

13 January 2022

### Outlook for the day

JSE likely to take a breather after hitting fresh records and could pause for breath on Thursday after the all share index raced to a fresh record.

The near-term outlook for share markets appeared broadly positive after US Federal Reserve chair Jerome Powell said earlier this week that higher US consumer prices would likely taper off from June, lessening the probability of aggressive increases in interest rates.

- U.S. inflation is too high
- Johnson's precarious grip on power
- BMW group sales advance
- U.S. reassures Europe about energy supplies
- Bitcoin gained after CPI reading
- Zondo fights back

Here's what's moving markets.

### Too High

Federal Reserve Governor Lael Brainard said tackling inflation and getting it back down to 2% while sustaining an inclusive recovery is the U.S. central bank's most pressing task. "Inflation is too high," Brainard said in remarks prepared for a confirmation hearing before the Senate Banking Committee. If confirmed by the Senate, Brainard will be Chair Jerome Powell's closest team member on monetary policy and strategy alongside New York Fed President John Williams.

### China's slow-motion crisis continues

The FT's Robert Armstrong points out that, while the global inflation story up pushed Evergrande off the front pages, the default by Shimao Holdings, another major property developer, means that the 3.5% drop in sales by China's top 100 property developers presages growing problems for the economy. Economists are only now beginning to wrap their minds around the implications but GDP growth of no more than 5% is touted for a start.

### Precarious Grip

Boris Johnson bought some breathing space by apologizing for attending a party at his Downing Street office during the first pandemic lockdown, but anger in his ruling U.K. Conservative Party means his grip on power is precarious. Opposition politicians repeatedly called on him to resign during a heated session of Prime Minister's Questions in Parliament on Wednesday. Tory benches were subdued.

### Contingency Options

The U.S. is seeking to reassure European allies that any potential sanctions against Russia if it attacks Ukraine won't disrupt short-term energy supplies on the continent. The U.S. is said to be working to come up with contingency options in case President Vladimir Putin decides to cut energy supplies to

Europe in response to Western nations pressing back on an invasion of Ukraine by limiting the sale of technology Russia needs for its energy sector. European gas prices slumped after the news.

### **Inflation Hedge**

Bitcoin is slightly lower after it climbed above \$44,000 for the first time in a week as the most U.S. inflation in four decades revives the debate about whether the cryptocurrency is a hedge against rising consumer prices. Crypto proponents have long argued that Bitcoin and other digital assets, on account of their being an idiosyncratic asset class, could act as hedges against swings in other areas of the financial market.

### **Omicron could peak later this month, but a lot of cases (and disruptions) yet to come**

Amid the headlines about Omicron breaking new records in the US, also a prominent line of thinking that the surge of new cases could be at or near its peak, with UWash modelling suggesting daily cases could crest at 1.2M by 19-Jan (AP). Forecasts for US generally following patterns seen in South Africa and more recently the UK, where epidemiologists suggest London has already seen its peak. Nevertheless, a lot of cases and hospitalizations yet to come with some increasing focus on staffing challenges across the economy. A lot has been written about how Omicron has been thinning staff in transportation (particularly airlines), at healthcare facilities, and in schools, but pressures extending to other areas of the economy as well. Grocers a recent focus as consumers have noted more empty shelves again, a function of issues throughout the supply chain involving manufacturing/packaging, trucking, and in-store stockers

### **Real yield rise has been the big driver of risk-off sentiment**

Still an outsized focus on the big bond yield backup seen in early 2022 trading. Rate repricing the widely flagged overhang on risk sentiment. Goldman Sachs has pointed out that the move qualifies a 2+ standard deviation event that typically represents a struggle for equities. FT discussed how the bond yield backup has been entirely driven by higher real yields, which have jumped ~25 bp to -0.86%. Paper highlighted the related scrutiny in some of the riskier pockets of the market, where concerns about stretched valuations have been building for quite a while. Added that the trend of higher real yields could continue with the Fed quickly winding down its QE program and set to embark on a more hawkish rate normalization cycle than initially envisaged. Also noted the potential negative signalling for corporate credit spreads, which have remained tight and been cited as supportive for BTD calls.

### **BMW Group 2021 Sales Advanced Despite 4Q Setback**

BMW AG said that it sold more cars in 2021 compared with the previous year, helped by strong growth in its BMW brand and its electric-car offering. The German auto maker sold a total of 2.5 million vehicles in 2021, up 8.4% from the year before.

Sales at the BMW brand rose 9.1% to 2.2 million units, reaching their highest-ever level. The year-on-year progress was recorded in spite of a decline in the fourth quarter, when group unit sales worldwide fell 14% on year.

## Exchange rates

The rand, which is the proxy of sentiment towards emerging currencies because of its highly tradable status, paused in early dealings after rallying to its best level since mid-November at about R15.30/\$.

Latest Rates	Spot	Move
USD/ZAR	15.33	v
GBP/ZAR	21.05	v
EUR/ZAR	17.53	v
CHF/ZAR	16.70	v

## South Africa

### Zondo fights back! President mia!

Although Minister in the Presidency Mondli Gungubele criticised Lindiwe Sisulu for comparing the Constitution apartheid-era law, the President, to our knowledge, has said nothing.

Again, as a lawyer he would appreciate that this attack by a senior member of the party, who has been in parliament since 1994, was about as poisonous and deadly to the rule of law as possible. So, Zondo waited a few days while he consulted other judges, then, in the absence of a proper response from the ANC, returned fire.

Inter alia he pointed out that judges accepted they were not above criticism, but Sisulu had not substantiated one of her insults by reference to any cases.

Bruce highlights enormity of wilful negligence at Charlotte Maxeke Hospital.

As they say, you can't make this stuff up!

Not only were safety audits prior to the April 2021 fire ignored but efforts by specialists and other medical staff had been "met by obstacle after obstacle."

### Coming Up

- European futures were little changed while U.S. contracts dipped.
- Several European companies are reporting results on Thursday including Tesco, Marks & Spencer, Persimmon, and Suedzucker.
- Investors will be looking for monetary policy clues with officials from the Bank of England and the European Central Bank slated to speak today.
- In the U.S., initial jobless claims and December producer price index data are due.



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