sasfin beyond a bank

The Daily Market

25 November 2021

USD-ZAR	16.1481/16.1637	**GBP-ZAR**	21.4834/21.5074
GBP-USD	1.3302/1.3306	**AUD-USD**	0.7142/0.7144
GOLD	$1797.35	**DJI**	44525,00
EUR-ZAR	18.1366/18.1452	**EUR-USD**	1.1225/1.1228
USD-JPY	114.67/114.68	**R 186**	8.175%
BRENT	$80.17	**3m JIBAR**	3,858

Events (GMT)

09:00	SA	ILB auction (R1.40bn)			
-	US	Thanksgiving Day - Early close			
09:00	EZ	M3 money supply sa y/y	Oct	7,40%	7,40%
10:30	EC	ECB's Panetta Chairs Panel at Legal Conference			
13:00	UK	Bank of England's Huw Pill speaks to CBI on economic outlook			
13:30	EC	ECB's Lane Chairs Panel at Legal Conference			

Factors on the radar

Financial markets

What happened?	News of a new, more infectious variant in the midst of a Thanksgiving long weekend where volumes will be more subdued will likely lead to increased volatility
Relevance	The variant has already been found in Botswana and Hong Kong and raises the prospect of a more aggressive spread
Importance	4/5 (market)
Analysis	Financial markets will need to respond to this and price in added levels of risk. Bad news for high beta and emerging market currencies that will likely take a beating in the absence of some better news to mitigate deteriorating sentiment

Italy – France relations

What happened?	France and Italy will seek to deepen their ties as they seal a pact on economic cooperation. It comes at a time when Germany's leadership is changing
Relevance	Potentially implies a change in the power dynamics with the EU to dilute some of Germany's influence
Importance	3/5 (geopolitics)
Analysis	Macron is very clearly looking to build France's influence by aligning with the two strongest economies in the EU. It would however imply a slight shift in power and influence

Thanksgiving long week

What happened?	Investors are reminded that the US will effectively enjoy a long weekend for Thanksgiving, with Black Friday a key day today
Relevance	Markets will likely trade very thinly, and the main focus turns to Fri's sales
Importance	4/5 (economy)

Analysis	It potentially leads to higher levels of volatility, especially as we approach month-end and general levels of risk aversion are on the rise once more

Today's Talking Point

Oil Update

Analysis: Oil prices have slumped in early trade this morning, with the benchmark Brent crude contract currently trading at just above $80 per barrel. New COVID concerns are building following the surge in cases in Europe and the discovery of a new variant in Southern Africa. The concerns are denting the outlook for energy demand as the UK has already instituted travel bans to countries where this new variant has been detected. This is yet another factor that OPEC+ will need to consider at its ministerial meeting next week. It tilts the balance of risks further towards halting their supply increases to assess how the new wave of global infections will impact demand for crude. Interestingly, the IEA urged OPEC+ to relieve the market of the artificial tightness that the cartel is creating. The head of the agency said that current fuel prices are detrimental to emerging market economies and that OPEC+ must play its part in bringing prices down to a reasonable level. Given recent comments by members of OPEC, it is looking unlikely that the cartel will heed the words of the IEA.

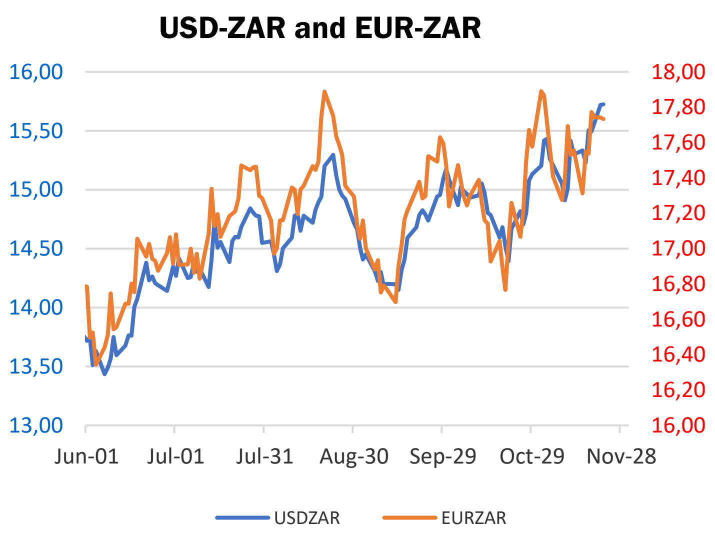
Rand Update

Overnight, the ZAR has taken an almighty beating. News broke yesterday afternoon of a new variant that was found not just in South Africa but also in other jurisdictions around the world. It is a substantially different variant and thought to be even more transmissible than the delta variant. A consequence of this announcement was that the UK had placed South Africa back on the red list until more is understood about the variant, its impact and whether the vaccines are useful in preventing severe illness.

The timing couldn't have been worse. The USD has been on the front foot, and we now find ourselves in the midst of a Thanksgiving long weekend when volume levels are more subdued to exacerbate the move on the ZAR. South Africa now faces the prospect of fresh lockdowns over December, and the tourism industry has taken another major hit with the UK travel restrictions.

It is now anybody's guess as to how far this USD-ZAR move extends. But the prospects are not good. It is a blow that the economy can ill-afford at the moment and further compounds the SARB's concerns about inflation. For SA, this is another perfect storm that will generate loads more volatility and a very uncertain month ahead. That this comes just ahead of the December festive season when market volumes are traditionally lower will make for a messy end to the year.

Although one can talk about the current move being unsustainable from a fundamental point of view, many ETM models would confirm that the near-term market adjustment for the risks will unfold and will likely take the ZAR substantially weaker. Technically, key resistance levels have been broken with some Fibonacci projections targeting levels as high as 16.70 as the next stop, with 17.30 thereafter. The best SA can hope for is that exporters take advantage of some very attractive levels.

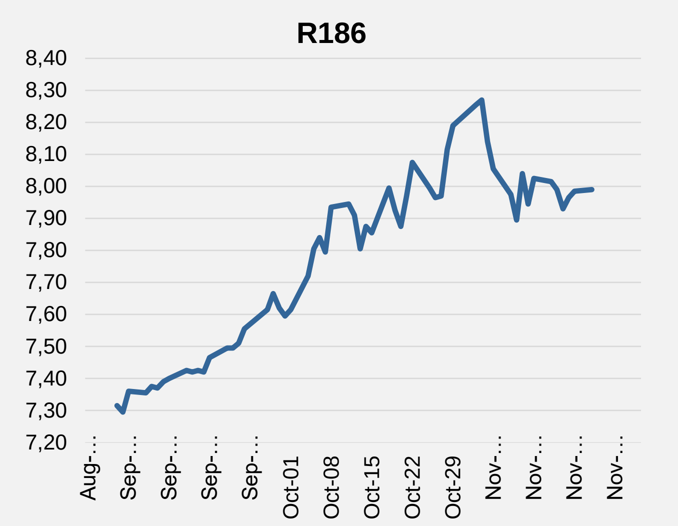


Bond Update

The risk of deepening lockdown restrictions is rising, with Bloomberg reporting of discussions surrounding a new COVID variant that has been identified in around 100 cases in SA. Official data sources reflect a significant rise in the total number of cases in SA. The UK has already responded with new travel restrictions while a health spokesman has claimed that the strain "may be more transmissible" than the Delta strain and warned that "the vaccines that we currently have may be less effective". While there is some reason to think that the knock-on effect to hospitals could be lower than in prior waves, regulators could ultimately react with stringency, particularly given uncertainties surrounding the new strain. Alcohol bans could be enforced to reduce hospital trauma cases, alongside an extension of curfews.

Further restriction would slow the recovery in economic activity and keep businesses and consumers hesitant heading into the festive season. The risk of a double-dip recession is an emerging theme, while investors will be considering the potential knock-on effects to tax revenue. The SARB may believe that the banking sector is significantly capitalised, but businesses have had a challenging two years with profits falling to multiyear lows in most industries, barring mining and agriculture. In this regard, note that next week's end of month data deluge will include the latest spending report from national treasury alongside the October trade balance, money supply figures, and the latest unemployment figures.

Seasonally, the market remains primed for weakness as investors tend to square positions ahead of the Christmas break. A deepening in COVID restrictions, news of weak growth, dimming trade or lower government revenue collections could catalyse some bearish price action on the ZAR and bonds. Equity outflows have reached $8.5bn YTD, according to the JSE. They may accelerate if offshore investors continue to liquidate positions ahead of the end of the year while the rising dollar bites at paper profits. Bonds are reflecting a similar story, although JSE and official data do not correlate (Nov figures to be released early Dec). The USD-ZAR is now just 0.5% away from a significant technical support level (just below 16.30) as the 50% retrace of the April 2020-June 2021 ZAR rally of 30%. Other technical indicators, such as a reverse head and shoulders, suggest that the ZAR could be as cheap as 17.50 to the USD as soon as January. Given the new lower base, it would represent a 25% rally since June. This forms a significant emerging inflation risk given that the exchange rate pass-through to CPI has been shown to sit at around 15-20%.



S Forex

sasfin.com

29 Scott Street, Waverley, 2090
PO Box 95104, Grant Park, 2051 | +27 11 809 7500

This report is provided by Sasfin Bank Limited and is prepared by ETM Analytics (Pty) Ltd.
www.etmanalytics.com