

29 March 2016

SA trade balance to provide rand direction

- **Following the move in the rand from 15.20 on Wednesday morning to around 15.45 on Thursday evening, as a base case we do not see substantial rand strength this week.** The last week of March (and Q1:16) will be a data-heavy week internationally.
- **Perhaps most important is the US employment report for March in the form of the US non-farm payrolls data.** This release is due on Friday; consensus is for the US economy to have created 210K nonfarm jobs in March.
- While the US inflation data was broadly unchanged from the February print, only last week St Louis Fed President Bullard indicated that if we get another strong jobs report and there are signs that the US labour market is improving, **there may be a case for a hike as soon as April.**
- **Of concern for EM portfolio flows, and by implication the rand (and to a lesser extent local bonds), is how the market seems to be positioned going into the data releases.**
- **It's a busy data week ahead on the local front, too. Among the key data prints is the SA trade balance data for February, due for release on Thursday at 14h00.** Seasonally, February's trade balance tends to outperform January's which is typically a deficit.
- We saw the trade balance narrow substantially from a surplus of R7.6bn in December to a massive R17.9bn deficit in January. Bloomberg consensus see a compression of the deficit to -R4.3bn in February.
- **The Barclays SA PMI will also be released on Friday at 11h00.** Expectations are for yet another print below the 50-benchmark line. The index has been below the threshold line since August last year.

Key financial market indicators

Spot		chg	Cross Rates		chg
USDZAR	15.48	0.13%	EURUSD	1.12	0.26%
EURZAR	17.34	0.39%	GBPUSD	1.43	0.86%
GBPZAR	22.04	0.93%	USDJPY	113.45	0.33%
ZARJPY	7.33	0.12%	AUDUSD	0.75	0.51%
USDZAR fwd		chg	Commodities		chg
1m	15.57	0.14%	Gold	1221.78	0.44%
3m	15.76	0.14%	Platinum	945.75	0.01%
6m	16.05	0.12%	Copper	4945.00	-0.09%
12m	16.64	0.11%	Brent	40.27	-0.42%
Equities/Risk		chg	US Yields/spreads		chg (bps)
ALSI	52323.78	-0.47%	US 10 yr	1.89	-0.01
VIX	15.24	3.39%	US 30 yr	2.66	-0.02
MSCI World	1627.63	0.24%	EMBI	393.86	-3.79
MSCI EM	813	0.09%	SA CDS	320.20	1.41
Bonds		chg (pps)	Rates		chg (pps)
R 203	8.27	0.04	3m JIBAR	7.23	0.00
R 208	8.97	0.04	FRA 3x6	7.46	0.00
R 186	9.37	0.05	FRA 6x9	7.79	0.01
R 214	10.04	0.04	FRA 12x15	8.13	-0.02

Source: Standard Bank Research, Bloomberg

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International developments

Following the move in the rand from 15.20 on Wednesday morning to around 15.45 on Thursday evening, as a base case we would not look for substantial rand strength this week. The last week of March (and Q1:16) is set to be a data-heavy week on the international front. Not only will we see key US data which puts the focus on US monetary policy and when the US Fed may hike rates again, but also manufacturing data from all the major economies, in particular China.

Perhaps most important is the US employment report for March in the form of the US non-farm payrolls data. This release is due on Friday; consensus is for the US economy to have created 210K nonfarm jobs in March. The unemployment rate is also expected to remain unchanged at 4.9%. Data prints in line with consensus may well be rand-negative.

However, the employment data should be read in conjunction with the US private consumption expenditure deflator (PCE) for March that was released yesterday. PCE is a preferred inflation measure of the US Fed. Headline PCE came in at 1% y/y, in line with expectations, while the core PCE printed 1.7% y/y, marginally below expectations of 1.8%.

While the US inflation data was broadly unchanged from the February print, only last week St Louis Fed President Bullard indicated that if we get another strong jobs report and there are signs that the US labour market is improving, **there may be a case for a hike as soon as April.** He also indicated that he sees PCE rising over 2% in 2017. These comments are likely to put this week's data print in the spotlight.

Of concern for EM portfolio flows, and by implication the rand (and to a lesser extent local bonds) is how the market seems to be positioned going into the data releases.

The Fed fund futures suggest there is only a 36% chance of a rate hike by the Fed in June. Although this is up from 27% at the end of January, it stands in stark contrast with what economists think according to the Bloomberg poll. Of the 73 economists that were polled, 51 think that a hike by June is likely, while only 19 see no hike. **Last year Fed hikes were negative for EM portfolio flows. As a base case we would assume it would be the case again.** Our G10 strategist, Steve Barrow, expects a hike by the Fed in June which is part of the reason why we see more rand weakness into mid-year.

Lastly, we will also see the release of manufacturing PMI data from all the major economies. Of particular interest is China's PMI (due also on Friday), given that the March PMI print has always been higher than the February print (due to Chinese New Year in February). If it does not print higher this year, it would be cause for concern.

Local developments

It's a busy data week ahead. SA's fiscal balance data for February is scheduled for release tomorrow at 14h00. Recall in January the budget balance swung into deficit territory to -R30.84bn from a high of R32.63bn in December last year. We anticipate the budget balance to have swung back into positive territory in February.

Wednesday sees the release of Stats SA's PPI for February. Bloomberg consensus expectations are for PPI to have increased to 8.5% y/y in February from 7.6% y/y in January. Growth in the m/m numbers, however, is expected to have moderated to 1.1% in February from 1.6% in January.

The SA trade balance data for February is scheduled for release on Thursday at 14h00. **Seasonally, February's trade balance tends to outperform January's which is typically a deficit.** Glancing back over the past few months, the trade balance, as reported by SARS, the trade balance only recorded 4 trade surpluses in 13 months. We saw the trade balance narrow substantially from a surplus of R7.6bn in December to a massive R17.9bn deficit in January. The main driver of the large deficit was a jump in the import bill as machinery and electronic imports rose on the back of a weaker rand. At the same time, the weaker rand did not offset the drop in export volumes in mining and vehicles. Bloomberg consensus expectations are pencilling in a compression of the deficit to -R4.3bn in February.

The trade balance (with a look through to the current account) remains a key driver for the rand. One of the key weaknesses of the rand (from a fundamental perspective) remains South Africa's external financing requirements. We expect that the trade deficit to have narrowed in February, which could provide some support to the rand in the lead-up to the release of the data print.

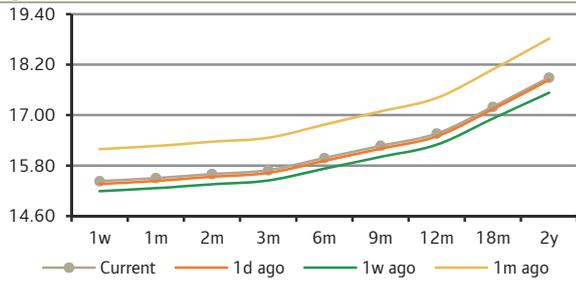
The Barclays SA PMI will also be released on Friday at 11h00. Expectations are for yet another print below the 50-benchmark line. The index has been below the threshold since August last year. Our economics team noted that rising new sales orders outpaced the increase in inventories, which saw the leading PMI indicator measure 1.01 in February — the first above 1 print since December 2013. The team also noted, however, that the 3mma of the leading PMI indicator is still below 1, and some momentum over the next few months is likely required before it begins to translate into a higher PMI and subsequently, manufacturing production. Notably, purchasing managers were reportedly less pessimistic about expected business conditions in six months' time. This sub-component increased by 5.4 points to 44.8 (remaining in contraction).

Markets

The rand weakened on Monday, closing at 15.48, compared to Friday's close of 15.46. The rand's depreciation against the dollar occurred despite dollar weakness against some of the major currencies; the dollar lost ground against the pound (0.9%) and the euro (0.3%), but gained ground against the yen (0.3%). The rand was weaker against some of the major crosses; it lost ground against the pound (0.9%) and the euro (0.4%) and gained ground against the yen (0.1%). It put in the worst performance amongst the commodity currencies we monitor, and put in the third-worst performance amongst the EM currencies, ahead of only the RUB and IDR.

Commodity prices were mixed on Monday. Gold was up by 0.4%, while platinum was up only marginally. Copper was down by 0.1% on the day. Brent closed down 0.4%, at \$40.27/bbl. Both the developed world MSCI and the MSCI EM were up on the day, by 0.2% and 0.1% respectively. The EMBI spread narrowed by 4 bps, and SA's 5yr CDS widened by 1 bps. The CBOE VIX Index, a volatility-based proxy for global risk appetite/aversion, increased by 3.4%.

Figure 1: USDZAR forwards



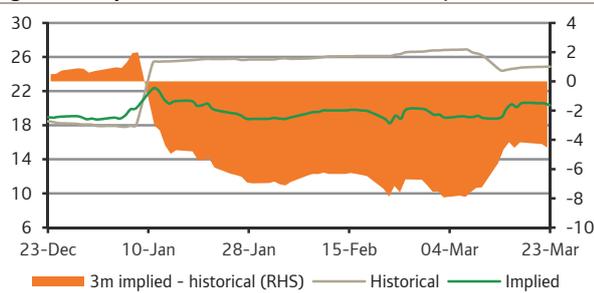
Source: Standard Bank Research, Bloomberg

Figure 2: USDZAR vs. risk-reversal



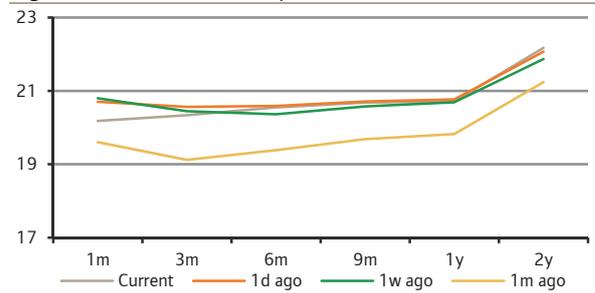
Source: Standard Bank Research, Bloomberg

Figure 3: Implied vs. actual USDZAR volatility



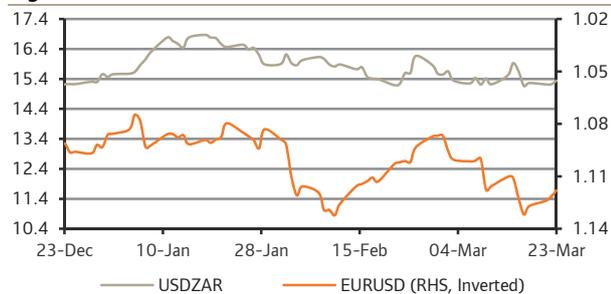
Source: Standard Bank Research, Bloomberg

Figure 4: USDZAR volatility curves



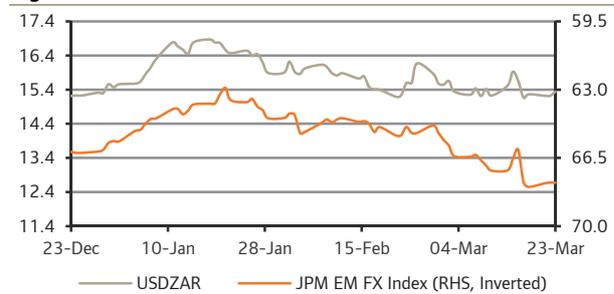
Source: Standard Bank Research, Bloomberg

Figure 5: USDZAR vs. EURUSD



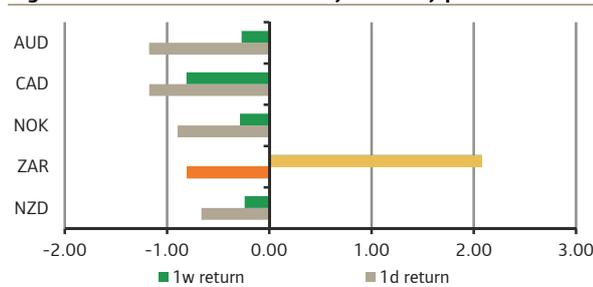
Source: Standard Bank Research, Bloomberg

Figure 6: USDZAR vs. EM FX index



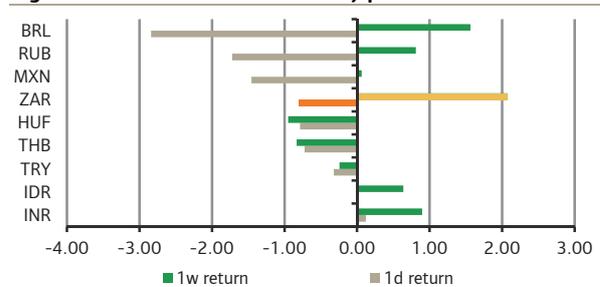
Source: Standard Bank Research, Bloomberg

Figure 7: USDZAR vs. commodity currency performance



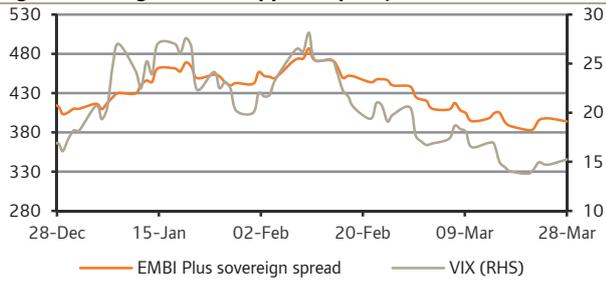
Source: Standard Bank Research, Bloomberg

Figure 8: USDZAR vs. EM currency performance



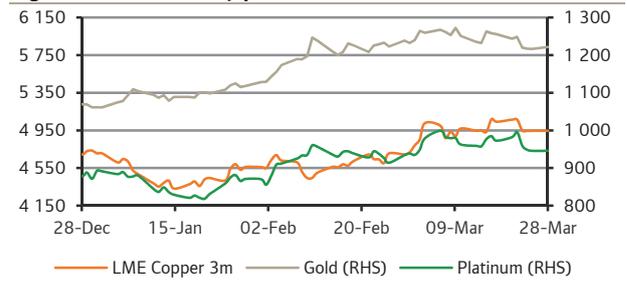
Source: Standard Bank Research, Bloomberg

Figure 9: VIX global risk appetite proxy vs. EMBI



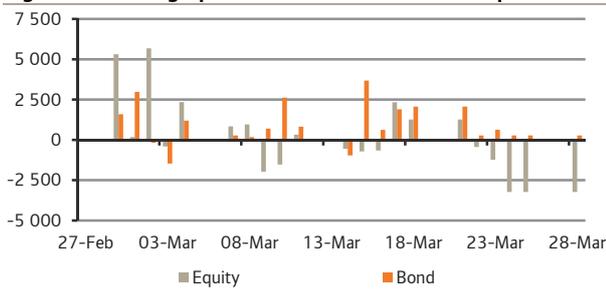
Source: Standard Bank Research, Bloomberg

Figure 10: Commodity prices



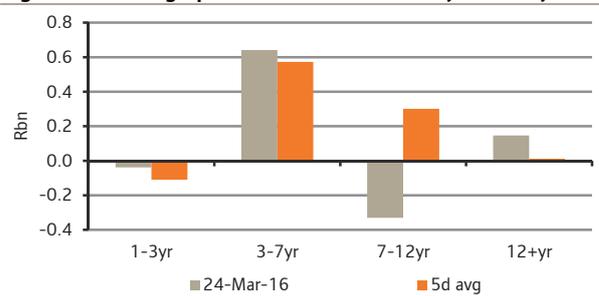
Source: Standard Bank Research, Bloomberg

Figure 11: Foreign purchases of SA bonds and equities



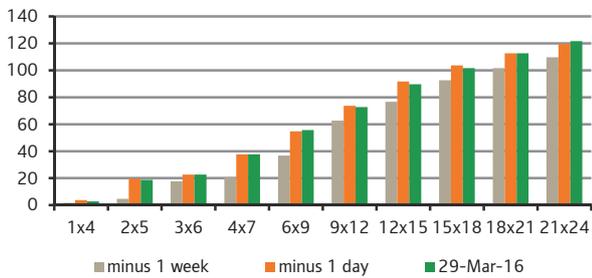
Source: Standard Bank Research, Bloomberg

Figure 12: Foreign purchases of SA bonds by maturity



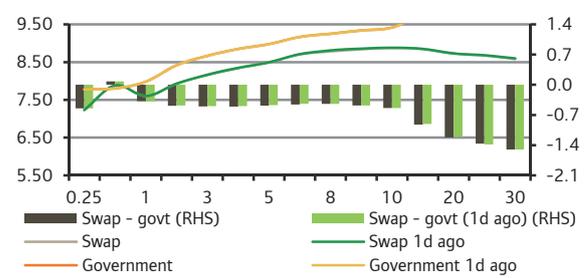
Source: Standard Bank Research, Bloomberg

Figure 13: FRAs less JIBAR



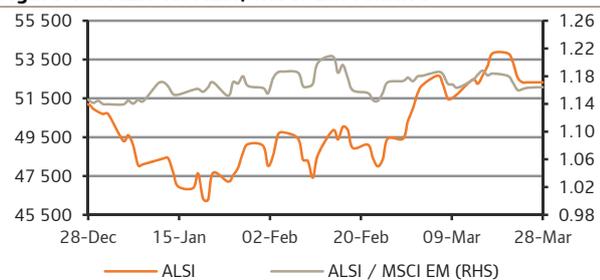
Source: Standard Bank Research, Bloomberg

Figure 14: Bond vs. swap curves



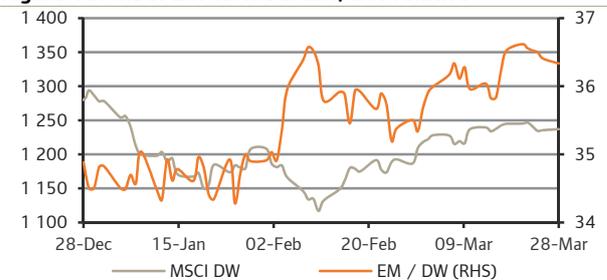
Source: Standard Bank Research, Bloomberg

Figure 15: ALSI vs. ALSI/MSCI EM relative



Source: Standard Bank Research, Bloomberg

Figure 16: MSCI EM vs. MSCI EM/DW relative



Source: Standard Bank Research, Bloomberg

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