

Rand stronger ahead of MPC interest rate decision today

This morning the rand is trading stronger at R15.47 ahead of the South African Reserve Bank's (SARB) Monetary Policy Committee (MPC) interest rate decision later today



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It was a subdued trading day for the rand yesterday as most currencies traded sideways according to Andre Cilliers, currency strategist at TreasuryONE.

“The rand hovered around the R15.50 level for most of the day before closing at R15.49.

“Local CPI also came out precisely on expectations at 0.2% MoM and 5.0% YoY, while retail sales for October jumped by 2.1% versus the -0.2% market estimate,” he says.

Koketso Mano, FNB economist, adds that the CPI releases yesterday is another piece of information affecting the starting point of inflation forecasts ahead of the MPC meeting today.

“Another key piece of information will be the BER inflation expectations survey, which will provide indications on how price and wage setters are processing current inflation, but this will only be available in January 2022.

“We expect the SARB to hike by 25bps on Thursday, but still follow a gradual hiking cycle in support of the ongoing

economic recovery.”

November Outlook

Mano says inflation should be higher in November, with fuel inflation providing significant upward pressure after the R1.21 per litre price hike.

“Using October’s CPI to inform our update, we project headline inflation at 5.5% in November and still 4.5% on average for 2021.

“The current average is 4.3% with only two data points missing. Core inflation should remain at current levels, with a potential slight lift from the housing print in December.

“Food and NAB inflation should continue to decelerate, ending the year closer to 5.0%.

“Fuel price inflation remains a great source of near-term risk, with some analysts predicting prices breaching the R20 per litre mark by year end given a weaker rand and elevated Brent crude oil prices,” he says.

Considering raised global inflationary pressures, Mano says they are keen on developments in unit value indices for consumer-related goods.

“Relative to end 2019, unit values for crude petroleum and food products were elevated while vehicles, transport equipment as well as clothing and footwear remained below pre-pandemic levels but did tick up in August.

“Future data points should provide indications of whether this was the start of a trend.”

No major survey outcomes will be released in November, only from plumbers and electricians (0.29% weight in CPI), private sector hospitals (0.04%) and sport tickets (0.03%).

Stats SA will be applying new CPI weights with the January 2022 print. The new base period will be December.

International update

The DXY index climbed above 96.00 yesterday but is currently sitting at 95.74 as the dollar trades below its recent best levels.

The dollar is currently at 1.1320 against the euro, 1.3489 against the pound, and 114.20 against the Yen.

US bond yields closed lower across the entire curve yesterday. The 30y-yield is at 1.98%, the 10y-yield is at 1.59%, and the 2y-yield is at 0.50%.

The S&P closed 0.26% down, the Nasdaq was 0.33% lower, while the Dow lost 0.58%.

US futures are relatively flat this morning, but Asian markets take their cue from Wall Street and are all red. The local ALSI closed flat last night at 70,942.

Commodity update

Gold and platinum ended flat on the day while palladium closed stronger, but copper continued to slide.

Gold, platinum, and palladium are all flat this morning, trading at \$1,866, \$1,067, and \$2,196, respectively.

The prices of both Brent and WTI slid as oversupply, and lower demand weighed on the oil market. Brent is trading at

\$80.00 this morning, while WTI is at \$77.69.

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