sasfin beyond a bank

The Daily Market

22 November 2021

USD-ZAR	15,7243/15,7533	**GBP-ZAR**	21,1427/21,1667
GBP-USD	1,3441/1,3443	**AUD-USD**	0,7248/0,7249
GOLD	$1848,01	**DJI**	44519,00
EUR-ZAR	17,7347/17,7505	**EUR-USD**	1,1272/1,1273
USD-JPY	114,12/114,15	**R 186**	7,985%
BRENT	$78,68	**3m JIBAR**	3,850

Events (GMT)

14:00	EC	ECB's Holzmann, Kazaks, Kazimir, CNB's Rusnok in Vienna			
15:00	US	Existing Home Sales	Oct	6.18m	6.29m
15:00	US	Existing Home Sales MoM	Oct	-1.8%	7.0%
15:00	EC	Consumer Confidence	Nov A	-5.5	-4.8
15:30	EC	ECB's Guindos Speaks			

Factors on the radar

BoE guidance

What happened?	BoE governor Bailey has acknowledged his fear that inflation may prove less transitory than first anticipated
Relevance	The BoE is actively acknowledging that the outlook is extremely uncertain
Importance	4/5 (monetary policy)
Analysis	Although non-committal on clear direction, the BoE will likely be forced into removing stimulus sooner rather than later as inflation bites

USD

What happened?	The USD is on the front foot. Between the differences in monetary policy stance and the resurgence of Covid in the EU, the USD has surged
Relevance	This will hold implications for commodity prices and overall levels of risk appetite
Importance	4/5 (market)
Analysis	A recovering USD will ease some of the pressure on the US but will impose greater inflationary pressure in other jurisdictions that may suffer currency depreciation as a result

Thanksgiving week

What happened?	Investors are reminded that the US will effectively enjoy a long weekend, with Thanksgiving on Thursday
Relevance	Markets will likely trade very thinly, and much data will be packed into Wed
Importance	4/5 (economy)
Analysis	It will make for a quieter end to the week but a busy first few days as investors square off positions for the long weekend and Black Friday

Today's Talking Point

Oil Update

Analysis: Oil prices dropped on Friday and have continued to sag this morning as focus remains on whether or not the US and China will coordinate a release of their strategic reserves, while Japan has also suggested it may tap into its reserve stockpiles. The benchmark front-month Brent contract has slipped back down to around $78.85 per barrel as a result, while the New York benchmark has dipped below $76 following losses of almost 6% last week. Adding further pressure were some announcements out of Europe that lockdowns will be returning as virus cases are surging once again. The price declines mean, however, that a release of reserves from these economic superpowers is looking a bit more unlikely, but the markets are now aware that there is such a possibility if prices rise too high once again in the near term. OPEC+ will also be feeling vindicated in their assessments that there are still risks to the global economic recovery and oil demand from COVID-19 infections. Rising infections and new lockdown measures across Europe mean that the cartel and its allies will almost surely stick to their current plans in terms of production increases at the final ministerial meeting for 2021, which will take place on 2 December.

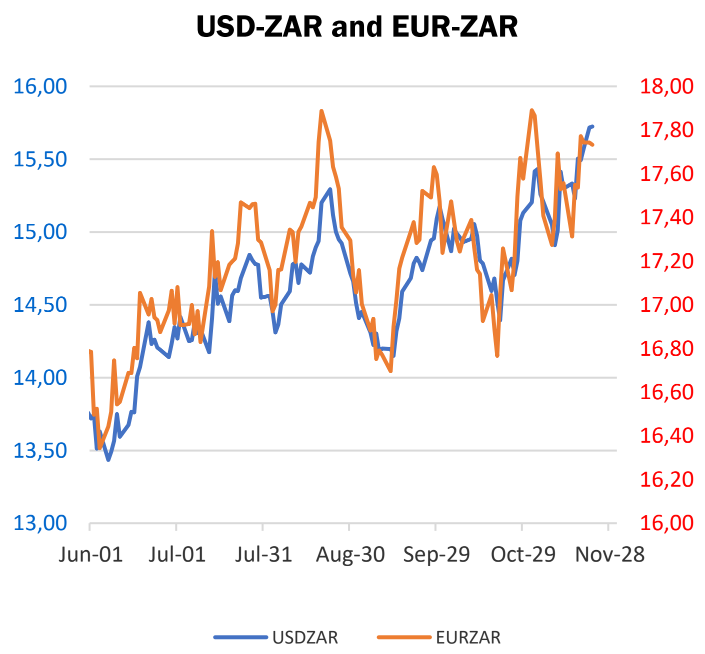
Rand Update

ZAR bearishness persisted throughout much of last week, and it appears to have started this week in much the same fashion. The ZAR is under considerable pressure, and the lack of rating guidance on Friday evening has done little to help. Both Moody's and S&P left their rating unchanged, with neither agency offering any further guidance. S&P has indicated that in instances where their review determines that key rating factors have not changed, they do not release a review.

That implies that the rating agencies saw the recent budget as more of an update and that the ultimate test for the finance ministry will be in the final implementation of the reforms. If one were generous, one could even argue that the MPTBPS may have stalled any further slide in ratings, but again, such a pause would only be temporary unless it was backed up by action. In other words, the rating agencies want to see action before they change the ratings. Moody's, in particular, has a negative outlook implying that the next rating action could be a downgrade and would need to move back to a neutral outlook before one could convincingly argue that it has given the government the benefit of the doubt.

Internationally, the USD remains firmly on the front foot. It has consolidated last week's gains, with the stronger US data, coupled with expectations of widening monetary policy disparity between the US and its major trading partners still driving direction for now, as the US economic recovery appears more robust. Commodity prices appear to be on the slide and heading back towards early October lows, all of which will count against commodity currencies as their terms of trade deteriorate. It is also important to keep one eye on geopolitical developments between Russia, Ukraine and the rest of the EU while fresh lockdown and Covid protests have kicked off in Europe. These are all developments that could lead to a rise in risk aversion.

Domestically the news for the ZAR is not much better. Coming off a week where revelations of sabotage on Eskom came to the fore, focus this week will turn to the fragile coalition talks that do not appear to be generating much in the way of sustainable progress. With little more other than the second tier domestic PPI, leading indicator and business confidence data scheduled for release, much of the ZAR's direction will likely come from abroad. For the time being, that appears skewed against the ZAR.

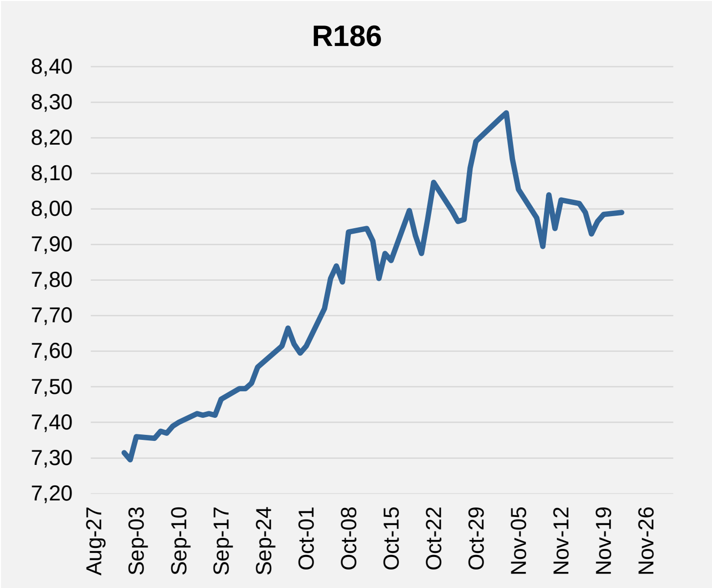


Bond Update

Note that rating agency S&P didn't issue any updates into the weekend, suggesting that there was no major announcement to be made or perhaps that the analysis has been delayed. We will keep an eye out for comments that may be released in the next few days. Newswires have interpreted the lack of comment to mean that SA's rating status hasn't changed significantly for S&P. The agency holds SA three notches below investment grade, suggesting that those holding the debt are exposed to the risk of non-payment in the future. Moody's also maintained SA's rating three notches below investment grade with a negative outlook, suggesting that the current momentum in state finances could attract another downgrade. Note that Moody's issued some downgrades to the ratings and outlooks of municipalities, citing weak infrastructure in some cases and deteriorating earnings capacity in others.

The finance minister reflects a more conservative fiscal mindset, which suggests that SA could conceivably escape a fiscal crisis if everything goes to plan. But time is running out as many government departments run out of funding and contingent liabilities grow amid the mismanagement of the SOEs and municipalities. Extensive reforms need to be implemented, including the structural reformation of government spending patterns, employment structures, and business regulations. The World Bank Doing Business report also suggests that cross-border trade regulations are more onerous than peers.

All this to say that SA's policies remain far from best practice in comparison to countries that foster societal upward mobility or even the right conditions for business investment. Only cosmetic progress has been made in many of the key areas. SA still suffers from a shortage of investment and minimal reason to think that uncomfortably high unemployment rates will reverse any time soon. A weak education system and low living standards for most South Africans suggest that skills shortages will persist for the foreseeable future.



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