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JSE to contend with mixed Asian markets on Friday as investors mull Fed's next move

A hotter-than-expected inflation print out of the US has raised expectations of faster monetary policy tightening in 2022.

The JSE looks set to contend with a mixed picture in Asia on Friday morning, but is still on track for a good week, as investors mull just how aggressive the US Federal Reserve will be in fighting inflation. US consumer inflation for January came in higher than expected on Thursday, at 7.5% year on year, boosting expectations the Fed will need to accelerate monetary policy tightening.

The inflation print has prompted hawkish commentary from at least one Fed official, while pricing for a 50 basis move in March has also lifted to 85% from only 30% on before the inflation data, National Australia Bank analyst Tapas Strickland said in a note.

The data prompted a sell-off of US bonds, and put markets there under pressure, with the tech-heavy Nasdaq falling more than 2%. The JSE had slipped a little on Thursday, but is still on track for a good week, and needs to lose more than 1.8% to close where it did last Friday.

Cautious Stance

European Central Bank President Christine Lagarde warned that the Governing Council would harm the economy's rebound from the pandemic if it were to rush to tighten monetary policy. Lagarde also stressed that the euro zone can't be compared to other major jurisdictions. "The U.S. economy is overheated, whereas our economy is far from being that" she told Redaktionsnetzwerk Deutschland in an interview. "That's why we can -- and must -- proceed more cautiously. We don't want to choke off the recovery."

Twitter Profit Drops: Company Says Apple Impact Largely Avoided

Twitter Inc. posted lower-than-expected profit as expenses climbed but said it largely dodged the impact of privacy changes that are hurting Facebook parent Meta Platforms Inc. Twitter also announced a \$4 billion stock buyback, its first since the company announced a \$2 billion program in March 2020. The social-media company said its daily user base rose 2.84% from its previous quarter to 217 million. Analysts polled by FactSet had expected the user count to rise to 218 million.

Fed Speculation

Federal Reserve Bank of St. Louis President James Bullard said he supports raising interest rates by a full percentage point by the start of July -- including the first half-point hike since 2000 -- in response to the hottest inflation in four decades. Bullard's plan involves spreading the increases over three meetings, shrinking the Fed's balance sheet starting in the second quarter, and then deciding on the path of rates in the second half based on updated data. However, centrists among the top Fed officials appear sceptical of a half-point hike and are suggesting there is little need to start a hiking cycle with an aggressive move.

Seven Times

Goldman Sachs economists now expect the Federal Reserve to raise interest rates seven times this year to contain surging U.S. inflation, up from the five hikes they had seen earlier. The change of view comes after the U.S. consumer price index report for January showed a 7.5% annual increase, the biggest since 1982. Goldman’s economists led by Jan Hatzius are tipping the Fed will move by 25 basis points at seven consecutive meetings of the Federal Open Market Committee.

No Revival

Negotiations intended to revive the 2015 Minsk accord to end the conflict in eastern Ukraine broke up after more than nine hours with no report of progress. An aide to Russian President Vladimir Putin, told reporters in Berlin that “we deeply regret” that the so-called Normandy round of negotiations had failed to overcome differences. As diplomats met in Berlin on Thursday, Russia and Belarus began their largest joint military exercises in years. Meanwhile, the U.S. reasserted its intention to impose “swift, severe costs” on Russia if the Kremlin takes any aggressive acts.

The ZAR

The ZAR saw a rate related whiplash yesterday afternoon, after the release of the US inflation numbers (7.5% YoY).

Exchange rate

Latest Rates	Spot	Move
USD/ZAR	15.10	▼
GBP/ZAR	20.45	▼
EUR/ZAR	17.23	▼
CHF/ZAR	16.25	▼

While some volatility in the market was expected, with both inflation numbers and SONA occupying yesterday’s calendar, the extent to which the local currency fluctuated points towards an almost panicked investor market.

With the US Fed rate hike on the books for March, the current questions being asked are: by how much? And will it be enough?

Locally, President Ramaphosa outlined upcoming energy generation plans, funded by the EU and US, that will hopefully lead to a few less load-shedding notifications.

More promises were made regarding local infrastructure and job creation, however the numbers stated may need to be verified come next year and (hopefully) adjusted upwards.

South Africa

Sona comments from “earn a pass” and “empty promises” to “massive move”

Alexander Forbes economist Isaac Mhlanga says progress on President Ramaphosa priority projects earns a pass. He says that of the action items under 2021’s four priorities only three have been

completed on time, about 10 are progressing well, eight are experiencing challenges and five have missed the deadline. He says “failing to implement four reforms on time while having nearly 20 progress-even if about half are experiencing challenges -and three completed, is a passing score. There is reason to be optimistic in a sea of negative news”. BD.

DA leader John Steenhuisen says the Presidents announcements on economic reform” hit the right note, straight out of the DA books”.

Other opposition leaders said it was just more promises and Ramaphosa had not offered the country any alternatives. Netwerk24.

Marianne Merton says President Ramaphosa carefully balanced interests and was more precise on regulator reform than on security and anti-corruption measures that remained fudgy vows. “It signals a far from unified front across government”. DM.

Coming Up

- European stocks are set to slump at the open as investors get chills at the prospect of a half-point U.S. rate hike or a potential emergency Fed meeting after yesterday’s hotter-than-expected U.S. inflation data.
- U.S. consumer sentiment data is likely to be watched closely, nonetheless.
- Elsewhere, there’s GDP and industrial production from the U.K., along with CPI for the likes of Germany and Hungary.
- Russia’s central bank is expected to deliver another big rate increase when it gives its decision today.
- In earnings, British American Tobacco and Volvo Cars report in Europe, with Dominion Energy giving results in the U.S.
- Today’s Biggies: UK GDP numbers, US Fed Monetary Policy Report, and Friday (enough said).

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