

The Daily Market

Make it your business

21 July 2021

USD-ZAR	14.5538/14.5688	GBP-ZAR	19.8933/19.9173
GBP-USD	1.3667/1.3721	AUD-USD	0.7326/0.7331
GOLD	\$1817.33	DJI	33962,04
EUR-ZAR	17.1612/17.1714	EUR-USD	1.1787/1.1788
USD-JPY	109.47/109.48	R 186	7.535%
BRENT	\$68.73	3m JIBAR	3,692

EVENTS

08:00	SA	CPI y/y	Jun	4,80%	5,20%
O/N	JN	Adjusted merchandise trade balance	Jun	¥17,45bn	¥43,10bn
O/N	JN	BOJ Minutes of June Meeting			
06:00	JN	Machine tool orders y/y	Jun F		96,60%
06:00	GB	Public sector net borrowing	Jun	21,45bn	23,60bn
11:00	US	MBA mortgage applications	Jul 16		16,00%

ECB

- What happened? > The ECB will hold its first policy meeting this week following the announcements made recently regarding its policy strategy review
- Relevance > This meeting will set the tone for the ECB's monetary policy for the foreseeable future
- Importance > 4/5 (monetary policy)
- Analysis > No changes are expected to rates but some guidance will be provided on the PEPP programme which could see it extended or expanded from the Sept meeting

Fed Rate Hikes

- What happened? > This week's market rout has seen as many as four Fed rate hikes priced out of the market, with the first pushed back to March 2023
- Relevance > It's not just in the US with bets on the likes of the BoE hiking also being reduced
- Importance > 4/5 (Monetary policy)
- Analysis > The assumption remains that the economy is still in good shape and thus we could see this move faded once concerns over the delta variant ease

US Infrastructure Bill

- What happened? > The Democrats are looking to begin debate on the bipartisan infrastructure bill but the GOP believes the bill is not ready to be voted on yet
- Relevance > Biden is determined to complete this as it resonates with the electorate and will use his majority
- Importance > 3/5 (fiscal policy)
- Analysis > The Democrats will no doubt face many challenges in pushing for this, but given their Senate majority, it is possible that at best, the Republicans will only be able to offer resistance, not stop it

US Michigan consumer confidence: Jul P

Expected: 86.5

Prior: 85.5

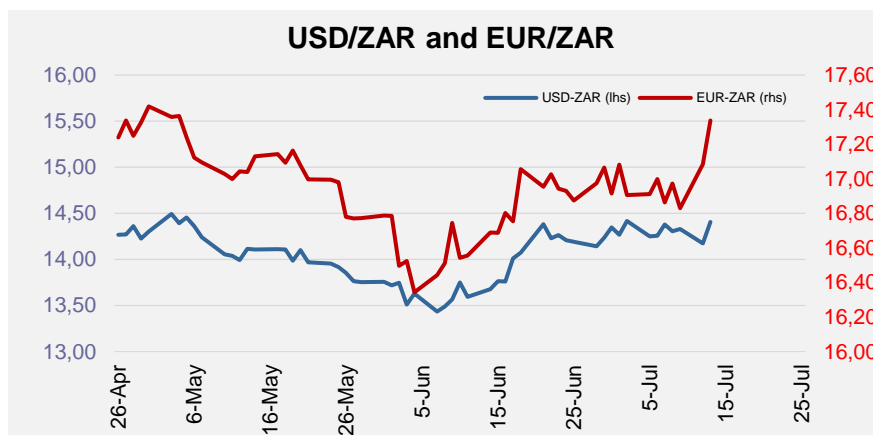
Analysis: US consumer sentiment has gradually improved in recent months, reflected in the US Michigan consumer confidence index rising from 80.7 to 85.5 between December and June. This uptrend is expected to persist in the coming months, as the economy's reopening continues and the tidal wave of monetary and fiscal stimulus filters through into the real economy. That being said, sentiment remains well below pre-pandemic levels, and there is still plenty of uncertainty over the labour market's recovery and the duration of prevailing inflation pressures. Nevertheless, the US economic recovery will likely continue in the months ahead, in no small part due to improving consumption dynamics.

RAND UPDATE

The previous CPI print showed that inflation rose for a third straight month in May, marking 30-month highs and coming in well above the mid-point of the SARB's target range at 5.2% y/y. The move north of 5% was ascribed to base effects and transitory factors, suggesting that we should see inflation start to moderate over the coming months as April and May will have held most of the lockdown-induced suppression of prices in 2020. For the June print, consensus estimates suggest that CPI growth could soften to 4.8% y/y, which would support the idea that inflation pressures are already starting to wane.

Such an outcome would support the idea that the underlying inflationary pressure has been relatively weak despite some supply-side pressure. This we link to the opposing force of low growth, which reduces the pricing power of firms and the income of consumers. Low growth can lead to a substitution effect in consumer demand. The substitution effect occurs where higher prices in one instance result in foregone consumption elsewhere due to limited financial resources. The economic shock of COVID will have enforced an artificial environment of income scarcity for many, leading to lower consumption demand. Scarcity may also be leading to a higher degree of price sensitivity among consumers.

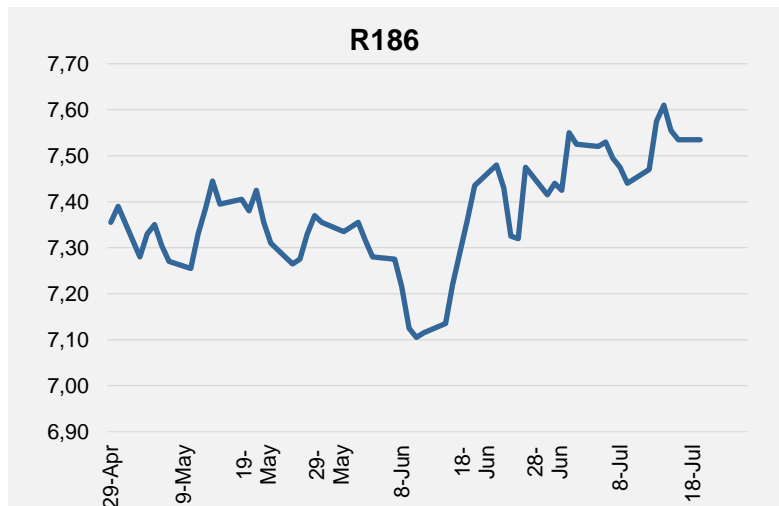
With expectations for a print of 4.8% y/y, which would be down from 5.1% in May, CPI would have not even have breached the upper end of the SARB's target band. While there is a case for building food inflation to exert some upside pressure on the index, other prices, such as owner's equivalent rent, are in outright deflation. Notably, core CPI growth has been benign to suggest that the pass-through from oil inflation into second-round effects remains weak.



An application to postpone the court proceedings until ex-president Zuma can physically appear in court was delivered by Zuma's defence yesterday. Zuma is looking to establish that a virtual hearing would violate his constitutional rights, despite being granted access to lawyers through video and with the right to the physical presence of a lawyer granted by the Estcourt correctional facility. The prosecution has primarily held that the application is yet another move at stalling legal proceedings, with evidence delivered in line with that.

The judge's ruling is scheduled for 10 A.M. SA time (GMT+2). It will primarily rest on whether the Constitution suggests that a court can function in criminal matters with digital representation and still be in line with the Constitution or whether proceedings should only continue when physical presence in court is possible. This will hold implications for the rest of the case and set a precedent over digital hearings. Given recent violent riots by Zuma loyalists and reports by newswires that voice notes are circulating inciting violence on the courts, not to mention COVID, many will believe that it is safer to proceed digitally. The world will be watching when Judge Piet Koen delivers his ruling today. While it appears that order has been restored in KZN and Gauteng, there is a residual risk of political flare-ups when considering that the army is still deployed. Any further deterioration into violence could kick up risk aversion in the financial markets, although ZAR and bonds have been performing remarkably well.

The other event of the session will be a bond auction, with the R2030, R2032 and R2035 all on offer. The R2030 is the current benchmark. It will be interesting to see what investors are willing to pay today with fiscal risks amplified by political disorder and the continued downside pressure on the tax base. The R2032 and R2035 are effectively the next run of benchmark bonds and hold some interest from a rotation perspective. Note that the R2035 has the highest coupon rate at 8.75%. On the data front, the leading indicator will be released today. It is unlikely to be all that market moving given limited relevance amid economic shifts underway since the data for the indicator was collected. We expect it to reflect an improving rate of macroeconomic activity still. Yet in some key sectors such as tourism and restaurant retail, this is not the case. While Woolworths announced yesterday that it was resuming trading in some of its looted stores for instance, it is unlikely that turnover will recover for some time still.



This report is provided by Sasfin Bank Limited and is prepared by ETM Analytics (Pty) Ltd. www.etmanalytics.com

DISCLAIMER: Sasfin Bank Limited ("Sasfin") does not guarantee the accuracy or completeness of its analyses or any information contained herein. Sasfin makes no warranties, expressed or implied, with respect to its analyses or any information contained herein or with respect to the results obtained by any person or entity from the use of its analyses or the information contained herein. In no event shall Sasfin be liable for indirect or incidental, special or consequential damages, regardless of whether such damages were foreseen or unforeseen. Sasfin is hereby indemnified and held harmless from any actions, claims, proceedings or liability with respect to its analyses or the information contained herein. A recipient should be fully aware of the risks involved in trading stock market-related products. All illustrations, forecasts or hypothetical data is for illustrative purposes only and Sasfin does not give any guarantees, warranties or undertakings in this regard. The information contained herein does not constitute an offer, advertisement or solicitation for investment or financial or banking services. The information contained herein has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient and shall in no way be construed to constitute a recommendation or advice in any form.