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The Daily Market
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05 July 2021

USD-ZAR	14.243/14.255	**GBP-ZAR**	19.6891/19.7131
GBP-USD	1.3825/1.3876	**AUD-USD**	0.7516/0.7517
GOLD	$1787.5623	**DJI**	34786,35
EUR-ZAR	16.8876/16.8998	**EUR-USD**	1.1855/1.1859
USD-JPY	111.13/111.15	**R 186**	7.55%
BRENT	$76.1	**3m JIBAR**	3,692

EVENTS

07:15	SA	Standard Bank SA PMI	Jun		53,20
-	US	Independence Day			
07:55	GE	Markit services PMI	Jun F	58,10	58,10
08:00	EZ	Markit composite PMI	Jun F	59,20	59,20
08:30	GB	Markit composite PMI	Jun F		61,70
08:30	EZ	Sentix investor confidence index	Jul	29,90	28,10

FACTORS ON THE RADAR

ECB speak

What happened?	>	Dutch central bank president Knot has said in an interview published on Sunday that inflation in Europe may not be temporary and is not dead
Relevance	>	That being said, the ECB's forecasts for inflation do not reflect a strong ramp-up in inflationary pressures
Importance	>	2/5 (monetary policy)
Analysis	>	If the spike in inflation is temporary and unable to sustain the break above the 2.0% inflation target, the ECB will be in a difficult position where QE might become a more permanent fixture

RBA

What happened?	>	RBA will meet on Tue and will offer further insight into the state of the Aussie economy, but will leave its rates at record lows and maintain policy flexibility
Relevance	>	The RBA has made it clear that it will not be in any hurry to do away with its stimulus efforts
Importance	>	3/5 (central bank)
Analysis	>	The RBA will be one of the slower central banks to respond as its vaccination drive has been slow, and the risks of opening up too soon are high. They will persist with support

Central bank minutes

What happened?	>	On Wed the Fed will release its minutes of the latest FOMC when the taper was debated, while the ECB will release its meeting minutes on Thursday
Relevance	>	The former in particular will be closely watched and has market-moving potential
Importance	>	4/5 (monetary policy)
Analysis	>	The timing of the taper and normalisation is central to any portfolio positioning at the moment and will be key to determining broader USD direction.

TODAY'S TALKING POINT

Standard Bank Manufacturing PMI: Jun
Expected: -
Prior: 53.2

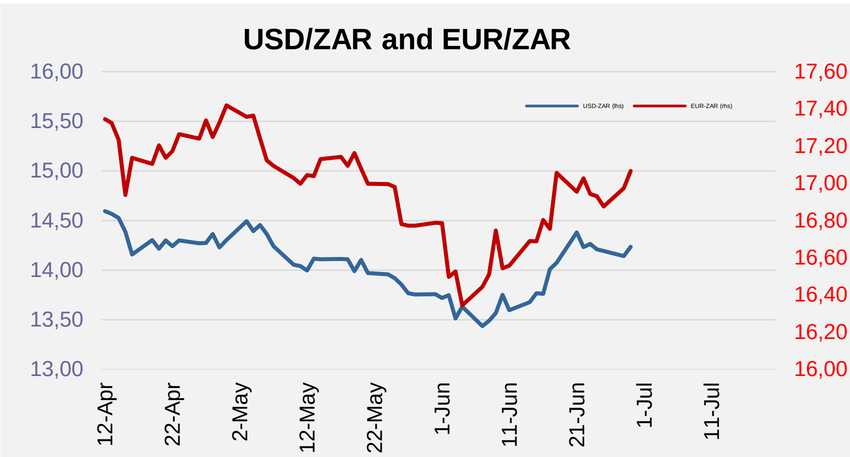
Analysis: Standard Bank's PMI gauge has remained in expansionary territory for a sustained period now, but the recovery has started to show signs of weakness. May's reading of 53.2 points to normalising economic activity in the domestic market but simultaneously laid bare some of its challenges. The persistent supply chain disruptions, rising commodity and administered prices, along with SA's inherent structural flaws and management of the pandemic, has held back a more robust rebound. Overall, this still points to weak operating conditions and the reintroduction of level 3 and 4 restrictions during June would have negatively affected business confidence and output levels. Thus, there is potential for the month-on-month growth to have eased in June's reading.

RAND UPDATE

The USD-ZAR dipped at the end of the week as the much-anticipated US jobs report released on Friday afternoon seemed to paint a mixed picture on stateside labour market dynamics and ultimately failed to support the USD. Despite strong nonfarm payrolls print, which showed 850k jobs were added in June, this was accompanied by a slight rise in the unemployment rate to 5.9% from 5.8%. Meanwhile, the labour force participation rate remained flat, suggesting the increase in unemployment was not due to new entrants into the labour force despite US COVID-19 benefits ending in June.

All in all, an uneven recovery should support the Fed's views that accommodative monetary policy is still needed for some time and that the market may be getting ahead of itself, even with recent indications from the Fed that it will begin to consider tapering supportive policy in the coming months. Resultantly, the much-awaited jobs report failed to bring forward expectations of the Fed's tapering timeline.

The USD-ZAR ultimately fell 1.2% on Friday as it was led lower by the dollar leg, closing around the 14.2500-level. Earlier in the day, the currency cross encountered resistance at the 14.5000-handle, which it tested for the first time since early May. With the ZAR also the strongest EM currency performer on the day, this suggests the move was partly specific to the local currency as the market deemed current levels as oversold.



The Standard Bank "whole economy" PMI and FX reserves are the only macroeconomic releases scheduled this week. Besides revaluation effects, reserves will not have changed much. The PMI, on the other hand, could hold some informational content with the labour market in the spotlight. Overall, investors will be looking for corroboration that SA is experiencing weak operating conditions. The reintroduction of level 3 and 4 restrictions in June will suppress business confidence and output levels. Since March last year, the jobs sub-indices have not recovered, and this remains a concern to tax sustainability as a driver of SA's deteriorating credit status.

The Quarterly Employment Survey that was released last week suggests as much, with both wages and hard jobs numbers under pressure in many sectors. In Q1, if it were not for an uptick in provincial hiring, the numbers would have looked a lot worse. Roughly 130k more people were employed by provincial governments in Q1, suggesting that around 135k jobs were lost elsewhere in the economy. The PMI's employment sub-indices will provide some sense of what could be seen in the next QES release as Q2 comes to an end. A weak employment environment remains a significant risk to government funding structures, particularly in the absence of deeper cuts in the structural reform mission.

There will also be the latest NT data on foreign ownership of bonds released this week. The dataset describes foreign, bank and other institutional holdings. While JSE data are generally used in the industry, it has not been well correlated with the official NT statistics, perhaps owing to market data collection irregularities and inconsistencies at the trading level. We assume that the National Treasury data will be of better quality due to its role in regulatory oversight of the bond market.