sasfin beyond a bank

The Daily Market

21 February 2023

USD-ZAR	18,1138/18,1273	**USD-JPY**	134,4/134,41
GBP-ZAR	21,778/21,802	**GOLD**	$1837,73
EUR-ZAR	19,3273/19,3424	**BRENT**	$83,03
GBP-USD	1,2024/1,2078	**DJI**	33 826,69
EUR-USD	1,0669/1,0672	**R 186**	8,58%
AUD-USD	0,6894/0,6896	**3m JIBAR**	7,450

Events (GMT)

Time	Country	Event	Month	Fc	Prior
07:00	SA	Leading Indicator	Dec		123.1
09:00	SA	Vanilla auction (R3.9bn R2032, R2035 and R2040)			
09:00	EZ	S&P Global/BME manufacturing PMI	Feb P	49.4	48.8
14:45	US	S&P Global PMI manufacturing	Feb P	47	46.9
14:45	US	S&P Global services PMI	Feb P	46.9	46.8
15:00	US	Existing home sales	Jan	4.11mn	4.02mn

Factors on the radar

Global PMIs

What happened?	Flash PMIs scheduled for release out of the world's major economies on Tuesday will provide a further read on global growth momentum at the start of the year
Relevance	Amid warnings of a broad-based global downturn, the PMIs will provide some jurisdictional nuance
Importance	4/5 (economy)
Analysis	Recent PMI data suggest that the US and UK economies are losing momentum, while the Eurozone economy still has some legs; accordingly, the ECB may have further scope for rate hikes than its peers

Fed meeting minutes

What happened?	The minutes of the Fed's February policy meeting will provide insights into just how strong a dovish impulse existed within the central bank prior to the recent flurry of strong economic and inflationary data
Relevance	With uncertainty around the Fed's policy outlook rising, the minutes may hold insights into the central bank's thinking
Importance	5/5 (monetary policy)
Analysis	Since recent economic data out of the US suggest that the Fed could have opted for a larger rate hike in February, the justification for the 25bp rate hike as presented in the minutes will be particularly interesting

US PCE inflation

What happened?	The PCE deflator, which is the Fed's preferred inflation gauge, is expected to confirm what was seen in recent CPI and PPI data: that inflation in the US accelerated in January
Relevance	The PCE data will confirm that robust income and spending growth powered inflation in January, which would concern the Fed
Importance	5/5 (inflation, monetary policy)
Analysis	Rising price pressures suggest there is not yet any reason for the Fed to turn less hawkish, meaning the USD will likely remain supported while broader market sentiment may also continue to be relatively subdued

Today's Talking Point

Leading Indicator: Dec

Expected:

Prior: 123.1

Analysis: The leading indicator is designed to gauge future economic conditions. It's reliability in this role came into question during hard lockdown when statistical disruptions saw it jump enormously. Regardless a gradual deterioration of the leading indicator most recently ties in better with our own leading indicator of business conditions. With the leading indicator pointing towards bleak economic conditions, businesses will face difficult operating conditions, dragging output levels down and leading to weaker overall South African growth. This ongoing fallback likely continued into December and the will do so over the coming months ahead as domestic failures such as power outages, and global headwinds weaken South Africa's macroeconomic backdrop.

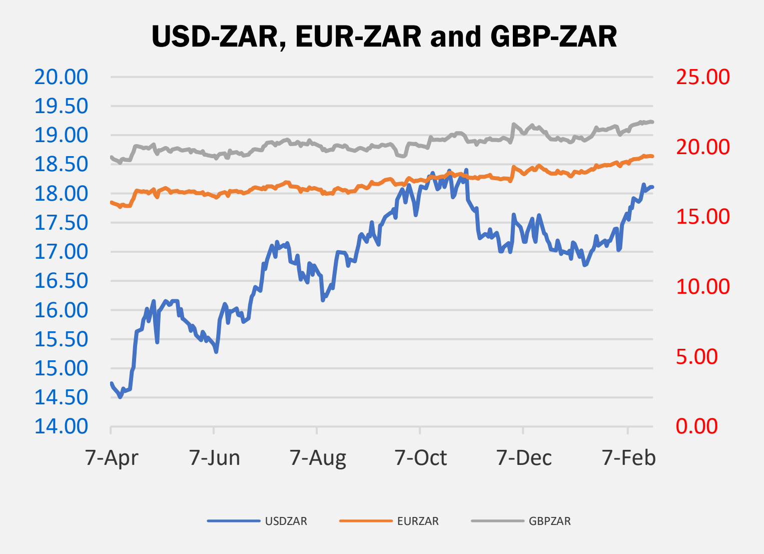
Rand Update

The ZAR started the new week off on the back foot, with cautious sentiment and event risk ahead of this week's budget speech prompting a rotation out of the local unit. The move was mostly consolidatory, however, with the ZAR retreating only marginally to R18.1000/$, after trading in a range of R18.0000/$-18.1500/$ throughout the session. The market is unlikely to provide SA Inc. with the benefit of the doubt heading into the budget, which is understandable given the Herculean challenge facing Finance Minister Godongwana. Add to that the Public Servants Association's threat of a strike if state workers aren't given an above-inflation wage increase of 12.5%, and investor optics are further muddied to the detriment of the ZAR.

Some of the focus will shift to PMI data releases from across the globe today, which will provide a fresh read on global growth momentum at the start of the year. Amid persistent warnings of a broad-based global downturn, the PMIs will provide some jurisdictional nuance. Recent economic data suggest that the US and UK economies are losing momentum, while the Eurozone economy still has some legs. Accordingly, the ECB may have more scope to tighten monetary policy than the likes of the BoE and the Fed through the months ahead, which could weigh on the USD's overall attractiveness going forward.

While this might help the ZAR recover some ground against the USD, it is worth noting that tightening financing conditions globally tend to detract from relatively higher-risk assets. With capital availability in the global financial system declining as monetary conditions tighten, investors turn more judicious over where they invest. Given SA's structural risks, this suggests that the ZAR may continue to struggle for traction over the near term until the forward-looking market begins to look through the looming global economic downturn towards major central banks' eventual responses. However, this might only occur when labour markets across the globe begin to tighten, and inflation declines further.

The USD-ZAR remains rangebound as the market struggles to garner sufficient impetus to break higher. The pair is, however, trading with a topside tilt at the moment, as rising US Treasury yields are weighing on the market's risk appetite more broadly. While the PMI data scheduled for release today may provide the market with some directional cues, it will more likely wait for the Fed's meeting minutes and US PCE inflation data, and, of course, SA's budget speech, for fresh directional impetus. Accordingly, some consolidation may be on the cards for today, with volatility set to pick up from tomorrow.

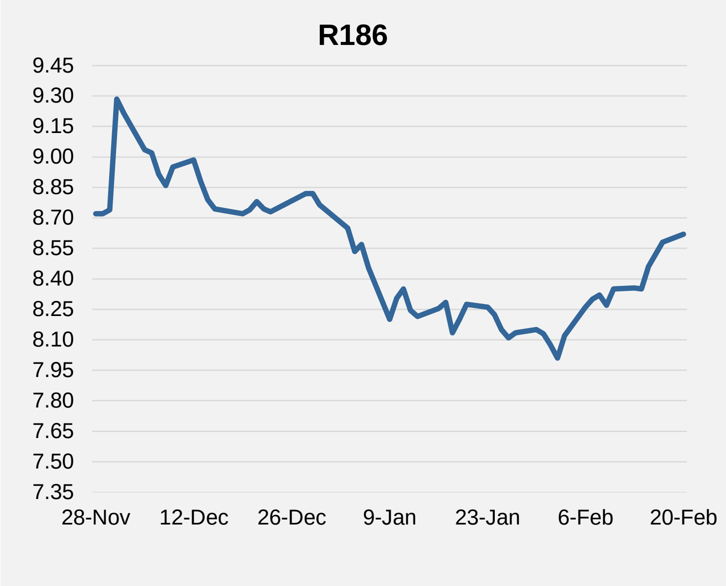


Bond Update

Bonds/Yield Curve: Bonds are on the defensive this morning. They have been for the past two weeks for a good reason. There has been very little detail on how National Treasury plans to handle Eskom's financial position. There is plenty of talk of "the great balance sheet roll-up", but no details have been released. This has kept investors on the defensive, speculating on how much debt National Treasury will absorb and the impact this will have on the country's credit rating. As it is, SA needs to offer extremely high yields to lure investors. How the government handles Eskom in this budget could determine whether even more risk must be priced in. The real attraction of SA bonds will only become clear if the government handles Eskom deftly and investors turn their focus back on inflation and the slowing business cycle.

FRAs: FRAs have turned dramatically in recent weeks. They have moved from pricing in rate cuts by year-end to pricing in one more rate hike and the real possibility of another two. When uncertainty flourishes, so do risk premia, which is reflected in higher interest rates. It is singularly the best barometer for how a country is run. Well-run countries generate low interest rates, but the opposite also holds true. The weaker ZAR and sell-off in bonds is a function of poor sentiment towards SA, and the country pays lenders more. If there was ever a reminder that this government needs to default to prudent fiscal policy, FRA rates, alongside bond yields, and the ZAR have reminded them why this is.

Repo: As anticipated, the SARB hiked by 25bp. It ensured that any compression of the spread between SA and the US would not impact the ZAR severely. The Fed's latest move to hike by only 25bp reflects this, although the ECB and the BoE did move by bolder 50bp increments. Looking forward, this may be the last hike in this tightening phase if inflation surprises the downside and the ZAR continues to appreciate vs the USD. At worst, there may be one last 25bp rate hike left, but that is less likely now that load-shedding has curtailed domestic demand conditions.



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