

The Daily Market

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07 June 2021

USD-ZAR	13.4089/13.4239	GBP-ZAR	18.9688/18.9928
GBP-USD	1.4146/1.4197	AUD-USD	0.7737/0.7742
GOLD	\$1885.62	DJI	34756,39
EUR-ZAR	16.3203/16.3284	EUR-USD	1.2166/1.217
USD-JPY	109.42/109.44	R 186	7.315%
BRENT	\$71.57	3m JIBAR	3,683

EVENTS

6:00	SA	Net reserves	May	\$51,50bn
-	CH	Trade balance (USD)	May	\$50,5bn \$42,85bn
05:00	JN	Leading index	Apr P	102,90 102,50
06:00	GE	Factory orders y/y	Apr	27,80%
08:30	EZ	Sentix investor confidence index	Jun	25,00 21,00
14:00	UK	BOE's Breeden Speaks on Greening the Financial System		

G7 tax reforms

- What happened? > G-7 nations reached a historic deal on a global minimum corporate tax of at least 15%, as the authorities try to tap into the tax revenue potential of the world's largest companies
- Relevance > It is no coincidence that the tax changes are announced now when most countries are struggling with high levels of debt
- Importance > 3/5 (economy, politics)
- Analysis > The lockdowns destroyed the public coffers just as they did private business. As a result, there has been a significant build-up of debt, and governments will be looking into all avenues of tax revenues to turn the fiscus sustainable

Italy rating

- What happened? > Fitch affirmed Italy's credit rating at BBB-, just one notch above junk, although warned that very high government debt and a structurally weak economy weigh
- Relevance > It is looking increasingly likely that Italy will slip into junk territory in the coming years
- Importance > 4/5 (economy, fiscal policy)
- Analysis > Italy's fragmented political landscape has meant that clear consensus on reforms has been absent. As a result, a slip into junk is inevitable and will require the ECB to backstop the govt.

Chinese imports

- What happened? > Chinese imports have grown at the fastest pace in a decade, fuelled by surging commodity prices, while exports grew rapidly, but by less than expected
- Relevance > The combination suggests that the global economy and supply chains are recovering
- Importance > 4/5 (economy)
- Analysis > H2 2021 is shaping up to be a vastly improved economic period that will be assisted by the reopening of economies that have made strong progress in their vaccination drives

TODAY'S TALKING POINT

Net reserves: May
Expected: \$51.92bn
Prior: \$51.50bn

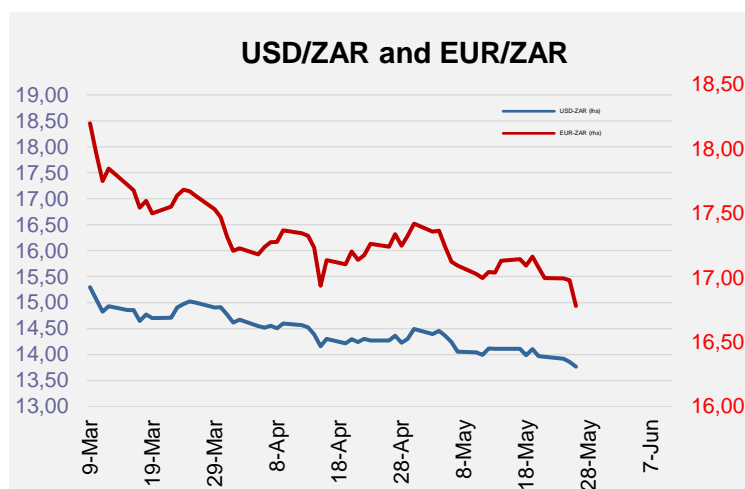
Analysis: SA's gross and net reserves stabilised in April after declining in previous months. Even at its current levels, the reserve position remains above its long-term trend and remains fairly strong, supporting the ZAR from external shocks. With the SARB not actively building reserves, changes in reserves remain a function of the foreign exchange rate and the oscillations in the price of gold. The sharp fall in gold last month suggest that SARB's overall reserve position likely weakened during May, potentially resuming its trend of declining reserves.

RAND UPDATE

The ZAR entered the weekend on a solid note, primarily due to US dollar losses on Friday following May's US labour market report. The USD had initially traded on the front foot after private payroll data released the previous day showed strong hiring took place in May but rapidly dipped after the nonfarm payrolls print came out weaker than expected.

Although the unemployment rate dropped and 559k jobs were added to the US economy last month, accelerating from April's disappointing employment figures, this was more than 100k less than average surveyed expectations. As for the USD-ZAR, the currency pair dipped 1.55% on Friday to close at 13.4300. In addition, the ZAR remained a top emerging market currency performer over last week as it took advantage of dollar weakness to the sound of 2.50%. While recent data may be spurring on more dollar weakness, given that it points to the Fed not being much closer to reducing monetary policy support, that the ZAR has outperformed in light of this suggests a correction may be due in the coming months as tapering talks become more mainstream amongst Fed officials.

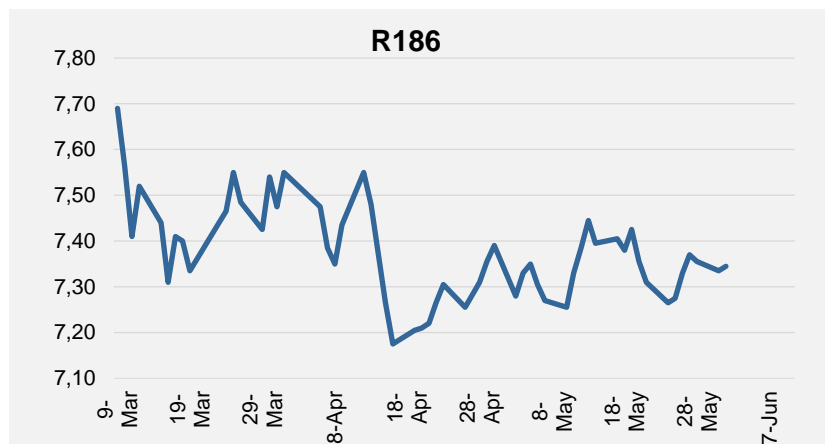
In the spot markets presently, the USD-ZAR has hovered near last week's low of 13.4100 during a mixed-sentiment Asian trading session. The morning ahead sees the release of SARB reserve data, which the market will likely overlook ahead of first quarter GDP results scheduled for tomorrow. While domestic data picks up later in the week, so will the external data card, with the ECB deciding policy rates on Thursday ahead of US inflation data.



This week's data card will hold cyclical information, with Q1 GDP, SACCI and BER business confidence indices, the current account and mining and manufacturing all up for release. Generally, weak growth has been the surprise in most cases, although various leading indicators seem to be pointing to a pickup in activity. With the government dragging its feet on reform, however, growth is likely to remain subdued and below potential for some time still.

Economic activity in the first quarter of the year is estimated to have continued its recovery but remained below pre-pandemic growth levels due to Covid-related shocks and the reintroduction of coronavirus restrictions. However, for the recovery to continue at a significant pace going forward, we will need to see increased investment levels, the swift implementation of reforms and a declining unemployment rate. While the more permanent impacts of the lockdowns will linger, failure to address SA's structural challenges will see the weak growth dynamics persist this year.

Current account data will also hold significance for the ZAR and, by extension, the rates cycle. SA managed to record an annual surplus for the first time in almost two decades in 2020 as the economy's contraction suppressed import demand. Moreover, the trade account remains near a record high as exports continue to be supported by high commodity prices while imports continue to be subdued amid the weak economic recovery. With these dynamics set to remain in place, at least in the near term, SA's trade account and, by extension, the current account will remain supported and thus underpin the ZAR's resilience.



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