



Week 43

## What we know

One thing we are probably not going to have to worry about in markets in the coming weeks is volatility. The amount of noise assailing eardrums from multiple directions is becoming very loud and conflicted. Chief amongst them though, is that old chestnut, inflation. Are global central bankers winning the fight against inflation? Well, that depends on who you are talking to.

On the face of it, if you missed last week's market action, it wouldn't matter much, as it was another episode of currencies winding themselves up with concerns that Central Banks will continue to tighten monetary conditions. The USDZAR inched below 18.00 at the beginning of the week, before running into technical support around 17.9600. This price action had been consistent with the rising trendline that had guided the pair's uptrend since August and a break lower would have required a significant catalyst to see follow through.

As the week moved along, the much-anticipated SA inflation data print came in line with expectations and did little to protect the rand against a deterioration in market sentiment. While SA's inflation rate is relatively low due to structurally weak demand dynamics and the SARB's prudent policymaking, it remains a significant socio-economic risk in a country also dealing with persistent load-shedding, a water crisis in the commercial capital, extreme inequality, and political uncertainty ahead of the ANC's upcoming internal elections. The Rand went onto depreciate some 1.8% reaching a two year high of USD/ZAR18.53. It wasn't immediately clear what caused the sudden capitulation although earlier in the week, we had felt that there was plenty of negative sentiment emanating from the ongoing Transnet strike and the ramped up load-shedding schedule.

The climax of the week came in the form of a resignation speech from the now former Prime Minister Liz Truss. From all accounts in the British press in the most recent weeks, it was clear that the night of the long knives was approaching for the most photogenic prime minister Great Britain and Northern Ireland ever produced. It's still quite likely that the upcoming period of fresh political uncertainty in the UK will continue to drive a portion of global risk sentiment. The most compelling question is whether the pound sterling needs to completely unwind the losses imposed by Trussonomics.

Putting down the copy of the Emperor's New Clothes we circle back to local news with the focus squarely on our Mid-term budget. The Minister of Finance will deliver his second Mid-Term Budget Policy Statement (MTBPS), and no doubt he will be keenly aware that he is speaking to a rather disgruntled domestic population and a quite trigger-happy global investment community.

## What others say

### **Moneyweb - *The great Truss gamble backfires***

With a political implosion seemingly imminent, and expectations rising that Truss' minutes in power were numbered, the pound crept up in value, heading back towards \$1.13 (on Thursday). As she gave her resignation statement, it largely held onto gains.

### **Mining - *South Africa's Treasury to trim budget deficits further on mining royalties***

In a poll carried out in the past week, budget deficits were expected at 4.9% of gross domestic product for the fiscal year that began in March and in 2023/24, from an estimated 5.3% of GDP in 2021/22. In 2024/25, it should narrow to 4.35% of GDP.

### **Daily Maverick - *The high stakes of a universal basic income***

Once in place, a universal basic income might become politically too costly to abandon, yet fiscally too expensive to sustain. In the absence of powerful progressive support, this could provide a pretext for cutting other social entitlements.

Separated from a strong political and social movement of change, a universal basic income could then run the risk of backfiring, of being captured and repurposed in ways that sustain exploitation and inequality.

### **Bloomberg - *Xi's power grab spurs historic market rout as foreigners flee***

The market meltdown following the reshuffle, which highlighted Xi's unquestioned grip over the ruling party, shows deep disappointment over a likely continuation of policies staked on Covid Zero and state-driven companies. Tech giants Alibaba Group Holding Ltd., Tencent Holdings Ltd. and Meituan all tumbled more than 11% as investors remained skeptical that Xi and his allies will seek a rejuvenation of private enterprise.

## What we think

Last week, we wrote *"The Rand was certainly tested last week but showed some resolve by managing to pullback slightly more than the Dollar Index (DXY) and sees us trading just under R18.20/USD as the market positions itself for the week ahead"*.

Markets tend to get very noisy with confusing movements before a large risk event. The contradictory noise across FX, equities and credit markets is signalling a big move is coming and we believe this week's MTBPS could be the catalyst. The market's vehement rejection of Liz Truss's economic experiment shows just how little wiggle room there currently is for Minister Godongwana, who has the unenviable task of easing investor concerns over SA's fiscal and economic outlook at a time when more than a decade of fiscal profligacy and malfeasance is catching up with the government. We are erring towards a slightly weaker Rand, higher USD, and modest recovery for the GBP. In the meantime, we're going to fetch our earplugs.

Our range for the week: R18.00/USD – R18.50/USD.

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