

9 February 2022

Outlook for the day

The upbeat US performance in overnight trade, strength in the Asian Pacific region and an improved tonality in early morning US futures trading coupled with momentum in short-term indicators will allow the JSE to trade at a new all-time high in today's session. Near term metrics on daily charts continue to improve but current levels do not provide favourable entry points in many areas of the market as weekly metrics are holding at exceptionally elevated levels with the JSE TOPI trading at a substantial premium versus the 200-week moving average. Retain current trading exposure as momentum figures continue to improve but do not significantly add to current positions.

- ECB over-reaction
- Microsoft deal news
- Russia sanctions scepticism
- Bitcoin fair value attempt.

Here's what's moving markets.

Overreaction

Investors may have over-reacted to what they see as a hawkish pivot from the European Central Bank, Bank of France Governor Francois Villeroy de Galhau said. "I wouldn't deduce from what has happened in recent days that there is an ECB calendar that corresponds to an underlying calendar of markets," he commented, "I think there were perhaps reactions that were very high and too high." ECB President Christine Lagarde's comments last week caused markets to bet that sub-zero rates may end this year.

Microsoft Eyes Mandiant

Microsoft is in talks to acquire cybersecurity research and incident response company Mandiant, according to people familiar with the discussions, a deal that would bolster efforts to protect customers from hacks and breaches. Mandiant shares surged 18% in New York, bringing its market value to almost \$4.3 billion. Microsoft bought two smaller cybersecurity companies last year and said last month that it had amassed \$15 billion in security software sales in 2021, up almost 45% from a year earlier.

Sanctions Scepticism

Senate Republican leader Mitch McConnell expressed scepticism about the effectiveness a sanctions bill would have in swaying Russian President Vladimir Putin's decisions on Ukraine. Two senators are drawing up a sanctions package in Congress but one of the main sticking points is how to tackle Nord Stream 2, a controversial natural gas pipeline from Russia to Germany. Still, investors on Tuesday bet on a de-escalation of tensions, with the dollar denominated RTS stock index climbing 3% and the ruble gaining 0.6% against the U.S. dollar.

Bitcoin Fair Value

JPMorgan's attempted the impossible: calculating Bitcoin's "fair value." The amount, about 12% below the current price, is based on the cryptocurrency's volatility in comparison with gold. Meanwhile, the bank's long-term theoretical target for Bitcoin -- a level that would put its total market value on par with that of all gold held privately for investment purposes -- sits at \$150,000, up from \$146,000 a year ago. Bitcoin was trading at around \$43,400 this morning.

Pfizer Forecasts \$54 Billion in 2022 Sales from Its Covid-19 Vaccine, Treatment

As Pfizer Inc. forecasts strong sales this year for its Covid-19 vaccine and treatment, the drug maker is on the hunt for deals to bolster its pipeline of experimental products. Pfizer said Tuesday that surging sales of its Covid-19 treatment and continued demand for its shots should boost the company's revenue to around \$100 billion this year. The company estimated that sales of its antiviral pill Paxlovid will reach about \$22 billion while the vaccine will likely add \$32 billion.

Indian economic woes threaten BJP dominance in state elections

The Indian GDP recovered from the 7.3% decline in the first year of covid 19 in 2020 and is expected to be the fastest growing large economy in the world this year. But economists warned that the enormous informal economy, on which most Indians depend, risked being left behind. Overall unemployment is around 7% but at 25% for young people. In states such as Uttar Pradesh which, with 200 million people, is one of the poorest, violent protests have taken place. This might threaten the BJP dominance despite stepping up majoritarian rhetoric targeting the state's 19% Muslim minority. FT.

Treasuries weak with continued upward pressure on global bond yields

Treasuries came under renewed pressure today after finding some reprieve on Monday. Nothing specific behind the latest backup in yields, which has come despite a pullback in oil and some chatter about the potential for a downside surprise in the widely anticipated January CPI report out on Thursday. Some discussion about technical dynamics with a breach of 1.95% on 10-year notes seen as a catalyst for convexity hedging (Bloomberg). In addition, inflation remains the big story of Q4 earnings season, while external dynamics continue to get outsized attention following the hawkish takeaways from last week's ECB and BoE policy meetings. European bond yields higher again today despite the somewhat less hawkish comments from Lagarde on Monday (pledged gradual increase in rates and reiterated expectations for inflation pressures to dissipate). Australian bonds also under pressure overnight with 10-year yields pushing through 2% for first time since March 2022 on expectations RBA could start tightening at any meeting from June.

Another hot inflation reading on tap for Thursday

January CPI widely expected to be the macro highlight of the week on Thursday. Street looking for headline CPI to increase 0.4% m/m in January, down from 0.5% in December, but still pushing the y/y rate up to 7.3% from 7.0%, the highest since 1982. Core CPI expected to increase 0.5% m/m after a 0.6% gain in December, pushing the y/y rate to 5.9% from 5.4%. Previews were uniform in expectations for housing inflation to remain firm, though there was also some discussion about how

increases for OER and tenants' rent should peak in the next few months. While some firms highlighted a further rise in used and new vehicle prices, other previews flagged some downside risk. However, supply chain pressures and a still solid demand backdrop are expected to keep broader goods' prices elevated. Previews also discussed how the Omicron spread should drive a decline in airlines and prices of lodging away from home. Despite Fed pushback, inflation data still seen as a key marker in the 25-vs-50 bp March lift off debate.

US lowers Japan steel tariffs, with China trade in focus

US yesterday announced a new Section 232 trade deal to suspend the 25% tariffs on steel imports from Japan for up to 1.25M metric tons per year of finished and semi-finished products (Reuters, Bloomberg). The move follows a similar agreement struck with the EU in the fall, though it does not include an agreement on aluminium (at Japan's request). While move is another step in the Biden administration's efforts to repair relations with an ally following the fraying during Trump's tenure, also a clear focus on building a stronger front against China. A statement by USTR Tai noted agreement will help US and Japan work together to combat China's anticompetitive actions in the steel sector, which have involved dumping steel from its state-subsidized producers (FT). Note agreement comes as US continues to chafe at China not living up to its purchase commitments under the January 2020 "Phase One" agreement (Reuters).

Russia conducting more military manoeuvres while Macron tries his hand in Kyiv

Ukraine tensions remain high despite a meeting yesterday between Russia's Putin and French President Macron (NY Times). Putin reiterated his view that Ukraine joining NATO would be a hostile act and called for Ukraine to fully implement the 2015 Minsk agreements aimed at resolving Russia's concerns about separatism in the Donbass and Luhansk regions. Macron stressed Western allies remain in close coordination over the crisis and offered avenues for de-escalation, even suggesting the "Finalisation" of Ukraine. Macron in Kyiv today for talks with President Zelensky, at the same time Russian forces in the region starting three weeks of night-time tactical drills, despite reporting yesterday Putin said he would not stage new manoeuvres near Ukraine (Reuters). While White House is watching Macron's talks from a distance, Biden also said yesterday the US stands ready to stop the Nord Stream 2 pipeline in the event Russian forces cross into Ukraine (Washington Post).

WTI falls below \$90 ahead of today's Iran nuclear deal negotiations

Next round of Iranian nuclear deal negotiations set to resume today amid optimism that talks may be ending. US State Department officials have called the latest round the final stretch, while Russia's chief nuclear negotiator told a Moscow newspaper that talks to revive the Iran nuclear accord are at the finish line with a final document already on the table (Bloomberg). A deal is expected to ease sanctions on oil exports, with many traders seeing exports to rise to around 1M bpd within months. Follows recent price gains driven by concerns over OPEC+ spare capacity and member production challenges, as well as tight global inventories.

However, Citi said this week it expects the market to shift into surplus, while some bearish overhangs beyond Iran include OPEC+ members with spare capacity increasing output, as well as rising production from US shale, Canada, and Brazil, as well as demand impact from tighter global monetary policy.

SoftBank likely to list Arm on Nasdaq

Press discussed SoftBank (9984-JP) CEO Son's remark in a Tuesday conference call that he is looking to list Arm in the US, mostly likely Nasdaq. Reuters noted this would be negative for the London market, which was Arm's primary listing from 1998 to 2016 before it was sold to SoftBank. Move seen motivate by expectation of more favourable valuations in the US. Underscores relatively low activity in London tech IPOs. Tech makes up just 1% of the FTSE 100 index, compared with more than 20% for financials and 17% for consumer goods. FT noted political reverberations in the UK, grappling with deep insecurities about its ability to retain homegrown technology champions. Recalled SoftBank bought Arm in the days following the shock 2016 Brexit referendum, when the deal was hailed by Theresa May's government as a sign of Britain's global attractiveness. While British policymakers have signalled a desire for Arm to list in London, there appears no plan yet to enact a formal mechanism to force the move. LSE expected to enter talks with Arm, which could pursue a dual listing in the US and UK, which it had before the SoftBank acquisition.

China fell short of Phase 1 trade deal commitments

Based on US trade data, Bloomberg estimated China bought 62.9% of the extra goods that it had promised as part of \$200B in purchases in the two years through the end of 2021. Most of the shortfall came in energy, where buying was only about a third of what was pledged. Highest achievement rate came in agricultural goods at about 83%. In manufacturing goods, where China had committed to the biggest net increase, progress was 65%. Alliance for American Manufacturing, a group representing manufacturers and the United Steelworkers, commented that commodity purchases were never the solution to fixing the lopsided US-China trade relationship. Pointed to fundamental issues such as China's state-owned enterprises, government subsidies, intellectual property theft, lax labour and environmental laws. USTR Tai has said repeatedly that the Biden administration's concerns go beyond the purchase commitments and include Beijing's state-centred industrial policy.

Gold close to two-week high amid inflation worries

The metal hovers near two-week high touched in the previous session ahead of a widely expected robust US inflation reading later in the week

Gold prices hovered on Wednesday near a two-week high touched in the previous session ahead of a widely expected robust US inflation reading this week, though elevated US treasury yields kept bullion's gains in check.

Spot gold was up 0.1% at \$1,827.37/oz, at 4.23am GMT, holding near previous session's high of \$1,828.68, the highest level since January 26. US gold futures also edged 0.1% higher to \$1,829.10.

Expectations of higher inflation are largely driving the move, as hawkish Fed's stance is largely priced-in

Gold prices have been stuck in rangebound trade since the beginning of the year, caught between inflation worries and the growing expectation for US Federal Reserve interest rate hikes. US inflation data for January is due on Thursday and expectations are for a 7.3% annual rise, after robust labour data last week boosted the expectation of faster policy tightening by the US central bank.

Gold is often considered a hedge against inflation, yet rate hikes would raise the opportunity cost of holding non-yielding bullion.

Exchange rate

Latest Rates	Spot	Move
USD/ZAR	15.35	▼
GBP/ZAR	20.79	▼
EUR/ZAR	17.56	▼
CHF/ZAR	16.59	▼

South Africa

General Bar Council wants Mpofu off the JSC

He brought the advocates' profession into disrepute despite being entrusted with representing the values and interests of all practising advocates in relation to judicial appointments and other important functions of the JSC. The Council has approached Advocates for Transformation as to why he is their representative. News24.

Afriforum and EFF in court over "kill the Boer"

The Afriforum team played a series of videos where Julius Malema led his followers in signing the controversial song. In one of them he addressed followers outside the Senekal magistrates' court during the bail hearing of he accused in connection with the murder of farm manager Brendin Horner. Netwerk24.

Elsewhere Malema and the EFF have been accused of the kind of thuggery employed by the Hitler Youth with examples ranging from intimidation of shop and restaurant owners and outright racism in attacks on Kathryn Maughan in covering the JSC proceedings. Netwerk24.

Coming Up

- European stocks are set to join in a global rally as the selloff in sovereign bonds paused and Chinese state-backed funds intervened in the stock market yesterday.
- Drug maker GlaxoSmithKline, shipping giant Maersk and bank ABN Amro are among the biggest earnings reports in Europe,
- Disney comes from the U.S. Bank of England Chief Economist Huw Pill speaks on the outlook for U.K. monetary policy.
- There are rate decisions from Thailand and Iceland but the India rate decision was postponed until Thursday as the country mourns the death of celebrated singer Lata Mangeshkar.

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