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The Daily Market
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09 July 2021

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

EVENTS

09:00	SA	ILB auction (R1.40bn)			
06:00	GB	Manufacturing production y/y	May	29,30%	39,70%
06:00	GB	Visible trade balance (GBP)	May		-10958mn
06:00	GB	Total trade balance (GBP)	May		-935mn
14:00	US	Wholesale inventories m/m	May F	1,10%	1,10%
14:00	US	Wholesale sales m/m	May		0,80%

IMF reserves

What happened?	>	IMF Chief Georgieva will present to the IMF board a plan to distribute a $650bn allocation of IMF SDRs to the 190 member countries by the end of August
Relevance	>	It is meant to support countries by boosting liquidity, confidence and resilience and assist growth
Importance	>	3/5 (economy)
Analysis	>	How these funds will be distributed and utilised is still unclear, but governments will likely welcome getting some of their reserves back to utilise in these times of weak growth and confidence

BoC taper

What happened?	>	In what will be one of the first major central banks to do so, market expectations are that the BoC could announce a taper at its 14 July meeting
Relevance	>	Notwithstanding the risk of more variants, the growth dynamics were strong enough to warrant a taper
Importance	>	4/5 (monetary policy)
Analysis	>	Economic data has been good and the need for tapering, reduced. Allowing the economy and government to adjust to a world with less or no QE is deemed a necessary next step

Falling bond yields

What happened?	>	Notwithstanding some solid economic data that points to ongoing recovery, bond yields in many DMs have continued to moderate
Relevance	>	Raises questions about the strength of the reflation trade and whether a risk on episode may arise
Importance	>	4/5 (market)
Analysis	>	It is inconsistent to have bond yields dropping and stock markets surging in an environment of rising inflation. Either the bond market sees growth as unsustainable or inflation as transitory

TODAY'S TALKING POINT

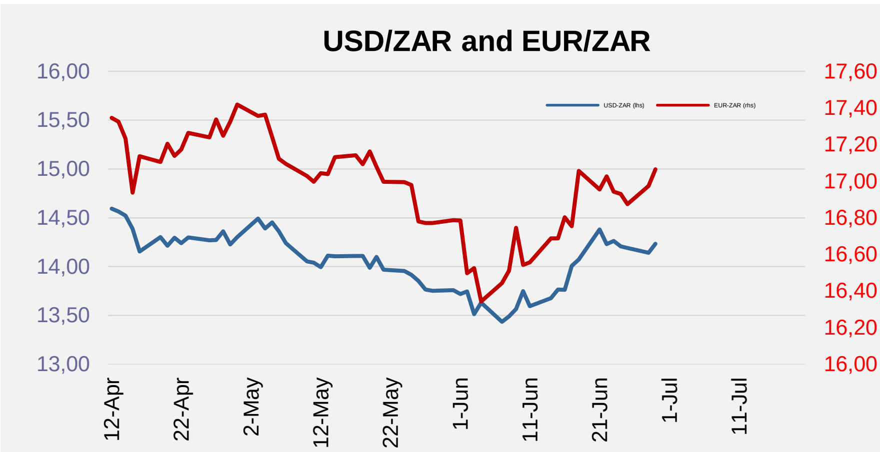
Oil Update

Analysis: Oil is heading for its first weekly loss since May and its largest since April this week as the supply outlook has been clouded by the dispute between OPEC members Saudi Arabia and the UAE, just as rising concerns over the impact of the new delta variant of the virus are hurting demand prospects. The front-month Brent contract is down over 2.75% on the week as a result, while WTI has slipped by more than 3%. A stronger USD has also added some pressure to the market. The drop has come despite yesterday's release of official government data, which showed that crude stockpiles in the US dropped once again, and that demand for fuel was at a record high. US oil inventories are now at their lowest since February 2020, but with such uncertainty now surrounding both the demand and supply outlooks, the environment has become more challenging for oil. We could see the commodity remain on the back foot heading into the weekend as a result.

RAND UPDATE

The USD-ZAR tested the upper part of its current 14.2000-14.4000 range yesterday following Wednesday evening's release of the Fed's June FOMC meeting minutes. While the minutes highlighted risks to growth and the US economy, it ultimately confirmed that Fed asset purchase tapering would likely occur this year and, thus, earlier than originally anticipated. The USD-ZAR currency pair traded to an intraday high of 14.4400, 0.8% weaker on the day, but reversed in afternoon trade, with the greenback coming under pressure alongside falling US Treasury yields. The benchmark 10-year US Treasury fell to an intraday low of 1.25%, whereas it was trading at 1.45% just a week ago. This compounded pressure on the USD, as it secured losses against traditional haven currencies such as the Japanese Yen and Swiss Franc, which were buoyant amid risk-off trade in global equity markets. Resultantly, the USD ended weaker on a trade-weighted basis, with losses sustained against the Euro as well, despite being otherwise firmer against riskier currencies.

While the ZAR is also classified as a risk-sensitive currency, it took its cues from broader dollar sentiment yesterday, ultimately trading a marginal 0.2% stronger to close at the 14.3000/$-handle. On the local front, the slow progress in vaccinations to date has seen COVID-19's resurgence, with excess deaths rising to the highest since January, according to the South African Medical Research Council. Market indecision has been evident in the ZAR's range-bound trade of late, which may suggest the market could be awaiting the dollar's reaction to lower Treasury yields. While the third domestic wave of COVID-19 infections remains a real risk, support for the ZAR has held up resiliently. Nevertheless, a downside bias is likely to remain on the local unit as the country moves through the pandemic's third wave and subsequent waves, should a slow vaccination drive persist.



FRA rates trended lower yesterday, which suggests that a degree of the steepness in the rates curve related to political uncertainty. The move was also well-correlated with Brent crude prices. The risk of a bout of oil-induced inflation pressure is a significant concern at present, with fuel prices at the pump up to R17.23/litre from levels loser to R12.20/litre in response to COVID.

High oil has direct and indirect implications for CPI, which weights fuel prices at 4.58% of the entire basket. The ZAR oil price is up around 45% y/y, thanks to reduced OPEC supply and resurging global demand for oil. This would imply a direct impact closer to 2 percentage points on the headline index. If we were to experience an environment of ZAR weakness or oil price buoyancy, this number could increase, exacerbating the expected spike in inflation through the coming months. The SARB may have to raise its inflation forecast in any case, given that the QPM model assumed an average oil price of $62/barrel for 2021, which compares with current levels of $74.4/bbl.

The only domestic event of the session today will be an ILB auction, with demand volatile in recent months amid a buoyant issuance rate at NT. This week's vanilla bond auction also saw a recovery in demand, which one would expect to support secondary market demand and perhaps also point to a better environment for ILBs today. Yet, there is still a host of uncertainty hanging over SA in general, with municipal ratings downgrades and rating agency warnings about SA's weak fundamentals also making the news this week.