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The Daily Market
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19 July 2021

USD-ZAR	14,4406/14,4575	**GBP-ZAR**	19,8648/19,8888
GBP-USD	1,3757/1,3808	**AUD-USD**	0,7386/0,7388
GOLD	$1812,9	**DJI**	34687,85
EUR-ZAR	17,0547/17,065	**EUR-USD**	1,1808/1,1811
USD-JPY	109,92/109,94	**R 186**	7,535%
BRENT	$72,9	**3m JIBAR**	3,692

EVENTS

O/N	GB	Rightmove house prices y/y	Jul		5,10%
09:00	EZ	Construction output wda y/y	May		42,30%
10:00	UK	BOE's Jonathan Haskel speaks on scarring to economy			
14:00	US	NAHB Housing market index	Jul	82,00	81,00

FACTORS ON THE RADAR

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

EM Political Risk

What happened?	>	Recent protests in South Africa have brought political risk in emerging markets back onto the investment radar
Relevance	>	Rising political risk will expose the vulnerabilities of EM assets
Importance	>	4/5 (economy/ risk sentiment)
Analysis	>	The political and economic impact of the pandemic is manifesting and the emerging market political sphere is becoming more fragile

UK Reopening

What happened?	>	The UK economy will be fully reopened this week with all COVID restrictions being lifted from today as the country will learn to live with virus
Relevance	>	The UK is the first to reopen fully and will provide a template for the rest of the world to follow
Importance	>	3/5 (economy)
Analysis	>	Despite rising COVID cases, PM Johnson is pushing ahead with reopening the economy which could see it outperform many of its peers through the months ahead

TODAY'S TALKING POINT

US Michigan consumer confidence: Jul P
Expected: 86.5
Prior: 85.5

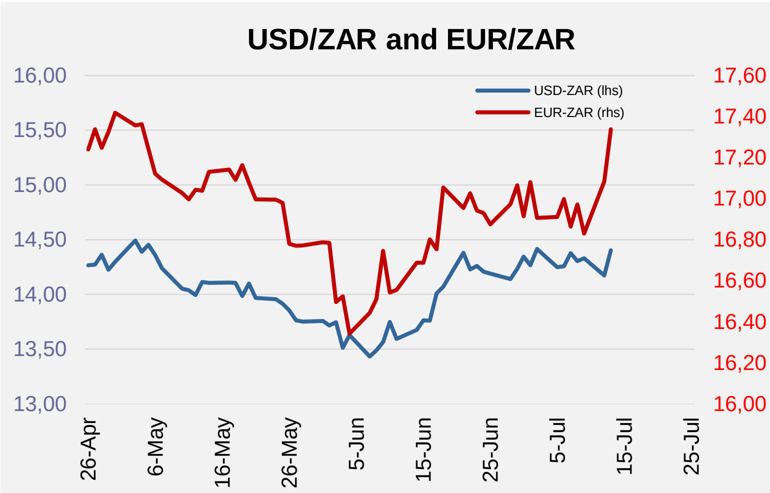
Analysis: US consumer sentiment has gradually improved in recent months, reflected in the US Michigan consumer confidence index rising from 80.7 to 85.5 between December and June. This uptrend is expected to persist in the coming months, as the economy's reopening continues and the tidal wave of monetary 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 ZAR recouped part of its weekly loss on Friday as it clawed its way back from three- and half-month lows against the US dollar hit earlier in the week. Friday saw signs of recovering sentiment for a few emerging market currencies as assurances from Fed Chairman Jerome Powell's testimony that US monetary policy will remain accommodative bolstered some higher beta assets. Nevertheless, the USD was broadly firmer on the day as markets remained nervous over rising infections of the Delta COVID-19 variant. At the same time, US retail sales figures came out stronger than expected to give the greenback a tailwind into the weekend.

The ZAR managed to snap broader market moves on Friday but remained 1.5% down week-on-week despite Friday's 1% appreciation, as it closed at 14.4300/$. While part of last week's short, riot-fuelled move may be undone, the ZAR's nature as a higher beta asset will likely remain front and centre in the market's psyche, with the implications that we see investors paring back positions in South African assets. Meanwhile, political risk remains rife, and a further hit to the domestic economy would keep inflation and rate hike expectations on the backburner.

On the latter note, focus this week turns to domestic monetary policy with the SARB's rate announcement scheduled for Thursday. Given the weak domestic economic backdrop, the introduction of lockdown restrictions since the last MPC meeting, and now the recent disruption and destruction of supply chains and businesses, this will give the SARB more than enough justification in maintaining current policy for the remainder of the year.



The week ahead will feature the release of the May leading indicator, June CPI report and a SARB interest rate decision. President Zuma will also face trials. Stalingrad tactics could be employed, as has been the case since 2005. As mentioned in prior notes, the information capacity of macro data is now limited following the watershed moment of widescale looting and attacks on business last week. Total damage is estimated in the tens of billions of rands, while the emergent uncertainty could further support savings rates, thereby reducing overall demand in the real economy. As business investment was already structurally declining, this could have lasting ramifications for many years.

The SARB assessment of how the social unrest could affect inflation will be of interest, with food inflation a major concern amid falling aggregate supply levels. Supply-driven inflation is not the kind of inflation that a fiat central bank must hike into as it will likely be transitory, while impotent growth pressures reduce second-round inflation potential in any case. Even sharply higher fuel and electricity prices have not been filtering through in the core CPI figures, with core price growth at just 3.1% y/y at the last print. All this to say that the chances are high that the SARB keeps the repo rate unchanged at 3.50%. With growth pressures likely to take a knock, the SARB could hold off on rate hikes for some time still. Perhaps even into next year, barring a ZAR and bond market crisis.

Some ramifications of COVID and the social upheaval were dealt on Friday. Moody's downgraded some of South Africa's municipalities deeper into junk status regardless of prior finances. "The rating downgrades reflect rising liquidity pressure as a result of material shortfalls in revenue collection, that Moody's expects to last, in the context of weak growth. SA regional and local governments are likely to draw down on cash buffers, with different starting positions, eroding their capacity to absorb future shocks," said the agency. Note that an in-depth assessment will be forthcoming soon, and some municipalities have already pushed back against the analysis.