sasfin beyond a bank

The Daily Market

09 December 2021

USD-ZAR	15.7125/15.7371	**GBP-ZAR**	20.9873/21.0113
GBP-USD	1.3211/1.3262	**AUD-USD**	0.7129/0.713
GOLD	$1786.22	**DJI**	44537,00
EUR-ZAR	17.8136/17.8255	**EUR-USD**	1.133/1.1332
USD-JPY	113.66/113.67	**R 186**	7.855%
BRENT	$76.44	**3m JIBAR**	3,867

Events (GMT)

09:00	SA	Current account balance	3Q	R238bn	R342,78bn
09:30	SA	Mining production y/y	Oct		-3,40%
11:00	SA	Manufacturing production n.s.a y/y	Oct	-1,60%	1,30%
13:30	US	Initial jobless claims	Dec 4		222k
15:00	US	Wholesale inventories m/m	Oct F		2,20%
15:00	US	Wholesale sales m/m	Oct		1,10%

Factors on the radar

Omicron – latest

What happened?	While we still await an official response from SA scientists, early indications are that Omicron symptoms are mild. Pfizer has confirmed lower vaccine efficacy
Relevance	High levels of infection with low virulence could mean the beginning of the end of the pandemic
Importance	5/5 (market)
Analysis	Travel bans may well be reversed, pandemic restrictions eased, and economies allowed to enjoy a more festive end of the year, allowing for a strong recovery in risk appetite

DM bond yields

What happened?	Expectations that vaccine boosters will offer protection against the Omicron variant and that its symptoms are mild has given hope that GDP growth will not be derailed
Relevance	Bond yields have nudged higher and reflect the potential for more normalised monetary policy and stronger GDP growth
Importance	3/5 (market, economy)
Analysis	It ultimately comes down to whether governments feel comfortable not imposing further economic restrictions. The UK has already resorted to implementing a "Plan B", but it is far from a full lockdown

Ukraine- Russia tensions

What happened?	In a move that will help de-escalate tensions, US President Biden would not station US troops on the border of Ukraine
Relevance	Tensions in the region will de-escalate, which is something to cheer
Importance	3/5 (economy, markets)
Analysis	Biden will speak to the Ukrainian president today, while Moscow has signalled its willingness to add the US to its peace group

Today's Talking Point

Current Account Balance: Q3

Expected: R238bn

Prior: R343bn

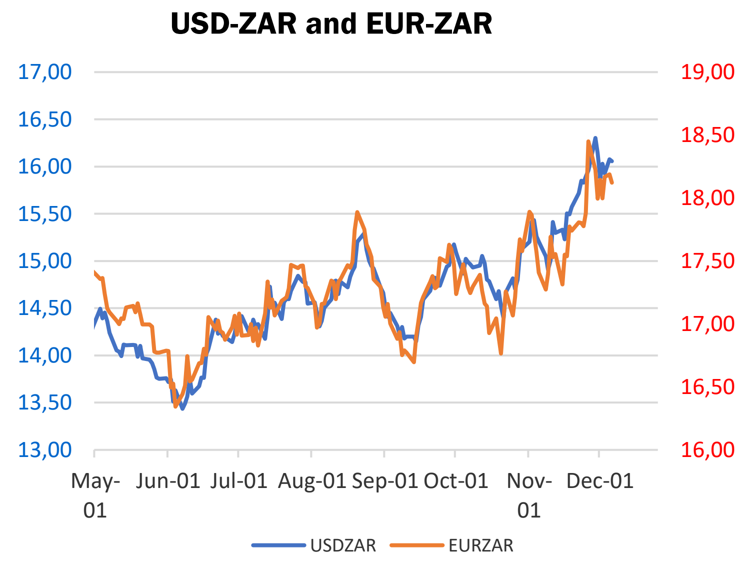
Analysis: The current account surplus widened for the second successive quarter in Q2 to reach a record high of R343bn, mainly driven by the strong terms of trade due to rising commodity prices supporting exports. The strengthened external position remains a key contributor to the ZAR's resilience in the face of shocks. Given the decline in the trade surplus experienced in Q3 and the weakness for assets such as the ZAR and SAGBs, the surplus most likely narrowed fairly sharply in Q3. Expectations according to Bloomberg are for a decline to R238bn. Although this is a large drop from the Q2 numbers, it is still elevated by historical standards.

Rand Update

Depreciation of the trade-weighted USD, coupled with a surge in commodity prices, has translated into a further appreciation of the ZAR without much in the way of significantly positive news for SA to justify it. While one could argue that the early reports and data on the Omicron variant are encouraging in that they reflect only mild symptoms for infected people, an IMF report on SA is a wake-up call to policymakers to focus on reforms and fiscal prudence if growth and employment are ever to be achieved.

The powerful message to the government, was not to waste the opportunity that high commodity prices and benign global financing conditions have generated. The IMF warns that both these supporting factors of the SA economy are cyclical and, therefore, temporary. They have also done very little to assist in tackling unemployment, with the reasons for the joblessness being more structural in nature and reflected in reductions in investment and productivity. THEREFORE, the IMF has joined calls for the government to implement hard-hitting reforms, shrink the role of the government in the economy by removing existing regulatory barriers to the private sector, and to rid itself of maladministered and badly functioning SOEs. What SOEs are supported must be done with reforms that have a chance of succeeding while key network industries of electricity, telecommunications and transportation must be liberalised.

The IMF added that greater flexibility was needed in the labour market, in what will likely prove to be a contentious issue for the trade unions. Furthermore, imposing a debt anchor and debt ceiling to de-politicise deficit spending and hold finance ministers accountable for not adhering to fiscal rules would be a step towards real fiscal consolidation. Finally, the IMF added to the SARB's calls that SA should consider a lower inflation target.

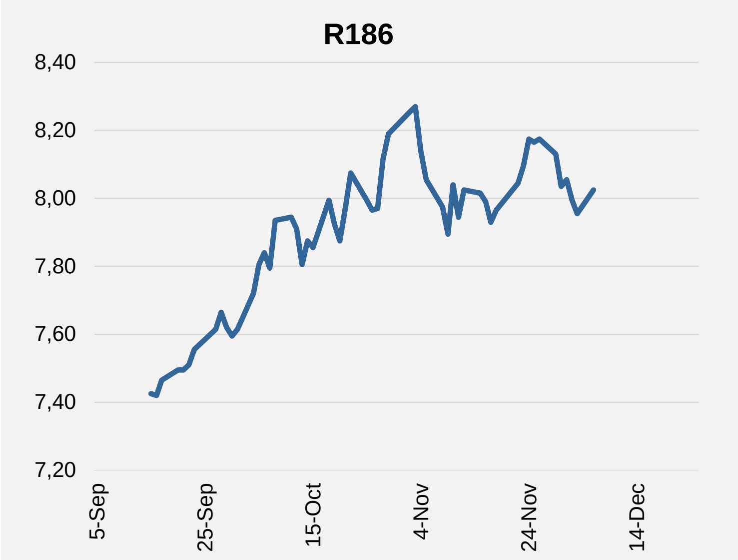


Bond Update

Retail sales were slightly lower in October with a 1.3% m/m contraction noted, while the y/y number has compressed to 1.8% from 2.1% prior, roughly in line with consensus expectations. The inflation- and seasonally-adjusted figure came in a little under R80bn, compared with a pre-COVID trend projection around R83-85bn. Households continue to spend 3-5% less than what was commonplace before the pandemic. By contrast, QLFS data suggest that the total number of employed had shrunk 13% by the end of Q3.

One emerging theme is the potential for renewed downside pressure on sales as special COVID grants end in 2022. Retail sales divided by the number of employed (QLFS) people (sales per capita employed) has risen north of R16k/quarter. This is curiously 9% higher than levels seen at the beginning of 2020. It could be partially buoyed by changing spending patterns, but equally plausible in the context of rising levels of unemployment is that the social grants have supported a buoyed level of demand.

Note that the auditor general offered the bond bulls some reason to pause yesterday. The annual report found that a large percentage of government expenditure remains irregular and outside official processes, with PRASA and the NSFAS the most significant contributors. The final figures are likely to be higher than the R167bn first estimate, with the report still waiting on some R2.14bn worth of incomplete spending reports. Fiscal overrun remains a concern at this stage, given that it would leave many government departments rudderless if taxes undergo a structural deterioration.



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