PMK
WEALTH & ADVISORY

16 March 2022

Outlook for the day

The upbeat overnight session in the US, marginal weakness in the Rand and an improved tonality in the Asian Pacific region will allow the JSE to draw improved support at the commencement of today's session after seven or eight days in which generalised selling pressure dominated. A trading rebound is indicated but sustained contraction to the upside on the JSE will only emerge if the domestic market breaks ahead of the 72,160-point area on the chart on the back of high-volume support. An inability to achieve this level over the next 2 to 3 trading days would almost certainly create further residual selling pressure. Very short-term trading exposure may now be retained as some traction to the upside is indicated.

- Chinese stocks surge
- Germany's spending plans
- Bernard Arnault's tenure
- Frustrations over Chelsea FC's management.

Here's what moving markets.

Markets react to Chinese support move

- China vows to support overseas shares listings
- Hang Seng tech index extends rally to 10%, set for the most ever
- Tencent extends gain to 24%
- Alibaba jumps 21%

Exchange rate

Latest Rates	Spot	Move
USD/ZAR	15.07	v
GBP/ZAR	19.65	^
EUR/ZAR	16.55	^
CHF/ZAR	16.05	v

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

Chinese tech groups become propaganda tools in Putin's war

An FT report states that the internet platforms of Tencent, Sino Weibo and ByteDance have been promoting content backing the invasion while suppressing content favourable to Kiev. This poses difficult compliance issues for foreign investors. "The Chinese market is uninventable from an ESG perspective" said Felix Boudreault MD of Sustainable Investment Strategies an environmental, social, and corporate governance group. While this view may be somewhat premature and unacceptable to the legions of global investors in Chinese stocks it will be heeded by some. Meanwhile Tencent's WeChat Pay has been given a heavy fine for content lending itself to money laundering. (NOTE: in yesterday's Morning Bell we carried a report advocating that investor retain holdings in Prosus and Naspers.)

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

Sectors mostly higher, with growth a big outperformer

Growth topped value today by ~170 bp after underperforming yesterday, though both factors solidly higher. FANMAG group all rallied. Airlines posted big gains after positive updates from UAL-US, DAL-US, and LUV-US on fading Covid pressures. Hotels, restaurants, cruise lines, gaming all better as well. Semis reversed yesterday's sharp slide, with software, cloud, profitless tech, fintech and payments all better as well. Autos and suppliers (including EVs) had a good day. Homebuilders helped by today's lower yields. Other areas of strength included retail/apparel, credit cards, MedTech, hospitals, trucking, HPCs, beverages. To the downside, energy under pressure again as oil continued its slide. Integrated, E&Ps, oil services, refiners all down. Copper and aluminium down as underlying commodities continued to give back some recent gains. Diversifiers and commodity chemicals down as well. Scattered decliners included protein, E&Cs, regional banks, generic pharma.

February core PPI posts smallest monthly rise since 2020; March Empire survey flips negative

February headline PPI increased 0.8% m/m, a bit lower than consensus for a 0.9% rise and down from January's upwardly revised 1.2% monthly pace (was up 1.0% m/m). Up 10.0% y/y. Release tabbed entirety of the monthly increase to higher goods prices, particularly gasoline. Some decline in select food categories. Services for freight transportation higher, but retail/apparel retailing, and auto retailing fell. Core PPI (ex food and energy) up 0.2% m/m, below forecast for 0.6% and January's upwardly revised 1.0% monthly pace (was up 0.8%). Up 6.6% y/y but lowest monthly increase since December 2020. Elsewhere, NY Fed's March Empire manufacturing survey came in at (11.8), its lowest level since May 2020. Below consensus for +7.5 and February's +3.1. New orders (11.2) vs +1.4 in February. Release observed a decline in shipments while unfilled orders increased. Added delivery times continued to lengthen substantially while inventories expanded, and employment showed a modest increase.

Biden set to travel to Europe next week, while little progress in latest Ukraine and Russia talks

President Biden set to travel to Brussels next week to meet with EU and NATO leaders as part of an extraordinary summit to discuss Russian invasion (Bloomberg, NY Times). Comes after Prime Ministers of EU countries Czech Republic, Poland and Slovenia travelled to Ukraine today to meet PM Zelensky and pledge EU's unequivocal support" and other assistance (Washington Post). Comes after minimal progress amid latest ceasefire talks (held by videoconference). A Ukrainian negotiator said that they discussed a possible cease-fire (Twitter), though the Kremlin later said that that Kyiv is not demonstrating a serious attitude towards finding mutually acceptable solutions. Also follows reports of Russian missile and artillery strikes on the capital Kyiv on Tuesday, hitting both military and civilian sites in the capitol (NY Times).

However, Bloomberg reported that military analysts have said a flood of anti-tank missiles sent to Ukraine has potentially changed the course of the war, putting pressure on Russia's strategy.

PMK
WEALTH & ADVISORY

Some traction for bullish talking points

Some bullish talking points getting play today. JPMorgan (Marko Kolanovic) noted a lot of risk already priced in, sentiment weak and investor positioning low. Talked up tight labour markets, healthy consumer, strong bank balance sheets and China's policy's shift. Credit Suisse (Jonathan Golub) noted recession concerns overstated with current consensus calling for 3.6% real GDP growth in 2022 vs 20-year average of 1.9%. Also highlighted elevated ISM manufacturing readings. Added even if Fed tightened seven times this year, policy would still be accommodative. Downplayed curve flattening concerns by focusing on spread between 3-month bills and ten-year notes. Also pointed out in contrast to soft Michigan consumer sentiment survey, Conference Board's consumer confidence reading still quite healthy. Noted forward EPS estimates up 3% ytd despite worries about persistent input price pressures.

But path of least resistance remains to the downside

Despite yesterday's strength, several bearish talking points remain in focus. Russian invasion of Ukraine causing a re-think of the "market largely ignores geopolitics" narrative given threat to post-Cold-War order and sanctions-driven destruction of the Russian economy and removal of liquidity from the global financial system. Hawkish central bank policy shifts the big fundamental overhang with G4 central bank balance sheets set for an "unprecedented decline" in 2H (The Market Ear). Ramp in stagflation fears has raised worries about a Fed policy mistake (WSJ, FT). Worsening China Covid trends threaten to exacerbate global supply chain constraints (SCMP) while also concerns that US cases could reaccelerate, threatening the normalization tailwind narrative. China tech selloff another area of focus given potential signalling for some pockets of tech in US already under scrutiny amid difficult pandemic comparisons and longstanding valuation concerns.

Military Spending

Germany has targeted at least 44 billion euros in spending on modern armaments as it seeks to rapidly upgrade its military after Russia's invasion of Ukraine, according to a lawmaker involved in the defence ministry's planning process. The bulk of the total is to go toward warplanes and ammunition, said Marcus Faber, a defence expert and member of the Free Democrats, a junior partner in Chancellor Olaf Scholz's three-party coalition. Germany said Monday it would purchase 35 Lockheed Martin F-35 warplanes and 15 Eurofighters.

Extending Tenure

Billionaire Bernard Arnault is signalling he's ready to extend his tenure at the helm of LVMH. The company will seek to raise the age limit for the chief executive officer to 80 from the current 75 at next month's annual general meeting, it said in a filing. Founder and CEO Arnault is 73. The proposed modification shows that he's "giving himself a longer time horizon to decide" on his succession plans, said Philippe Pele-Clamour, adjunct professor at business school HEC Paris.

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

Management Issues

Chelsea Football Club is still being managed by those close to Roman Abramovich, leading to friction in discussions with the government over how the team can operate, a U.K. official familiar with the matter said. The government is frustrated with the approach of the club's management after sanctioning its owner over his links to Russian President Vladimir Putin, according to the person

Coming Up

- European stock futures are pointing to a positive open
- Buoyed by China's rebound and gains in U.S. markets. For metals traders, the restart of nickel trading on the London Metal Exchange after a week-long halt will be just as closely watched, with most analysts expecting a fall. In earnings, Zara owner Inditex is among the big reports.
- And NATO defence ministers are set to hold an extraordinary meeting today about their response to the war in Ukraine.

http://pmkgroup.co.za

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