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The Daily Market
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09 June 2021

USD-ZAR	13.5728/13.5833	**GBP-ZAR**	19.2055/19.2295
GBP-USD	1.4152/1.4209	**AUD-USD**	0.7738/0.774
GOLD	$1893.73	**DJI**	34599,82
EUR-ZAR	16.5313/16.5421	**EUR-USD**	1.2177/1.218
USD-JPY	109.46/109.48	**R 186**	7.275%
BRENT	$72.63	**3m JIBAR**	3,683

EVENTS

09:30	SA	SACCI business confidence	May		94,00
10:00	SA	BER business confidence	2Q		35,00
11:00	US	MBA mortgage applications	Jun 4		-4,00%
14:00	CA	Canada central bank rate decision	Jun 9	0,25%	0,25%
14:00	US	Wholesale inventories m/m	Apr F	0,80%	0,80%
14:00	US	Wholesale sales m/m	Apr		4,60%

China producer prices

What happened?	>	May's PPI rose 9.0% y/y vs a poll of 8.5% and was up 6.8% m/m. This is the fastest rise in 12 years driven by the sharp rise in commodity prices
Relevance	>	This will impact producer profitability and could translate into a correction in global markets
Importance	>	3/5 (economy)
Analysis	>	The rise in inflation is of major concern for central banks and companies alike. It could have a destabilising effect and trigger a response from the authorities that would be growth negative

US Labour market

What happened?	>	Another indication that the labour market in the US is recovering is evident in the Job openings data, which increased 998k to 9.3mn, while voluntary job quits also rose
Relevance	>	The labour market is becoming more dynamic, and workers now have a choice of jobs they can pick
Importance	>	3/5 (economy)
Analysis	>	It implies that the sector's underlying health is improving and that the formal data will gradually improve to reflect same through the months ahead. H2 should see a great improvement

EZ economy

What happened?	>	Eurostat data showed that the EZ economy contracted 0.3% q/q and 1.3% y/y in Q1 vs initial estimates of -0.6% and -1.8%, respectively
Relevance	>	Lockdowns deal the economy a blow, but it proved to be more resilient than initially anticipated
Importance	>	2/5 (economy)
Analysis	>	Although mildly positive, this data is now very historic, and investors will be focused on the improving outlook for the months ahead. The outlook is much brighter given the lifting of restrictions

TODAY'S TALKING POINT

SACCI Business Confidence: May
Expected: -
Prior: 94.0

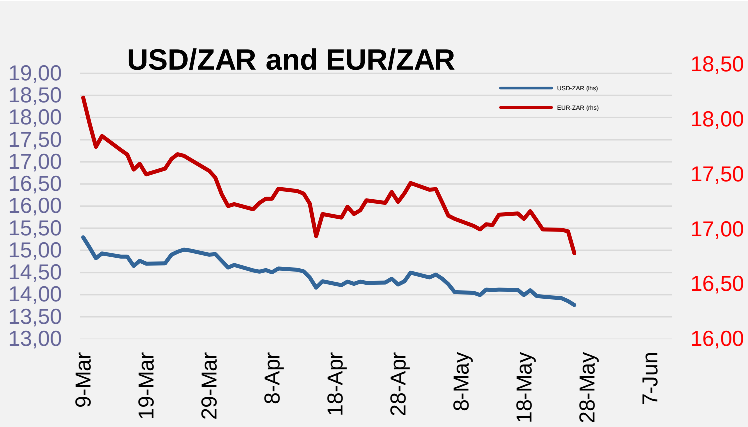
Analysis: The improvement in SACCI's business confidence index stalled in March as it fell to 94.0, its first decline since September. The mood amongst business dipped off the back of the absence of reforms to boost growth, a slow rollout of vaccines, and the return of Loadshedding. It is worth pointing out that business confidence in South Africa remains depressed compared to historical levels and thus economic activity will remain relatively subdued going forward. In its release of the data, SACCI urged the government to prioritise economic growth-enhancing reforms to enlarge its tax base, create jobs in the private sector that reduce reliance on social welfare and ease the strain on public finances. Given the government's lack of urgency in implementing reforms, persistent structural impediments and pressure on the fiscus, business confidence levels are likely to remain subdued going forward.

RAND UPDATE

The ZAR was amongst the biggest losers in the emerging market basket of currencies yesterday as the local unit continued to trade away from 28-month highs reached last week, ultimately succumbing to 0.50% loss, closing at 13.5800/$-handle. This was primarily due to a broadly firmer US dollar ahead of US inflation data due Thursday, which is also a week before the US Fed's June meeting. The ZAR, meanwhile, also shrugged off intraday GDP data which showed stronger-than-expected domestic quarterly GDP growth.

As for the GDP release yesterday, domestic production remained in contractionary territory on an annual basis, declining 3.2% y/y in the first quarter of this year. Quarter-on-quarter growth expectedly remained positive, with the annualised quarterly growth rate coming in at 4.6%. Explicitly, this means that should Q1's performance continue for another three consecutive quarters, one would see annual growth of 4.6%. However, as productivity rises towards pre-pandemic levels, the pace of growth should slow. The last quarter of 2020 experienced annualised q/q growth of 5.8%, signalling a continued slowing down of the recovery trend. Furthermore, progress towards pre-pandemic levels of GDP will see SA's structural challenges come to the fore once again, diminishing potential economic growth.

On a positive note, expenditure by households rose during the quarter and is a sign of normalising spending patterns. This should see demand-side inflationary pressures begin to increase. Still, with weak investment levels, growth may ultimately prove hard to sustain unless there is a substantial increase in business confidence levels.



Demand for SAGBs picked up at the auction yesterday, with total bids rebounding to R17.25bn from a very weak R12.825bn the week prior. The R2032, which was higher in coupon than the R213 yet lower in maturity than the R2035, was in favour. Total demand came in at R6.65bn for R1.3bn in issuance. The R213 and R2035 saw roughly equivalent bidding interest of R5.3bn a piece. The higher demand generated a total cover ratio of 4.4x, which compares with 3.3x the previous week. The 4.4x cover ratio was well above the YTD average of 3.2x and suggests that investor demand is generally improving regardless of well-telegraphed fiscal risks. With foreign investors seemingly favouring higher coupon bonds when looking at the flows data, it seems as though shorter-term cash management strategies are being deployed.

All this to say that investor demand is recovering, although for how long is an open question. The risk of Fed hikes is starting to enter the equation as US inflationary pressures start to emerge. One can link this to persistently-loose offshore policy, which will be SAGB supportive insofar as tapering is priced in. Structural disinflationary factors are the domestic macro story, reflected in an appreciating currency and a low growth outlook. This should help contain yields.

SAGBs have outperformed the All-Share Index since the end of March. The ALBI index has risen 7.5% quarter-to-date, while the JSE All-Share index has struggled by comparison with a 1.6% gain. A look at the stocks that make up the Alsi suggests that a K-shaped recovery is taking place, characterised by some counters gaining while others are under pressure. This will be driving divergence within the stock market, with much of corporate SA expecting lower earnings for some time. Note that foreign investors were net sellers of stocks in May, according to JSE data.