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JSE could be caught in global sell-off as US warns over Ukraine invasion

The alert has rippled through global equity markets, but boosted oil prices to fresh seven-year highs The JSE is likely to start the week on the back foot, after the US warned that military conflict between Russia and Ukraine may be imminent.

The broader local share market is likely to trade lower on Monday, with investors using geopolitical tension as the convenient excuse to book profits after the all share index scaled record highs over the past week.

Warning has rippled through global equity markets

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Brent crude was up 1% to $95.45 in early trade, bringing the year-to-date gains to just more than 20%, which bodes ill for the outlook on SA inflation, hovering at a five-year high.

- Higher oil prices have unlocked significant value for Sasol, whose market value has swelled R37.9bn since the start of the year.
- The gold price, which tends to rise in an uncertain environment, was marginally weaker after rising 1.7% on Friday when the US issued the warning.
- The higher gold price environment could translate into higher JSE-listed gold stocks on Monday.

Other commodity prices were higher, with palladium gaining 2.55% to $2,373oz.

- Tensions over Russia's military build-up enter a decisive week
- Costly oil spells trouble
- Central bankers warn against sharp tightening
- Experts flag lingering coronavirus risks
- ZAR / SONA

Here's what's moving markets.

Tense Week

Tensions surrounding the presence of Russian forces near Ukraine are entering what could be a decisive week as the U.S. warns that an invasion may be imminent. U.S. National Security Advisor Jake Sullivan told CNN on Sunday there's "a distinct possibility that there will be major military action very soon." A weekend call between the Russian and U.S. presidents proved inconclusive.

$100 Oil

Oil prices are jumping toward $100 per barrel, threatening to drive inflation higher and hamper global economic growth. Much of the world is set to take a hit as firms and consumers see bills rising further amid already costlier food, transportation, and heating. Inflation has become a major issue for central banks, which are on the path of tighter policy to tackle rising prices.

Policy Conundrum

The San Francisco Federal Reserve president echoed concerns across policy makers that central banks need to be measured as they are starting to lift interest rates. Mary Daly told CBS on Sunday that "abrupt and aggressive action can actually have a destabilizing effect" on growth and prices. This followed a warning from European Central Bank governing council member Olli Rehn that a strong reaction to inflation "would probably cause economic growth to stop."

Virus Warnings

Experts are warning that omicron may not be the last variant the world has to contend with as major economies are removing restrictions designed to limit the spread of the coronavirus. This raises the prospect of grappling with the virus fallout if the risk of new variants looms. Calls for caution come as effective vaccines and milder variants are improving survival rates significantly.

SONA / ZAR

Last week, President Ramaphosa delivered his State of the Nation Address (Thursday, 10 February) only the most startling announcements - something we've not seen during his presidency thus far - would be likely to impact the Rand's fate.

The rand, regarded as a gauge of risk sentiment, was resilient against the dollar in the context of heightened market jitters about the potential military conflict in the Black Sea region. The currency weakened just 0.24% to R15.32/$, having strengthened about 4% so far in 2022.

Exchange rate

Latest Rates	Spot	Move
USD/ZAR	15.19	^
GBP/ZAR	20.55	^
EUR/ZAR	17.23	v
CHF/ZAR	16.45	^

The main justifications given for the Rand's relatively strong start to 2022 continue to be around the positive trade surplus the country is seeing, largely on the back of surging commodity prices, as well as the opening of the economy in the face of a currently subdued threat from Covid. For now, these factors supposedly exceed the long-lingering negative threats of Eskom, inflation, a stagnating economy, and massive sovereign debt.

However, many interpreted that the true drivers at present remain of a global nature. On the one hand, major central banks' plans for interest rate hikes would likely be Rand-negative, while improving risk appetite will continue to play in the Rand's favour. Undeniably, one need often simply looks to how US equity markets are trading to gauge the short-term fortunes of the Rand. Similarly, any significant piece of data out of the US at present (Friday's Non-Farm Payrolls data) has the potential to lead to sharp Rand swings.

As such, the current elevated volatility being experienced by the Rand is not in the least surprising, as one doesn't have to look far for market-moving news. As an example, markets were all doom-and-gloom last Thursday as share in Meta (previously Facebook) plummeted over 25%, only for smiles to reappear on Friday in the face of better-than-expected results from Amazon.

Coming Up

- European stocks are set for a Valentine's Day massacre as worries over Ukraine intensify and oil extended a rally.
- Today is also the deadline for hedge funds to disclose their 4Q U.S. equity investments in 13F filings.
- Tiremakers Continental and Michelin will report earnings after Goodyear's disastrous results saw its stock plunge at one point the most since Black Monday in 1987.
- ECB President Christine Lagarde will join a European Parliament debate on the central bank's annual report.
- But with tensions running high, all eyes will be on German Chancellor Olaf Scholz's visit to Ukraine today, ahead of a meeting with Vladimir Putin in Russia tomorrow.

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