sasfin | Forex
beyond a bank

The Daily Market

Make it your business

02 July 2021

USD-ZAR	14.4735/14.4855	**GBP-ZAR**	19.9299/19.9539
GBP-USD	1.3772/1.3824	**AUD-USD**	0.7467/0.7469
GOLD	$1778.09	**DJI**	34633,53
EUR-ZAR	17.1476/17.1575	**EUR-USD**	1.1846/1.1849
USD-JPY	111.56/111.58	**R 186**	7.425%
BRENT	$75.8	**3m JIBAR**	3,692

EVENTS

09:00	SA	ILB auction (R1.40bn)			
12:30	US	Change in nonfarm payrolls	Jun	695k	559k
12:30	US	Trade balance	May	$-70,90bn	$-68,90bn
12:30	US	Unemployment rate	Jun	5,70%	5,80%
14:00	US	Durable goods orders m/m	May F		2,30%
14:00	US	Factory orders	May	1,30%	-0,60%

FACTORS ON THE RADAR

China's unification

What happened?	>	China's President Xi Jinping pledged complete unification with Taiwan, drawing a strong response from the self-ruled island
Relevance	>	The comments and any action in that regard will likely draw strong international criticism
Importance	>	2/5 (geopolitics)
Analysis	>	For Xi Jinping, his ambition is to unify China and made it clear that he will not take direction or guidance from any Western powers. Taiwan is determined to defend its sovereignty

BoE speak

What happened?	>	BoE Governor Bailey emphasised that it was important not to overreact to a rise in inflation that the central bank felt would be temporary
Relevance	>	Bailey was making a case for why it would be justified for the BoE to keep policy steady
Importance	>	3/5 (central bank)
Analysis	>	That being said, Bailey was also quick to point out that if inflationary pressures did build-up, that the central bank would not hesitate to respond and contain inflation expectations

US labour market

What happened?	>	The ADP data posted a solid increase, followed by improved weekly jobless claims figures yesterday. Expectations for the payrolls data today are high
Relevance	>	Investors will look for signs the recovery is gaining momentum and that the Fed may need to respond
Importance	>	4/5 (economy)
Analysis	>	As unemployment insurance payments come to an end, workers will do what they can to find employment, and this data should therefore result in a strong pickup in the employment stats

TODAY'S TALKING POINT

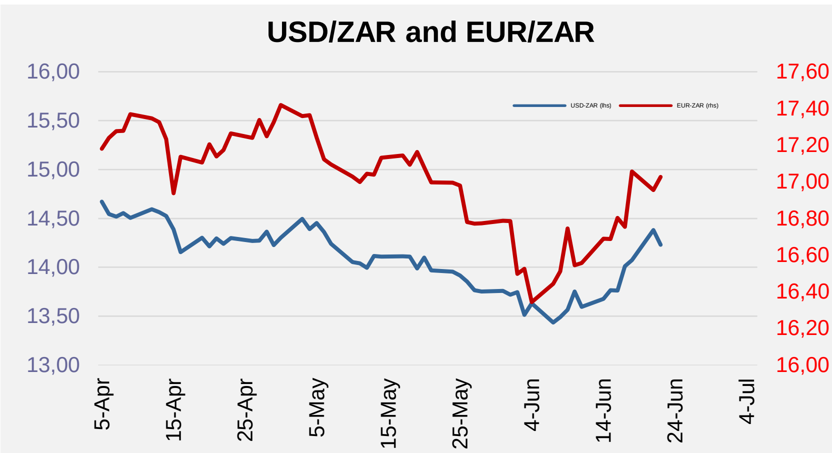
US Change in nonfarm payrolls: Jun
Expected: 700k
Prior: 559k

Analysis: Given the sensitivity of financial markets to inflation dynamics at the moment, although last week's PCE Core miss has alleviated concerns somewhat, the June US job report will undoubtedly be eyed closely this week. The nonfarm payrolls will be key in determining inflation expectations going forward. While recent labour market data has disappointed, helping to quell inflation fears to some degree, inflation concerns remain elevated, underpinned by expectations for a further recovery in the jobs market in the months ahead. Assumptions for a solid recovery in the labour market are supported by vaccinations, a reopening economy, and another massive fiscal stimulus package. Although inflation risks remain elevated, we remain of the view that the Fed is unlikely to budge from its current ultra-accommodative policy stance until at least the latter part of 2022.

RAND UPDATE

The EM currency basket showed mixed performances through yesterday as broader risk-on moves were limited ahead of the official US jobs report scheduled for later today. However, a late afternoon surge from the dollar saw most emerging market and major currencies end domestic hours in the red. It was no surprise that the ZAR swung between gains and losses through the day, given its reputation as a bellwether for EM sentiment. After sticking to a narrow trading range around the 14.3000/$-handle for most of the day, the local currency ultimately sold off to close near 14.4300/$ as traders backed the US dollar and a potentially stronger than expected US non-farm payrolls print.

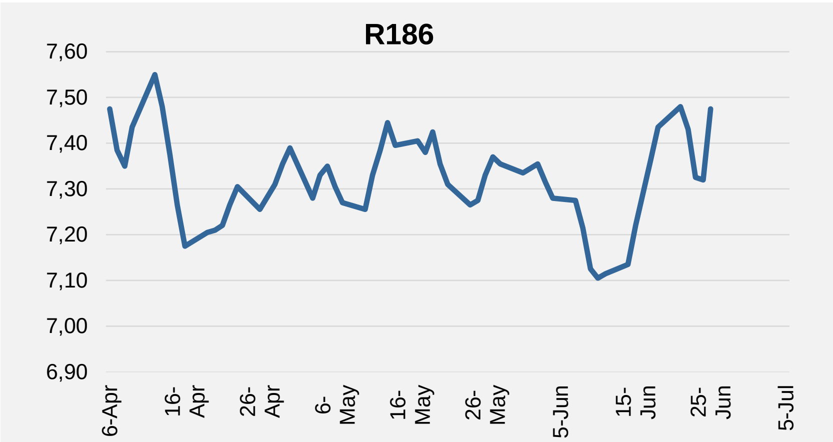
With yesterday concluding the heavy domestic data week, the ZAR is likely to trade at the mercy of broader sentiment as we head into the weekend. In the spot markets currently, EM currencies have continued to trade weaker against the USD, with the greenback remaining firm ahead of the US non-farm payrolls print scheduled for later in the day. The ZAR is currently trading amongst the weakest in the EM sample of currencies, with yesterday's 0.75% decline seeing the USD-ZAR break above its 100-day moving average for the first time since late March, spurring further weakness in early morning trade.



NAAMSA vehicle sales data was released yesterday, with the headline total of 38,033 vehicles sold, which marked a 20.2% y/y increase. While this does suggest that demand is recovering relative to the collapse seen in lockdown, the total was still around 6% lower than the pre-lockdown trend. Linear estimation suggests that roughly 630k vehicles would have sold from March 2020 to June 2021, or approximately 42k vehicles per month. The actual data show that just 492.6k vehicles were sold over the period. This suggests that there has been a 22% suppression in overall sales, or a cumulative loss of around 140k vehicle sales since April last year. Not all that surprising, given less reason to drive thanks to lockdown.

Below trend vehicle sales, weak retail sales, low credit growth and a weak business environment feed into the view that economic actors are still relatively uncertain about the future, with consumptive demand therefore likely to remain weak. The BER consumer confidence survey corroborates an outlook for softer demand in coming months, too, as could be expected, with many question marks hanging over the future of SA. The SARB quarterly bulletin included data reflecting net savings by households at R22.4bn in Q1, also a marker of uncertainty. As a percentage of household disposable income, this represents the highest level since Q4 2004. The trend has been building since lockdown was announced but is more likely to be driven by a weak jobs market than actual lockdown. And the jobs market could remain weak after lockdown.

This should contain inflation potential and reduce the likelihood that we see the SARB erring on the side of aggressive rate hikes. With that said, some attention should be paid to the theme of potentially changing the inflation target at the SARB. Governor Kganyago was quoted saying that a lower inflation target could be a prudent development for the SA economy over the coming years. Kganyago argued that the 3-6% target could be reduced to 2-4%, which would bias SARB rates higher given a medium-term view for inflation to sit around the 4.5% mid-point of the SARB target band in coming years. SARB Deputy Governor Kuben Naidoo has since pushed back against speculation that this could be forward guidance, saying no talks are underway about changing the target band. This is an emerging theme that will no doubt be unpacked in forthcoming engagements between the SARB and the public.



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.