

## Outlook for the day

Despite the modest improvement in the Rand the JSE looks set to build further momentum in today's session as the improved overnight performance in the US, workmanlike support in the Asia Pacific region and improvement in short term technicals continue to encourage traction to the upside in domestic equities. Technical metrics on weekly charts are currently exceptionally overbought with the JSE TOPI and JSE RESI exhibiting robust premiums versus the 200-week moving average indicating that current entry points offer a less encouraging near term risk reward outlook. Current trading exposure may be retained but given the stretched position a slightly higher level of alertness is required regarding position management and risk control.

- Fed ploughing toward hikes
- Russia denounced
- Chelsea Football Club to be sold
- Russian equities, debt in limbo.
- Ford Motor co.
- President Ramaphosa completes somersault at UN

Here's what's moving markets

## Hikes Ahoy

Federal Reserve Chair Jerome Powell backed a quarter-point interest-rate hike this month to commence a series of increases and didn't rule out a larger move at some stage if inflation remains elevated. While acknowledging the uncertainty posed by Russia's invasion of Ukraine, Powell said the need to remove pandemic policy support had not changed. Fed officials get February data on consumer prices on March 10, five days before they commence their next policy meeting.

## Exchange rate

Latest Rates	Spot	Move
USD/ZAR	15.34	▼
GBP/ZAR	20.58	▲
EUR/ZAR	17.16	▼
CHF/ZAR	16.53	▼

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## Ukraine Denouncement

Russia's invasion of Ukraine was denounced by the United Nations General Assembly, underscoring Moscow's increasing isolation on the global stage, as U.S. authorities weighed restrictions on Russian imports. U.S. President Joe Biden said he is open to implementing a ban on importing Russian oil and gas. Meanwhile, Ukrainians fleeing to the European Union will be granted full access to the bloc and receive a residence permit as well as access to education and jobs as part of a plan expected to be implemented this week.

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

### **Chelsea FC for Sale**

Roman Abramovich is selling Chelsea Football Club after almost two decades of ownership amid unrelenting scrutiny over his ties to Russia. The billionaire, who transformed the team's fortunes since his 2003 purchase, said he's instructed the board to set up a charitable foundation to receive the net proceeds from the sale. The extraordinary disclosure came hours after U.K. Prime Minister Boris Johnson fielded questions over why Abramovich hasn't yet been sanctioned.

### **Russian Markets**

MSCI and FTSE Russell are cutting Russian equities from widely tracked indexes, isolating the stocks from a large segment of the investment-fund industry. An overwhelming majority of market participants see the Russian market as "uninvest-able," MSCI said. Meanwhile, Russia's credit rating was cut to junk by Moody's and Fitch as risks mount that international sanctions could undermine its capability and willingness to service debt.

### **Ford Creates Separate EV, Gas-Engine Divisions in Major Overhaul**

Ford Motor Co. is reorganizing its operations to create two separate divisions - one for its conventional gas-engine business and another to focus on developing electric vehicles and software. Ford said Wednesday that it plans to keep both operations in-house with separate names and their own leadership structures and profit-and-loss statements. Eventually, the auto maker intends to break out separate profit-and-loss statements for the two divisions. The changes are being made immediately, Ford said.

### **Ukraine: Pentagon delays missile test and Moscow acknowledges heavy casualties**

The Pentagon said it did not want the long-planned test to be misconstrued by Russia which has put its nuclear forces on full alert. Russia acknowledged for the first time that it had suffered heavy casualties with 498 soldiers dead and 1597 wounded. It does, however, appear to have captured the city of Kherson making it the first provincial capital to fall to the Russians who appear to be having more success in the south. In the north, around Kyiv, the Russians appears to be facing more logistical hurdles, as well as resistance, than anticipated. In another FT report this morning it is suggested that, whereas oil embargoes were explicitly excluded from consideration Biden now says, "nothing is off the table". While this may be under consideration the report notes that, "in reality, however, many western banks, refineries and shipowners are in effect "self-sanctioning"-behaving as if Russian oil had already been sanctioned." FT.

### **Stocks bounce after Tuesday selloff**

No one specific factor behind firmer tone in stocks. Fed Chair Powell may have put the final nail in the coffin in terms of the 25 vs 50 bp lift off debate during his congressional testimony this morning. Some hope for another round of ceasefire talks between Russia and Ukraine.



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Report China considering dialling back zero-tolerance policy also seems supportive, particularly amid concerns about more persistent supply chain and input price pressures. Recent unwinding of some of the hawkish Fed policy repricing that has dominated the narrative (and kept path of least resistance for risk assets lower) this year another area of focus. Oversold conditions and depressed sentiment readings (contrarian indicators) in play as well with Nasdaq trading 15% below its 200-day moving average yesterday and bulls in latest Investors Intelligence report falling to 29.9%, below the 30.1% seen at the depths of the pandemic in Mar/Apr 2020.

### **Financials, materials, energy best performers with all sectors higher**

Sectors all higher in Wednesday trading, with value and growth in line with each other despite today's big backup in yields. Regional banks outperformed money centres with C-US a relative underperformer following investor day update though group saw solid gains. Insurance, asset managers also reversed some of yesterday's declines. Energy ahead on crude strength. Travel and leisure also rallied, with casinos particularly strong on update around China softening Covid-zero policies, while OTAs, hotels better. Airlines also saw solid gains with transports broadly higher after weakness over recent sessions. Building materials, machinery also reversed some of week's declines, while construction and engineering stronger (DY-US earnings). Autos better, particularly F-US (EV update). Retail also saw big gains, more than erasing week's selloff. Semis a big gainer after selloff to start the week. Hospitals, managed care, IT equipment, chemicals, industrial metals, grocers, cosmetics also among other groups that outperformed. A&D mixed with some names giving back some of the week's big gains. FANMAGs mostly higher though upside relatively modest. Social media, cloud, EVs (particularly RIVN-US on update), solar, profitless tech, meme stocks all weaker.

### **Fed Chair Powell's says he supports 25 bp hike in March FOMC meeting**

In testimony to House Financial Services committee, Fed Chair Powell said he supports 25 bp hike in March, though also noted that if inflation stays hot, the Fed is prepared to raise rates by more than 25 bp at a meeting. Also said Fed will make progress on balance sheet strategy but won't finalize plan this meeting. Powell also remarked that balance sheet reduction to be implemented through adjustments to reinvestments, rather than outright sales. Following comment, market odds of 50 bp hike fell from 13% to 2%, according to CME FedWatch. Elsewhere, St. Louis Fed's Bullard (voter) said Ukraine crisis more likely to be felt in Europe than US, while high inflation requires Fed to follow through with rate increases. Chicago's Evans (non-voter) said Fed needs to get moving on combatting inflation, while it could take until 2024 to get to 2%.

### **February ADP payrolls beat while January revised significantly higher**

February ADP private payrolls report showed a 475K gain, ahead of consensus for 320K. January also revised up 810K to 509K. Recall last month's initial ADP print of 301K came before the January nonfarm payrolls report showed a 444K monthly increase in private payrolls. The report showed big upside in service-sector jobs, up 417K m/m, including big increases in leisure and hospitality (+170K) and trade, transportation, and utilities (+98K). Goods-producing sector up 57K m/m, including 30K increase in manufacturing.

Large employers up 552K m/m, while small employers (1-49 employees) shed 96K jobs last month. Report comes ahead of Friday's February nonfarm payrolls report (4-Mar, 8:30 ET). Consensus for headline payrolls growth of 400K, down from 467K in January. Unemployment rate expected to tick down 0.1pp to 3.9%, while average hourly wage growth expected to slow 0.2pp m/m to 0.5%.

### **Hope for more peace talks, Russia steps up military assault, Western companies spurn Russia**

1. Russia is said to be ready to hold second round of talks with Ukraine on Wednesday (Reuters).
2. Ukraine said additional talks under consideration though stressed Russia must first stop bombing Ukrainian cities and noted "substantial agenda" needed (Reuters).
3. China hinted it may get involved in trying to broker a ceasefire (FT).
4. Still a lot of uncertainty surrounding Putin's mental state and what may represent an acceptable offramp for him (Washington Post).
5. Multiple reports discussed how Moscow has intensified its attacks on civilian areas (Washington Post, WSJ, NY Times, Bloomberg).
6. Lot of discussion about how a growing number of Western companies are spurning Russia (Reuters).
7. Other areas of focus include broad surge in commodity prices (Bloomberg), essential boycott of Russian oil (Bloomberg) and further pressure on supply chains (NY Times).

### **China looking at ways to dial back zero-tolerance approach to Covid**

WSJ reported that China is looking at ways to loosen its zero-tolerance approach to Covid-19. Potential proposals include travel bubbles, quarantine exemptions for fully vaccinated international travellers and general use approval of antiviral drug Paxlovid. Added that the development and introduction of China's homegrown mRNA vaccines could give Beijing another tool that would allow for a relaxation of controls. Report noted likely won't be eased before next spring, though experimental measures could begin in select cities as early as this summer. China's zero-Covid policy has been a widely discussed drag on its pandemic recovery and seemingly been one of several factors behind Beijing's fiscal and monetary policy shifts (which have run counter to other developed economies). It has also been a big driver of concerns about more persistent supply chain and input price pressures.

### **Oil continues to rise, pushing toward \$110 a barrel and highest since 2013**

Geopolitics continues to drive oil market price action. JPMorgan analysts noted yesterday that while most Western sanctions have exempted Russian energy, key European financiers have already begun cutting financing for commodities trade, while Chinese banks are also pulling back. Dynamic has led to record discount of Russia's Urals grade to Brent of \$18 a barrel (FT). Goldman Sachs analysts also raised short-term Brent price outlook to \$115, arguing that the one-off SPR release is dwarfed by the potential magnitude of Russia's export disruptions (Platts). Bloomberg reported that Democrat Senator Market introduced legislation to ban all imports of Russian crude amid bipartisan push to hit Russian energy markets. OPEC+ also increased April production

by 400K bpd today, though said it may boost output faster if disruptions drive prices higher (Bloomberg).

### **Unwinding some of the hawkish Fed policy repricing**

Big development over first two days of the week was the rally in government bonds and unwinding of some the hawkish Fed repricing. Futures market was recently pricing in 4.8 Fed rate hikes this year vs 6.2 just last Friday. Also predicting a shallower peak in fed funds rate at 1.7%, down more than 20 bp from earlier expectations (Bloomberg). Geopolitical tensions the widely cited driver amid concerns about a breakdown in the post-cold-war order and a tangled web of growth headwinds. However, one-way positioning seemed to exacerbate the bond move. Also, a healthy dose of scepticism developments in Europe will have much impact on the monetary policy calculus (Bloomberg, Reuters). Economists have downplayed demand destruction concerns with \$2.5T in excess consumer savings. Also, some focus on macro signalling from still tight credit spreads (and peripheral spreads in Europe) and jump in inflation expectations.

### **Fed's Beige Book says prices continue to increase at robust pace**

Fed's latest Beige Book said that economic activity expanded at a modest to moderate pace since mid-January, though many districts reported the Omicron surge temporarily disrupted business activity as firms faced high absenteeism. However, prices charged increased at a robust pace across the nation, according to the report. Some Districts saw an acceleration in prices, driven by rising input costs, transportation costs, increases in labour costs, and ongoing materials shortages. Firms also said they saw an increased ability to pass along prices to consumers, as demand remained strong despite price increases, and that they see additional price increases over the next several months. The labour market continued to expand at a modest to moderate pace, with firms still hampered by worker scarcity. However, some Districts saw better labour supply trends.

## **South Africa**

### **President Ramaphosa completes somersault at UN**

SA was one of 35 countries that abstained when the General Assembly voted 141-5 in favour of a non-binding resolution condemning the Russian invasion and calling on it to withdraw immediately. This is a retreat from the belated disapproval of the invasion expressed by foreign affairs minister Naledi Pandor and in line with fellow Brics members China and India who also abstained. Brazil, however, voted in favour as did Nigeria, Rwanda, and Kenya. BD.

### **Mantashe says he will be first ANC person to challenge the Zondo findings**

According to the Daily Maverick's Stephen Grootes this poses a massive headache for the President and contradicts the ANC's public comments about the commission until this point. He may become the gathering point for these obstacles.

Supporters of Zuma, whom the Commission also recommended be investigated for prosecution, have trashed the report saying (untruthfully) that it was not worth the paper it was written on as he had not been given an opportunity by the Commission to respond.

### **SA gets explanation from Russia**

Alexander Arefiev of the Russian Embassy in SA says “Russia is conducting a special military operation aimed at demilitarisation and denazification of Ukraine.

All strikes are aimed exclusively at military infrastructure”. It also aims to put an end to the “unbearable sufferings of people of Donbass, who had been indiscriminately bombarded, threatened, tortured and humiliated by the Kyiv regime and its neo-Nazi battalions”. As Tony Leon pointed out recently, however, Zelensky is Jewish. BD.

### **Coming Up**

- Geopolitical concerns look set to overshadow European stocks today despite gains in Asia after Powell’s less hawkish comments.
- Powell speaks again today, this time before the Senate Banking Committee, while New York Fed President John Williams also takes part in a panel discussion.
- Norway’s sovereign wealth fund publishes its annual report as the country seeks to offload its Russian investments.
- In earnings, Broadcom and Costco are the big names reporting in the U.S.
- In Europe, Lukoil, Lufthansa, and London Stock Exchange will report.
- In economic data, the U.S. reports factory orders, and initial jobless claims.

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