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The Daily Market

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13 July 2021

USD-ZAR	14.38/14.3972	**GBP-ZAR**	19.9814/20.0054
GBP-USD	1.3896/1.3947	**AUD-USD**	0.749/0.7492
GOLD	$1809.76	**DJI**	34996,18
EUR-ZAR	17.0675/17.0764	**EUR-USD**	1.1863/1.1864
USD-JPY	110.41/110.44	**R 186**	7.44%
BRENT	$75.37	**3m JIBAR**	3,692

EVENTS

09:00	SA	Bond auction (R3,900mn of 2035, 2037, 2048)			
09:30	SA	Mining production y/y	May	45,75%	116,50%
06:00	GE	CPI y/y	Jun F	2,30%	2,30%
12:30	US	CPI y/y	Jun	4,90%	5,00%
12:30	US	Real ave weekly earnings y/y	Jun		-2,20%
16:00	US	Fed Hosts Event on Racism and the Economy			

FACTORS ON THE RADAR

Global tax deal

What happened?	>	US Treasury Secretary Yellen has urged the EU to back a global tax deal and consider more fiscal support through 2022
Relevance	>	The objective remains to raise more tax revenue to help pay for the stimulus
Importance	>	3/5 (economy)
Analysis	>	Key to it all is the need to continue the fiscal support without relying on personal income tax for the tax revenues, to help households recover

US infrastructure bill

What happened?	>	The Senate reopened after a two-week recess, with Schumer confirming that progress was being made on passing the $1.2trln bipartisan package, and there was more to come
Relevance	>	Prospects of more stimulus for the US economy look good, although it is unclear how big the longer-term burden will be
Importance	>	4/5 (fiscal policy)
Analysis	>	The Republicans will be baulking at how this will all be paid for, and while they may agree to the original bi-partisan deal, they will likely force the Republicans to utilise their majority to pass any more

US inflation

What happened?	>	The start of the week will see the latest inflation data released out of the US. Given its significance in monetary policy it will have strong market moving potential
Relevance	>	Any upside surprise beyond the 5.0% y/y may spark concerns about the Fed's future policy stance
Importance	>	4/5 (economy)
Analysis	>	Inflation is a major concern. A weaker USD, rising commodity prices and a very strong credit cycle have boosted price pressures. Inflation outcomes will guide the Fed to taper sooner than expected

TODAY'S TALKING POINT

Mining production m/m: May
Expected: 0.4%
Prior: 0.3%

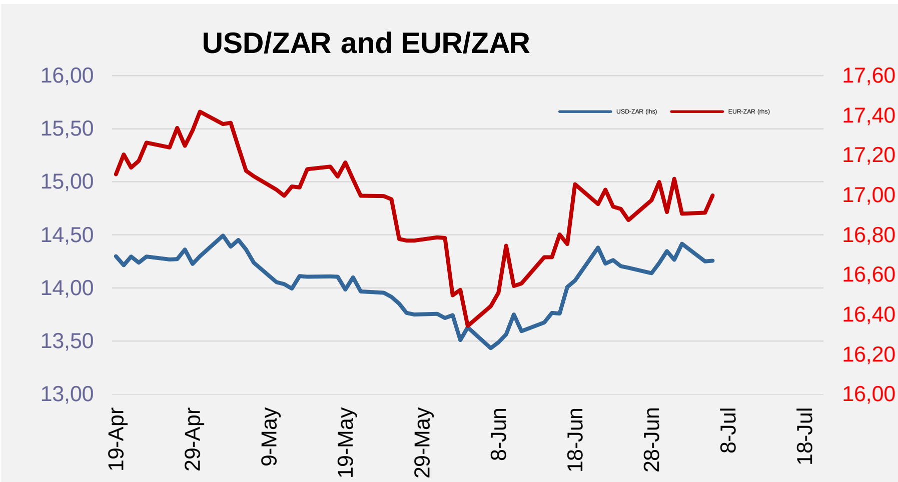
Analysis: SA's mining sector has continued its gradual recovery to pre-pandemic levels but has not yet stabilised enough to warrant a full recovery. This is, of course, notwithstanding the impact of a low base comparison which has distorted the y/y figures. The sluggish recovery can be attributed to persistent structural challenges, which so far have been disguised by the jump in the y/y readings and a favourable external environment for commodities. In the absence of structural reforms, expenditure on mining equipment and mining facilities will remain subdued and detract from the overall performance of the sector and its longer-term recovery. Base effects will distort May's y/y reading, and so, investors will need to assess the m/m to better gauge the sector's health.

RAND UPDATE

In a show of idiosyncratic weakness, the ZAR began the new week on the back foot as it sunk 1.35% against the USD to close at 14.4100/$. Leading EM currencies weaker, the local unit was weighed down by domestic protest action following the jailing of former president Jacob Zuma last week. With police struggling to contain the violence and looting which ensued, this saw massive damage in several of the country's provinces on Monday after riots spilled over from the weekend, while army troops were deployed to assist the embattled police force.

With many businesses shuttered and transport networks disrupted, yesterday's devastation come at a time when the South African economy can ill afford further disruptions to trade. The currency weakened as much as 2%, bouncing off the 14.5000/$-handle, and remains open for further losses if the situation is not brought under control. Although these will still likely be short-term in nature, the reality is that both physical damages have been done as well as damage to ZAR sentiment going forward. With such uncertainty brewing on the political landscape, this will keep investors cautious by elevating political risk associated with investment in South Africa.

Due to the ZAR's sensitivity to a change in sentiment both domestically and externally, the influx of adverse developments will maintain the downside bias for the time being. However, competing forces remain at play for the local unit. A weak domestic backdrop amid sustained high commodity prices could see supportive trade dynamics continue.



The disorder in various parts of South Africa has had surprisingly little impact on SA asset prices, at least compared with what has happened in the past. While stocks took a knock into the start of the session, the vast majority ended higher. Even retail stocks held up on the session, with the general retailers' index down just 1.1%. The ZAR ended the session roughly flat between R14.50 and R14.40 per USD, albeit while sitting around 4.8% weaker m/m. Month-on-month, ZAR has outperformed the exchange rates of the Philippines, Thailand, and Colombia but underperformed the broader EM basket. Tail risks could, however, be amplified, with political uncertainty a detractor from SA asset exposure. SANDF deployment in hotspots suggests that police authorities are insufficiently resourced to establish law and order at this stage. Red flags will be going up globally as news about the deterioration in law and order makes its way through international channels.

FRA rates consolidated recent receiving interest. The outlook for rate hikes is still firmly entrenched but ultimately maxed out when considering the weak growth and consumer demand outlook. There has been some upside pressure on SAGB yields, particularly in the long end. The R2048 yield has now breached 10.54%, with around 13.5bp worth of gains since recent lows. This does not look like a risk-off move when compared with gains of more than 180bp over a session in December 2015. This was a market reaction to when corruption-accused President Zuma replaced Nhlanhla Nene with Des van Rooyen as finance minister which was interpreted as clear cadre deployment. This suggests that the market has broadly taken the events in its stride, and it could be that investors are merely waiting for the dust to settle before pricing in deeper consequences. The damage done to both physical property and the rule of law detracts from present growth and future business investment into SA, with many uncertainties emerging since. Military deployment could help restore order. But when judging from the telegraphed damage in some of SA's retail hubs, there could well be negative ramifications for future investment.