25 January 2022

Outlook for the day

Despite the brisk intraday rebound in the overnight US session the JSE looks set to encounter only a marginally improved tone at the commencement of today's session as weakness in early morning US futures trading and a downbeat tonality in the Asian Pacific region undermines initial support. The substantial loss of traction in yesterday's session will draw bargain hunters into the market but although a pop to the upside is possible in the sessions ahead (even likely) the underlying near term technical position on numerous JSE charts has deteriorated sufficiently to argue for additional residual selling pressure. Yet there is no evidence of a clear high volume trading bottom in the wake of the profit taking which we had advocated since early last week. Opportunities for bargain hunting will emerge but current technical levels do not yet offer favourable entry points.

- U.S. puts some troops on heightened alert,
- Johnson's new allegation
- Credit Suisse Group issued a profit warning
- Nasdaq's rebound was biggest of its kind since 2001
- Unilever plans to cut jobs.

Here's what's moving markets.

Déjà vu

The Nasdaq 100, along with the rest of the market, turned on a dime in the middle of its worst selloff in two years and vaulted back into the green, erasing a loss of nearly 5%. The move was the latest in a series of heart-stopping turnarounds that have dogged markets amid rising tensions around Federal Reserve policy. It was the biggest of its kind since Jan. 8, 2001, in the middle of the come-down from the dot-com bubble. Most of the other similar moves occurred in the three years that crash took to play out, with a few others coming in the heart of the 2008 financial crisis.

Ukraine crisis moves into deal making stage

The angst headlines continue in full force but, in the FT, Robin Hunter, says the message from the Geneva meeting last week between Blinken and Lavrov was clear: the crisis has moved into the dealmaking stage: it is just the terms that must be worked out. He then recounts the history of Nato including the establishment of the NATO-Russia Founding ACT establishing a joint council in which Russia would be an equal partner. To cut a long story short it would seem to involve a lot of diplo-speak to resolve the conundrum whereby, although the West and Nato cannot formally undertake not to include Ukraine, an undertaking to this effect will somehow nevertheless be given.

The U.S. is putting as many as 8,500 troops on heightened alert for deployment to bolster NATO forces in Eastern Europe if needed as Russian troops mass on Ukraine's borders, offering a show of military force alongside diplomatic efforts to defuse the crisis. "It's very clear that the Russians have no intention right now of de-escalating," so it makes "prudent sense" to give U.S. military personnel time to prepare if NATO activates its Response Force along the alliance's eastern flank, Defence Department spokesman John Kirby told reporters Monday at the Pentagon.

Fed policy shift still biggest overhang on risk sentiment

Path of least resistance for risk assets has been lower over first three weeks of 2022 trading. Fed policy shift still seen as biggest headwind with expectations for March lift-of, potential for four or more rate hikes in 2022 and perhaps most importantly, an earlier and more aggressive start to balance sheet runoff (QT). Earnings calendar has failed to provide any meaningful reprieve with slim beats, lacklustre guidance, and more concerns about the threat to elevated margins from persistent supply chain and input price pressures. Economic surprise momentum has also reverted into negative territory with outsized Omicron drag on services. Elevated valuation another area of worry with S&P P/E still near an all-time high.

Despite magnitude of pullback in recent weeks, no sign of any meaningful capitulation with equities still seeing inflows.

At the same time, commercial hedgers no longer buying the dips and pressing large short positions, while also signs retail impulse has started to fade.

Bullish talking points not going away

Despite the negative sentiment surrounding equities, some strategists and articles in the financial press continue to highlight select bullish talking points. Jefferies noted S&P was higher in the 12 months that followed the start of each of the last seven Fed rate hike cycles. Bloomberg noted stocks have risen at an annualized rate of 9% during the 12 tightening cycles since the 1950s, with positive returns in 11 of those instances. Also, some thoughts that combination of extreme bearish positioning in Treasuries, softening economic data and a Fed that is not expected to be incrementally more hawkish this week could provide some further reprieve for rates. While VIX curve is now inverted amid concerns about more near-term turbulence, Bloomberg noted that the four other times that this has happened in the past year have coincided with market bottoms. Goldman Sachs pointed out that the corporate buyback blackout window ended after the close last Friday.

Pentagon puts troops on high alert for deployment to Eastern Europe, though market mostly ignoring tensions

Defence Secretary Austin put 8,500 US troops on high alert for possible deployment to Eastern Europe in preparation for possible Russian invasion of Ukraine (NY Times). Most of the troops would take part in NATO response force, while some personnel would be part of specific US response to provide assurance to American allies in Eastern Europe worried of spill over into Baltics, other countries in NATO's eastern flank. However, market mostly ignoring Russia and Ukraine tensions, in line with previous instances of geopolitical instability. Platts noted shipments of Russian crude to the US in 2021 averaged 202K bpd, the highest in 11 years, a risk as few sourcing alternatives could add to other supply risks. Bloomberg also said tensions pushing some investors to safe haven assets like US Treasuries, though biggest impact so far felt in most exposed assets like rouble, Russian and Ukrainian stocks and bonds.

Credit Suisse Issues 4Q Profit Warning

Credit Suisse Group AG on Tuesday issued a profit warning for its fourth quarter and said its CET1 ratio should beat its ambitions. The Swiss bank said that fourth-quarter pre-tax income should be around break-even with litigation provisions of roughly 500 million Swiss francs ($547 million) that will weigh on it, though gains from real-estate sales of CHF225 million will offset it, in part. The expected break-even is "before deduction of the already announced approximately CHF1.6 billion goodwill impairment for the group, of which approximately CHF1.5 billion in the Investment Bank division and approximately CHF0.1 billion in the Asia Pacific division," it said

Heading 4

Unilever plans to cut thousands of management positions to speed decision-making after activist investor Nelson Peltz built a stake in the consumer-goods giant, people familiar with the matter said. The move would eliminate numerous regional and divisional roles that Chief Executive Officer Alan Jope is said to believe have slowed innovation. The job cuts are likely to number in the low thousands, the people said. The company employs about 150,000 globally.

Birthday Blues

Boris Johnson is facing further allegations of rule-breaking parties during the pandemic, after his office confirmed staff had gathered in Downing Street to celebrate his birthday during the first lockdown in 2020. The new allegations are likely to ramp up the anger and frustration among members of the ruling Conservative Party, many of whom have said they are waiting for the outcome of a wider government inquiry into the so-called party gate scandal before deciding if they are still back the prime minister.

Exchange rates

Latest Rates	Spot	Move
USD/ZAR	15.30	^
GBP/ZAR	20.60	^
EUR/ZAR	17.30	^
CHF/ZAR	16.70	^

The rand's losses yesterday were the first in four trading days and the biggest since late December, with the local currency falling victim to investor preference for the US currency, a favourite when investors are seeking to reduce risk. On the other hand, the rand is often used as a proxy for sentiment towards emerging markets due to its status as one of the most easily traded currencies

South Africa

Gigaba's Treasury onslaught

Malusi Gigaba didn't quite destroy it but, in his evidence to the Zondo Commission, Ismail Momoniat detailed how he caused the likes of the DG Lungisa Fuzile, Michael Sachs, Andrew Donaldson, Kenneth Brown (former chief procurement officer) to leave as well as other seasoned staff.

Pressures began soon after Zuma came to power in 2009 with the treasury reaching its low point in 2015-2017 with the firing of Gordhan and Nene respectively and their replacement with Des van Rooyen and Malusi Gigaba.

Cautious optimism despite infrastructure gap

After referring to the continued decline in general government investment from R33.6bn under Ramaphosa to R25.5bn in 3Q 21 despite his talking up infrastructure spending Stuart Theobald gives reasons both as to why this happened as well as why there are cautious grounds for optimism that it will indeed pick up. Ironically, following the unproductive spending between 2008 and 2016 on Medupi and Kusile and nearly R10bn in kickbacks to the Guptas on Prasa contracts, procurement procedures tightened up. Owing to the lack of capacity at municipal level, however, municipalities were unable to speed up. Other levels of government are, however, changing and the Infrastructure Fund is building capacity and will start driving a pipeline of investment. The electricity sector will also see huge investment from the independent power producers programme and companies building plant within the 100MW exemption. Other investment will be triggered by the auction of broadband capacity.

So, there are grounds for cautious optimism.

EWC likely to come before parliament later this year

Vrystaat Landbou (VL) points out that, although the efforts to change the Constitution in this respect failed to get the necessary two thirds majority, the Expropriation Bill only requires a simple majority and will come before the National Council of Provinces. In its current form it refers to property which includes, not only land and improvements thereon, but other property as well. VL expects it will be dealt with on an urgency basis no doubt to be cleared before the ANC conference in December.

Coming up

- European futures are rising while U.S. futures slump.
- Meanwhile, oil is rebounding after the biggest one-day drop this year.
- In the day ahead, The Federal Open Market Committee begins its two-day meeting today and the International Monetary Fund will launch its World Economic Outlook update.
- Companies reporting earnings include General Electric and Johnson & Johnson.

http://pmkgroup.co.za

References: PMK Investment committee, exchange4 free, Momentum Investment consulting, Momentum securities, RMB Global markets Swissquote, eToro, Currency Partners