17 February 2022

Outlook for the day

The lack of outright traction in yesterday's overnight session, a touch of inconsistency in the Asia Pacific region and no evidence of decisive momentum in early morning US futures trading action will lead to a modest downdraught on the JSE at the commencement of today's session. The overall structure of the market continues to deliver relative outperformance as the JSE holds within range of its all-time highs even as global markets exhibit a lacklustre near-term technical picture. Current trading exposure may be retained and stop loss levels should only be applied should short term metrics on the JSE erode.

- The Biden administration rejects Russia's claim
- Fed officials' outlook,
- An upbeat Standard Chartered,
- Amazon-Visa feud resolved.

Here's what moving markers.

Ericsson Shares Sink After Company Says It May Have Made Payments to ISIS

Ericsson shares traded 14.4% lower in Stockholm after the Swedish telecom equipment maker said that a 2019 internal probe found "serious breaches of compliance rules" in Iraq between 2011 and 2019. These included using suppliers to make cash payments; funding inappropriate travel and expenses; and improper use of sales agents and consultants. "The investigating team also identified payments to intermediaries and the use of alternate transport routes in connection with circumventing Iraqi Customs, at a time when terrorist organizations, including ISIS, controlled some transport routes", Ericsson said.

Putin keeps the world guessing

Even as Moscow shows photos of tanks returning to base after exercises, NATO says Russia is continuing to increase the number of troops it has massed on the Ukrainian border and Estonian intelligence says the Russians have planned a limited incursion to grab some territory. The Daily Telegraph's Ambrose Evans-Pritchard says Russia is close to winning in the Ukraine and has amassed forex reserves of $635bn, the fifth highest inf the world and rising and has national debt of 18% of GDP, the sixth lowest in the world and falling. It is the paradox of Putin's tenure that he runs one of the most orthodox policy regimes on the planet…. The harsher truth was summed up by Russia's ambassador to Sweden. "Excuse my language, but we don't give damn about western sanctions." FT and Telegraph.

Rejecting Claims

The Biden administration rejected Russia's claims of a troop pullback from Ukraine's border and said Russia has added as many as 7,000 military personnel to the area. Senior administration officials did not offer evidence to back up their assertion or say what it was based on. Earlier Wednesday, President Joe Biden and German Chancellor Olaf Scholz agreed in a phone call that the Russian military build-up "continued."

Ukraine rebels accuse govt forces of mortar attack

Reuters reported Russian-backed separatists in eastern Ukraine accused government forces on Thursday of opening fire on their territory. It was not immediately clear how serious the incidents were and there was no immediate reaction from Ukraine. Story noted such incidents have occurred many times over the last eight years, but sensitivity to latest one comes amid Russia's increased military presence close to Ukraine's borders. Reuters also noted Western countries presented evidence contradicting Russia's claims they are pulling back forces. Estonia said battle groups were moving ahead of a likely attack to occupy "key terrain." British defence intelligence chief said more armoured vehicles, helicopters and a field hospital have been spotted. Biden administration official said up to 7,000 more troops have moved to the border in recent days.

Energy, materials the leaders with sectors very bunched, mostly higher

Most sectors higher and very bunched in Wednesday trading. Value factor a bit of an outperformer. Energy led, though finished off best levels following afternoon crude weakness. Precious metals miners and industrial metals rallied on underlying strength. Regional banks mostly higher and outperformed money centres. Custody banks, multiline insurance, building materials, hospitals, managed care also among better groups. Defensives mostly higher as utilities and REITs outperformed. KHC-US earnings a tailwind to food, though HPCs mixed. Reopening groups, a bit mixed as airlines didn't do much, but cruise lines, OTAs (ABNB-US earnings), and hotels (MAR-US earnings) better. Auto complex better with auto retailers particularly strong. FANMAG complex mixed, while semis didn't do much. Software weaker with RBLX-US a drag on disappointing bookings commentary while SHOP-US a big drag on internet names. Cloud, payments, networking/IT equipment, meme stocks, parcels, and logistics also among weaker groups.

January FOMC minutes show officials stressing flexibility as it undertakes policy adjustments

The January FOMC meeting minutes noted that while participants anticipated rate hikes soon, they also stressed flexibility to implementing policy adjustments given the highly uncertain environment. Most said that if inflation doesn't move down as expected, it would be appropriate to remove accommodation faster than anticipated, though some warned of risks to financial conditions in response to a rapid removal of policy accommodation. Participants also judged asset purchases should be concluded soon, though no colour around QT as there were no specific decisions made around balance sheet contraction. Early economist reads noted minutes didn't contain much new information, though few expected any colour on the timing and pace of rate hikes or the balance sheet runoff. Since the meeting, officials have said a March hike likely, though mixed on 25 or 50 bp. Commentary around the start of QT has ranged from Q2 to 2H-22, with Chair Powell noting that the pace of the runoff will be hashed out over several meetings.

Retail sales rebound from December slump, improve at best pace since March 2021

January headline retail sales up 3.8% m/m, well ahead of consensus for a 1.8% gain and December's downwardly revised 2.5% decline (was down 1.9% m/m). Biggest monthly gain since March 2021 and up 13.0% y/y. Sales ex autos up 3.3% m/m (vs forecasts for 0.9% rise) after December's downwardly revised 2.8% decline (was down 2.3%). Control-group sales up 4.8% m/m against 1.3% consensus and December's -4.0% monthly pace (revised down from a 3.1% decline). Autos a big component of headline increase, as expected, but also strong results from online sales (up 14.5% m/m), department stores (+9.2%), home furnishings (+7.2%), and building materials/garden centres (+4.1%). Report represents a big reversal from December's disappointing reading, which was largely attributed to holiday sales having been pulled forward into October and November. January's report also suggests a very limited impact on shopping from Omicron surge.

Fed still expected to go 25 bp in March, QT seen starting at $60B a month

Federal Reserve officials concluded in January that they would start raising interest rates soon and were on alert for persistent inflation that would justify a faster pace of tightening. While the minutes released Wednesday highlighted the importance of "maintaining flexibility," the record contained few new details on the size of the rate hike anticipated in March, nor on the Fed's plans to shrink its bond holdings. The balance-sheet runoff is seen starting later this year.

Despite recent speculation about an emergency tightening move, Fed still widely expected to wait until March FOMC meeting to raise rates. Still some debate about how aggressive they will be on lift off. Latest Reuters poll revealed just over 75% of economists surveyed expect the Fed to raise rates by 25 bp next month, with the remaining portion looking for a 50 bp increase. Futures market currently pricing in a more-than-50% probability of a 50 bp move. Fed expected to take the funds rate to 1.25-1.50% by December as tightening cycle expectations remain very front loaded. Perhaps more importantly, survey provided some colour on quantitative tightening. Economists expect Fed to start reducing size of its portfolio by $60B a month, with forecasts ranging from $20B to $100B. Respondents estimated balance sheet to fall from current level of just under $9T to $5.5-$6.5T when QT ends. Fed balance sheet was just under $4T shortly before pandemic.

Democrats looking at legislative measures to fight inflation, including gas tax holiday

Congressional Democrats yesterday discussed a range of possible actions aimed at providing some inflation relief. One idea gaining traction is a possible suspension of the $0.184/gallon gas tax until 1-Jan (NY Times, Reuters). Democrats also encouraging antitrust regulators to probe impact on gas prices from corporate consolidation (Washington Post). However, also some concern within their own caucus on gas-tax measure since these dollars go to the federal Highway Trust Fund (some legislators looking for offsets including new taxes on Big Oil firms). More importantly, concept would require some GOP support but is instead coming up against firm opposition (NBC News). Roll Call notes Senate Majority Leader Schumer could employ budget reconciliation to bypass a likely Senate filibuster, but Schumer has suggested this vehicle needs to remain open for a larger climate and social-spending effort.

Rising inflation and policy tightening the backdrop for this week's G20 finance ministers meeting

Central bankers and finance ministers from G20 nations hold their first meeting of the year this Thursday and Friday. Meeting occurs against backdrop of elevated inflation that has prompted many central banks to adopt a more hawkish policy stance. Markets pricing in six Fed rate hikes this year as well as multiple increases by other central banks. Bloomberg noted traders expect average central bank policy rate to be 1% higher in 2022, the fastest pace of tightening since Jan-2010. Meanwhile, flattening yield curves playing into discussions about a policy mistake in either direction. With markets pricing in a more than 50% chance Fed will return to cutting interest rates in 2024, central bankers are seeking to avoid falling behind the curve on inflation but at the same moving judiciously on interest rates while keeping economic growth on track.

USTR reassessing trade tools to engage with China

USTR annual report to Congress on China's WTO compliance reaffirmed criticism of China's unfair trade practices while noting WTO rules have been ineffective in compelling China to comply. US is pursuing a multi-faceted strategic approach as it seeks to address the unique challenges posed by China and its state-led, non-market approach to the economy and trade. Bilateral engagement is one component, and the US is working to ensure that China lives up to its existing trade commitments, including the ones that China made in the Phase One Agreement. Said domestic trade tools a key focus of US trade policy toward China, which will be used as needed to achieve a more level playing field. Also signalled new trade tools are needed and currently being explored (though no details). Other component is strengthening multilateral cooperation with like-minded partners, discussed at length.

More Upbeat

Standard Chartered will hand back $750 million through a share buyback as the bank becomes more upbeat that earnings growth will return this year amid rising interest rates. Adjusted pre-tax profits for last year rose to $3.9 billion, below a company-compiled estimate. The lender's stock has been on a roll since the start of the year, hitting a two-year high last week. The shares have been boosted by the Bank of England hikes and expectations that the Federal Reserve will lift U.S. rates this year

Resolving Feud

Amazon has reached an agreement with Visa over the fees it pays to accept the payments giant's cards on its website. The retailer said it will no longer charge customers who use Visa cards on its site in Singapore and Australia an extra fee and it will not turn off Visa credit cards from amazon.co.uk. Amazon and Visa had been feuding over the so-called swipe fees.

Exchange rate

Latest Rates	Spot	Move
USD/ZAR	15.04	v
GBP/ZAR	20.45	v
EUR/ZAR	17.08	v
CHF/ZAR	16.25	v

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South Africa

President reasserts prerogative

The JSC gets another, albeit gentle, chiding from the President in an hour-long engagement with the media in which he said it was only required to advise on the suitability of the candidates. "They went over that and nominated a person." He would announce his decision soon. He also acknowledged that the waters had been muddied and that any decision he made would be criticised from one or other quarter. BD.

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

Arms deal reminders from Koen and Crawford-Browne

By decisively dismissing Zuma's latest Stalingrad ploy Judge Koen has reminded us that the Pietermaritzburg trial is all about the arms deal about which, in this morning's BD, Terry Crawford-Browne reminds us in detail. In the process he mentions that the BAE/Saab/Gripen fighter aircraft are grounded because the pilots have departed for more lucrative commercial pastures. So, if you have forgotten or are a born free and weren't around at the time, take a read to get some idea of what went on.

Coming Up

- European stocks are pointing down as traders continue to get jitters over Ukraine.
- Walmart reports in the U.S. and Intel will attempt to get shareholders back on board at an investor's day, having just agreed to buy Tower Semiconductor.
- Most of the action is in Europe, where Nestle, Airbus, Schneider Electric, Commerzbank, Kering, Repsol, Reckitt Benckiser and Orange are among companies reporting.
- Fed presidents from Cleveland and St. Louis will speak at separate events, while the governor of Norges Bank gives his annual address.
- TheG-20 finance ministers and central bank chief are meeting in Jakarta.
- The Philippines and Turkey hold rate decisions
- U.S. has housing start data and initial jobless claims.

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