable effect of deterring investment in the sector until full clarity is given. Once the industry gains this clarity, it will be interesting to see whether investors will even want to participate.



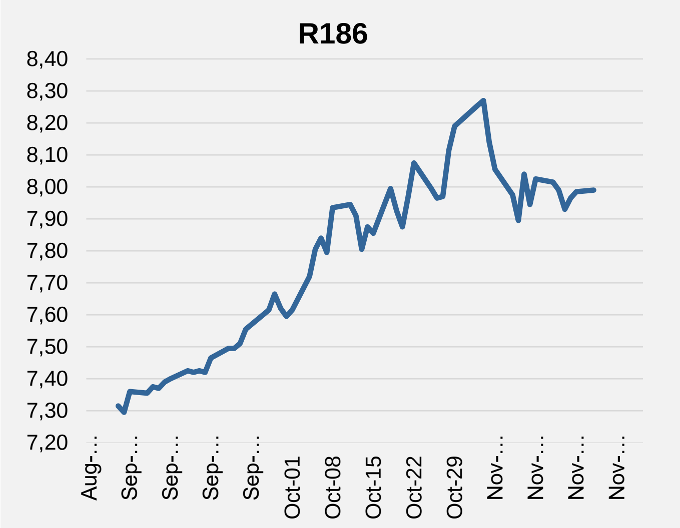
Bond Update

There was some interesting reading in the September leading indicator released yesterday, with the aggregate index falling to a reading of 125 from 127.9 in the prior month. This was primarily driven by a weaker commodity export price index and lower number of building plans. But overall, seven of the nine subcomponents decreased, suggesting that the economic recovery is beginning to stall. The SARB's relatively dovish tone at the last rate announcement echoes these findings, and it follows that the continuation of weak growth outcomes could lead to a more cautious rate hiking cycle than the 300bp or so projected by the QPM. For now the SARB's assumptions are however appreciably weak with growth expected to be less than 2% for the foreseeable future.

Downside pressure on commodity prices feeds into the theme of growth risks when domestic demand is struggling to recover. Lockdowns have had a devastating effect on many parts of the economy while households continue to be constrained by dwindling disposable income. Rising administered costs, tough economic conditions and changing consumer preferences towards certain industries such as non-essential goods, restaurants, travel, and tourism.

Political instability has also played its part, with retail sales volumes taking a dip after the emergence of riots and protests in July. At the same time, SA's fundamentals have been fragile for some time amid only limited progress in structural reform. The return of load-shedding also reduced the propensity to invest in more power-heavy industry, and expectations are therefore shifting to a more gradual economic recovery.

Higher yields and the cessation of some event risk seems to have benefitted the primary bond market auction yesterday, with total bids recovering to R10.8bn yesterday. This was up from R8.5bn at the prior auction, yet still well below the YTD average of R13.8bn. Low demand could in and of itself be a function of the time of year, with markets in the US on a go-slow ahead of Thanksgiving. Demand dynamics were nevertheless aligned with what one could expect, with the benchmark R2030 enjoying the highest level of demand to generate a cover ratio of 3.8x the allotment of R1.3bn.



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