

# The Daily Market

## Make it your business

12 July 2021

<b>USD-ZAR</b>	14.3287/14.3387	<b>GBP-ZAR</b>	19.7372/19.7612
<b>GBP-USD</b>	1.3777/1.3828	<b>AUD-USD</b>	0.742/0.7422
<b>GOLD</b>	\$1801.73	<b>DJI</b>	34421,93
<b>EUR-ZAR</b>	16.9604/16.9708	<b>EUR-USD</b>	1.1834/1.1835
<b>USD-JPY</b>	109.96/109.98	<b>R 186</b>	7.495%
<b>BRENT</b>	\$74.09	<b>3m JIBAR</b>	3,692

## EVENTS

11:00	SA	Manufacturing production n.s.a y/y	May	49,10%	87,90%
O/N	JN	Machine orders y/y	May	6,30%	6,50%
06:00	JN	Machine tool orders y/y	Jun P		141,90%
09:00	EC	ECB's Guindos speaks at Omfif			
16:00	US	Fed's Kashkari Speaks at Townhall			

## G20 warning

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- What happened? > More Covid-19 variants, slow vaccine rollouts in developing countries and rising infections threaten the global economy
- Relevance > The G20 has warned that the fight against Covid-19 is far from over
- Importance > 3/5 (economy)
- Analysis > Beyond discussions around Covid-19 the G20 meeting in Venice also gave Finance Ministers a chance to further their global minimum tax efforts

## ECB

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- What happened? > In an interview aired on Monday, ECB Chief Lagarde indicated that the CB would look to change its guidance on the next policy steps at its next general meeting
- Relevance > This change will allow for further clarity on how the ECB will tolerate inflation above the 2% target
- Importance > 4/5 (monetary policy)
- Analysis > For now, the ECB will persist in fostering favourable financing conditions and any future shifts in guidance will be made with the objective of returning inflation back to its goal.

## US inflation

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- What happened? > The start of the week will see the latest inflation data released out of the US. Given its significance in monetary policy it will have strong market moving potential
- Relevance > Any upside surprise beyond the 5.0% y/y may spark concerns about the Fed's future policy stance
- Importance > 4/5 (economy)
- Analysis > Inflation is a major concern. A weaker USD, rising commodity prices and a very strong credit cycle have boosted price pressures. Inflation outcomes will guide the Fed to taper sooner than expected

## Manufacturing production m/m: May

**Expected: 1.00%**

**Prior: -1.20%**

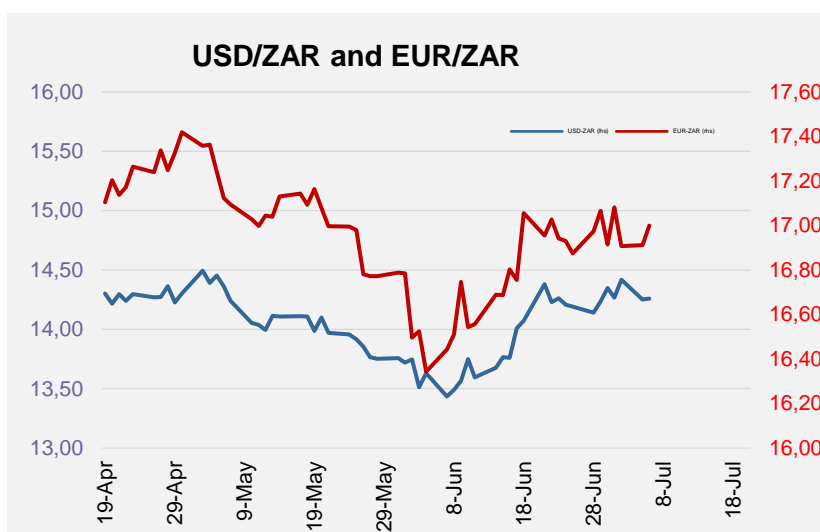
**Analysis:** While manufacturing production in April rose to a record high on a y/y basis, it worth pointing out that greater importance should be given to the monthly print, given the distortion in the y/y reading due to base effects. Manufacturing production contracted in the month of April, suggesting operating conditions in the sector remain challenging. The sector remains hamstrung by challenges such as high input costs, weak demand, a tough business environment, and unstable power supply. With these challenges persisting, prospects of meaningful and sustained rebound are slim.

## RAND UPDATE

Market conditions remained favourable for the ZAR at the end of last week, as the local unit went on to secure its third daily gain against the USD on Friday. Emerging market sentiment was given a broad boost following further easing by the PBoC, where the central bank announced cuts to reserve requirements for Chinese banks. However, along with this are growing concerns that rising infections of mutated COVID-19 strains will impede the global economic recovery.

The ZAR went on to a 0.55% gain against the USD on Friday, closing at the 14.2200/\$-handle, as a series of rulings from domestic High Courts bolstered the South African judicial system and broader reform prospects. In Johannesburg, the High Court dealt a blow to ANC Secretary-General Ace Magashule, as it upheld his suspension from the ruling party. Meanwhile, the Pietermaritzburg High Court ruled against Zuma's application to have his sentence delayed pending today's hearing by the Constitutional Court of the ex-president's application to have his conviction and sentencing reviewed. Although a constructive ruling for the ANC's fight against corruption and misconduct, Zuma's arrest has allegedly sparked widespread unrest over the weekend, with authorities failing to contain violent protests which have disrupted key trade routes around SA's economic hubs.

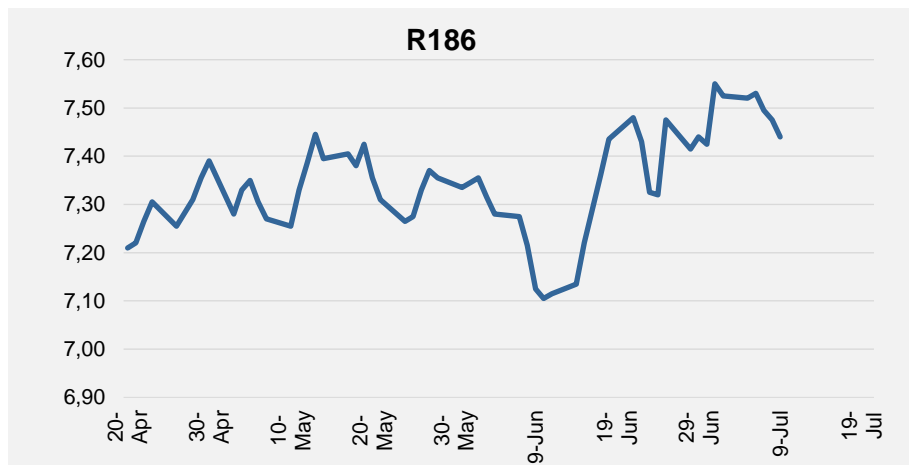
These protests were condemned by President Cyril Ramaphosa last night as he addressed the nation while also announcing an extension of level 4 lockdown restrictions. Ramaphosa also announced some changes to regulations, with restaurants allowed to operate at 50% capacity and gyms to reopen. However, alcohol sales remain prohibited, which will keep pressure on the hospitality industry.



The data card heats up this week with the manufacturing report for May scheduled for today, mining on Tuesday and retail sales on Wednesday. The data will reflect an uneven economic recovery, although base effects will muddy the analysis. May was a month of relative economic openness, with lower economic restrictions due to falling COVID hospital case rates. This suggests that there could be some rebound in the consumption data, while manufacturing may also have ticked up if PMI data is anything to go by. On the other hand, the mining sector is well incentivised to produce more given high commodity prices. While volumes are still well below the sector's heyday, the Quarterly Employment Survey highlighted an increase in hiring and wages in Q1. Relatively stable output is also required to maintain SA's trade surplus. Retail sales seem likely to remain below trend in the coming months. Consumer demand has been weak, hamstrung by a weak jobs market, COVID prohibition of many activities, weak demographic trends, and high tax rates. Durable goods sales have practically stalled, while various retailers have had a collapse in profits in response. Durable goods seller Deon closed its doors for good in 2020.

The data outcomes will hold significance for the SARB rate outlook, given that weak growth dynamics are a core assumption of the soft inflation outlook. Yet, the SARB is likely to remain cautious given that lockdown restrictions suggest that a return to trend output is unlikely. Moreover, any recovery in May's data could also prove short-lived with lockdown regulations tightened in June and July. This is likely to restrict overall economic growth potential and, by extension, keep inflation pressures contained. Therefore, retailers will be mindful of passing through rising input costs. Another knock-on concern for many will be whether tax intake remains supported beyond the recovery relatively to 2020.

The courts will also hear ex-president Zuma's challenge to its ruling that he has been in contempt today. This will be of interest to many, with the politician's Stalingrad tactics seeming to have finally caught up with him. This will deepen Ramaphosa's power base within the ANC. However, the greater risk is that general support for the state is damaged due to the severe economic downturn currently underway in SA.



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