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Outlook for the day

The slightly downbeat close to US markets on Friday, a lack of outright traction in the Asian Pacific region, a downbeat tonality on Chinese IT counters including Tencent and the lack of a meaningful adjustment in the value of the Rand will create a slightly inconsistent start this to today's session even as US futures point to marginal advances at the outset of the US session later today. Near term metrics on the JSE-ALSH and JSE-TOPI continue to exhibit a touch of weakness. Structurally the JSE ALSH needs to hold ahead of the crucial double bottom support area at 72,160 points if a potential retreat down towards the area at 70,400 to 70,600 points is to be avoided.

Top US and Chinese officials to meet in Rome

Jake Sullivan, US national security adviser, and Yang Jiechi, China's top foreign affairs official will meet in Rome with Ukraine high on the agenda. China has maintained that it is neutral but has repeated Moscow's assertion that NATO's eastward expansion has been largely to blame for the situation as well as other accusations. Mediation of the conflict does not appear to be on the agenda. FT.

Exchange rate

Latest Rates	Spot	Move
USD/ZAR	15.07	v
GBP/ZAR	19.61	v
EUR/ZAR	16.50	v
CHF/ZAR	16.10	v

Sourced from IRESS - 2022/03/14 09:05:49

The rand trades slightly weaker this morning as both Ukraine and Russia cited progress in diplomatic talks over the weekend. ZAR trading will remain linked to headlines coming out over the ongoing conflict, as sanctions against Russia are impeding their ability to do business and therefore the sale of their commodities are taking a knock. Commodity export countries (such as SA) are reaping the benefits of this, as their sales are expected to increase in the coming months and strengthen their current account. The US Fed interest rate decision will be aired on Wednesday evening at 20h00 where a hike is almost cemented at 0.25%. Some outliers are still predicting a 0.5% hike due to soaring inflation, but this would seem too aggressive to start a hiking cycle where the market has already priced in six rate hikes for the year.

- Russia's request
- Shenzhen lockdown
- China tech stock rout
- Bond benchmark's slide.

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

Here's what markets are watching.

China Tech Rout

The relentless selloff in Chinese technology stocks continued on Monday, as Beijing's close relationship with Russia raised risks for mainland companies already battered by renewed regulatory headwinds. The 8.5% plunge in a gauge of Chinese tech firms reverberated around the region, even though U.S. futures were up. Treasuries slid as elevated commodity prices stoke concerns that the U.S. may need aggressive monetary-policy tightening to tame inflation.

Bond Slide

Global bond markets are flirting with a 10% slide for the first time in over a decade as surging inflation forces yields higher. The Bloomberg Global Aggregate Index, a benchmark for government and corporate debt, has fallen about 9.9% from a high in early 2021, the biggest decline from a peak since 2008, the data show. The sell-off in fixed income mainly reflects inflationary pressures the world over, dampening the appeal of low-yielding debt whose returns are being eviscerated as consumer prices surge.

Latest missile strike hints at further escalation

The Russian destruction on Sunday of a training facility 25 kilometres from the Polish border is a message that individual NATO member's convoys of arms to Ukraine are seen as legitimate targets. Meanwhile, it is becoming clear that the Russian military is avoiding the ferocious hand to hand combat for which it was famous in Stalingrad, and which would be necessary to capture cities. So, Putin is likely to step up long range destruction while Ukraine is talking of adding reparations to the list of demands at peace talks. Meanwhile the west is hoping for Russian collapse and Russia for sufficient subjugation to get what it wants. FT.MB.

Fighting in Ukraine edges closer to NATO's borders, but there are hopes for a diplomatic resolution

Russia widened its offensive to western Ukraine, striking a military base 10 miles off Poland's borders north-west of Lviv, and warning arms convoys from western countries were legitimate military targets (FT). Biden's administration said bombing would not stop flow of support to Ukraine as it announced it will rush $200M in additional small arms, anti-tank, and anti-aircraft weapons to Ukraine. Polish President Duda said in weekend interviews Russian use of chemical weapons would be "game changer" for NATO, after Western officials had warned Russia might stage "false flag" attack as pre-text for use of such weapons in Ukraine (Reuters). Comes as Russian and Ukrainian officials provided upbeat assessments of talks on Sunday. Russia delegate Slutsky flagged possible joint signing of documents in coming days while Ukraine negotiator Podolyak also expressed hope for results in a matter of days (Reuters).

Russia asked Beijing for military aid, as US and China prepare to hold high level talks on Ukraine

Press reports cited US officials who said Russia has asked China for military equipment and economic assistance for its war on Ukraine, fuelling concerns of Beijing undermining western efforts to help

Ukraine (FT, NY Times). Officials said US preparing to warn allies amid indications China may be preparing to help Russia, which was running out some kinds of weaponry. Comes as National Security Adviser Sullivan travels to Rome to meet China's top foreign policy official, Yang Jiechi, Monday for talks on Ukraine and impact of the war on regional and global security. While Sullivan warned China against trying bailout Russia, Russia' s Finance Minister Siluanov expressed hope for financial support from Beijing (Bloomberg). China has so far vowed to continue normal trade relations, though US has also warned Beijing it faces consequences for helping Russia evade sanctions, including pushing Chinese companies defying export restrictions to Russia.

Fed to commence lift off this week

Fed widely expected to raise rates by 25 bp on Wednesday. Some thoughts statement could also highlight expectations for economic conditions to evolve in a manner consistent with a series of tightening moves. Statement also likely to dial back the influence of the pandemic on the economy but acknowledge geopolitical uncertainty and the implications for inflation. Median dot widely expected to go higher in both 2022 and 2023, though some debate about how much, particularly when it comes to this year. Note market currently pricing in five rate hikes this year. Street increasingly seems to expect some additional details on balance sheet runoff that could set the stage for a formal announcement at the May meeting. Powell seen blessing market pricing on near-term tightening path, highlighting outsized data dependency and reiterating how Fed sees balance sheet runoff taking place in the background. Likely to face a lot of questions on geopolitical tensions and policy mistake risks.

Officials negotiating Iran nuclear deal may instead focus on alternative agreement that excludes Russia

With talks on reviving Iran nuclear at an impasse, western officials again rejected Russia's demand to conduct business with Tehran free from EU and US sanctions (FT, WSJ). Joint statement by France, Germany and UK on Saturday suggested Russia's demands posed a serious complication to a deal. US officials say negotiators exploring alternative options such as an interim deal where some parts of Iran's nuclear program are wound back in return for partial sanctions relief (something Iran has rejected). Negotiators also considering another JCPOA that excludes Russia. Efforts to strike a deal complicated by regional tensions after Iran's RGC launched missile attack against Erbil in Iraq in response to alleged Israeli air strikes on Iran-backed militias in Syria. Iran's attack invited criticism from US lawmakers opposed to the deal, and may heighten political sensitivity to a deal that would see Iran's RGC removed from list of Foreign Terrorist Organizations.

Record-breaking surge in crop prices has major ramifications for global food security

Russia's invasion of Ukraine has driven record-breaking gains in crop prices, disrupting agricultural supply chains, pushing up cost of living pressures and leaving poorer nations facing a food crisis (WSJ, Washington Post, FT, Bloomberg). Ukraine and Russia major wheat suppliers but UN warns up to 30% of crop areas in Ukraine will not be planted or harvested this year due to war. According to UN, global food prices hit all-time high in February but Ukraine war expected to worsen food inflation. Last year's crops kept off market due to closure of Black Sea ports and reluctance by ships to enter war zones, Russia sanctions impacting its ability to export while farming costs driven up by surging fertilizer prices with Russia and Belarus key suppliers. This is compounding pandemic-era supply issues from high shipping costs, energy inflation, labour shortages and unfavourable weather in other agriculture producing nations.

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

G7 to further ramp up sanctions against Russia

White House statement (Fact Sheet) on Friday announced G7 plans to further increase coordinated sanctions against Russia. They include: Denying Russia Most Favoured Nation status, revoking important WTO membership benefits. Prevent Russia from obtaining financing from the leading multilateral financial institutions, including the IMF, World Bank, and the European Bank for Reconstruction and Development. Continuing pressure against Russian elites, proxies and oligarchs close to President Putin and other architects of the war as well as their families and their enablers. Crack down on evasion of restrictive measures and closing loopholes, such as preventing Russian entities from leveraging digital assets. Further trade restrictions on Russia (mentioned imports of seafood, spirits/vodka, and non-industrial diamonds; exports of luxury goods to target Russian elites). US executive order banning new investments in Russian energy sector to form legal basis to restrict future investment in any sector of the Russian economy.

Shenzhen lockdown adds to tech woes

Shenzhen's Covid lockdown has triggered a sharp selloff in the tech space, with Hang Seng tech index trading down more than 8% in the morning session. Press noted ramifications extend beyond China tech, highlighting the impact on suppliers to Apple (AAPL-US), Google (GOOGL-US), and Amazon (AMZN-US). Most of the attention on Hon Hai Precision Industry (2317.TT) which announced it would suspend production at its Longhua and Guanlan factories in Shenzhen until further notice from the local government (Nikkei). Shenzhen is its second-largest manufacturing hub in China, focusing on early R&D. It has activated plans to use facilities in other cities to support production. Touch panel subsidiary General Interface Solution (6456.TT), which supplies Apple and Samsung (005930.KR), said it will suspend production from Monday and diverting some capacity to other facilities. Unimicron (3037.TT), a key supplier to Apple, Intel (INTC-US) and Nvidia (NVDA-US), said its subsidiary in Shenzhen was stopping production, though the unit accounted for less than 3% of the company's revenue. Shenzhen is also home to Huawei, Oppo, and TCL (000100.CH).

South Africa

Sisulu, Magashule, Mkhize alliance?

City Press reports that at least one ANC formation in KZN is promoting the idea of these three ANC leaders coming together with a view to challenging Ramaphosa in December and electing the first woman president of the Party and country. In Netwerk24, analyst Theo Venter says it possible but the alliance would be brittle because the two men are being charged with corruption and Sisulu has antagonised the judiciary. Steve Motale, Sisulu’s spokesperson, denies that there have been any such talks amongst the trio.

Thank you, sir!

President Ramaphosa’s tweet on Thursday after his call to Putin: “Thanking his Excellency President Vladimir Putin for taking my call today, so I could gain an understanding of the situation that was unfolding between Russia and Ukraine.” No comment!

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Media queries tweet talk of invitation

The president went onto say that SA had been asked to play a role in mediation which has led to lots of speculation including as to whether it came from Russia. While MB feels the opening sentence of Ramaphosa's tweet speaks volumes and needs no comment, Peter Bruce had plenty to say. "The world has utterly changed….the new reality Putin's invasion has created for Ramaphosa and SA is a united Europe and a united EU. A united NATO. The end of fossil fuels. The beginning of a new Cold War. (The EU) will not forget what we did at the UN."

Much-hyped infrastructure spending flatters to deceive

In this today's BD Peter Attard Montralto points out that the latest GDP data shows that public and general government spending on fixed capital in the fourth quarter fell to 3.9% of GDP from 4.1% in the previous quarter -levels last seen in 2002 and this is one of the lowest shares yet. "Clearly not enough infrastructure is being built to fit the public relations". Apparently, budgets are continually being underspent- by about between 10 and 20%.

Coming Up

- European equities are set to rise at the open despite most markets in Asia taking a beating.
- It's a quiet day for scheduled events with all eyes on the Federal Reserve decision later this week.
- The U.K. announces its review of the "shopping basket" used to measure consumer price inflation, at a time when prices are surging.
- There's earnings from Prada and Carlsberg's annual shareholders meeting.
- BP launches its annual energy outlook at a fretful time for the industry.

Otherwise is a quiet day on the data calendar today so all eyes will remain on the Ukraine-Russia conflict.

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