Market Update Wednesday, 02 September 2020

Global Markets

Asian shares inched up on Wednesday following buoyant U.S. manufacturing indicators and a rally in U.S. tech shares, with investors also expecting more policy support from Washington.

MSCI's index of Asia-Pacific shares outside Japan gained 0.25% while Japan's Nikkei advanced 0.35%. Mainland Chinese shares slipped a tad, with bellwether CSI300 index giving up 0.3% on investor caution after having hit a five-year high earlier this week. On Wall Street, both the S&P 500 and Nasdaq boasted record closing highs, with gains of 0.75% and 1.39% respectively, with the technology sector leading the charge. Apple, the world's biggest company by market capitalisation, rose just under 4% to take its value to almost $2.3 trillion after a media report that the company had asked suppliers to make at least 75 million 5G iPhones for later this year.

U.S. manufacturing indicators showed expansion, with the reading from the Institute for Supply Management hitting its highest level in nearly two years. Euro zone manufacturing activity also grew last month to stay on a path toward recovery, though factory managers remained wary about investing and hiring more workers.

"At the moment the market is seeing a lot of positive momentum," said Greg Boutle, U.S. head of equity and derivative strategy at BNP Paribas in New York. "If you get OK-to-good data and anything from the political landscape that looks like its moving more toward a compromise that's constructive for markets."

U.S. Treasury Secretary Steven Mnuchin said on Tuesday he would telephone House Speaker Nancy Pelosi about stalled coronavirus aid negotiations later in the day. White House chief of staff Mark Meadows said Senate Republicans are likely to bring up a targeted COVID-19 relief bill next week.

The U.S. Federal Reserve dabbed in more support for the economy as Governor Lael Brainard said the central bank would need to provide more stimulus to fulfil its promise of stronger job growth and higher inflation. "We are entering the second stage of central bank-financed government stimulus," said Hiroshi Watanabe, senior economist at Sony Financial Holdings. "This means U.S. nominal bond interest rates will be kept low and real interest rates will decline. The dollar will continue to fall while boosting various asset prices from gold to stocks."

Brainard's comments helped to push down the 10-year U.S. Treasuries yield to 0.680% from above 0.7%. Last week it rose to as high as 0.789%, the highest in 2 1/2 months. The yield on inflation-protected U.S. Treasuries, or real U.S. yields, remained depressed at minus 1.092%, near a record low of minus 1.111% hit last month.

In the currency market, the strong manufacturing data helped the U.S. dollar claw back losses a tad after hitting a 28-month low against a basket of currencies on Tuesday. The dollar index stood at 92.386, off Tuesday's low of 91.737. The euro changed hands at $1.1905, flat on the day after touching above $1.20 for the first time since 2018 during Tuesday's trading. The dollar was firm on the yen at 106.03 yen. The Australian dollar lost 0.5% to $0.7348, after GDP data showed the Australian economy suffered a deeper-than-expected 7% contraction in the last quarter, its worst economic downturn on record.

Brent crude futures rose 0.8% to $45.95 a barrel. U.S. West Texas Intermediate futures gained 0.8% to $43.10 a barrel.

Domestic Markets

South Africa's rand rallied by nearly 2% on Tuesday reflecting a weakened dollar as well as easing anxiety over squabbling in the ruling African National Congress (ANC) party.

At 1500 GMT the rand was 1.92% firmer at 16.6175 per dollar, having slipped to a low of 16.9425 overnight in volatile trade that saw the unit divert away from broad gains by emerging market currencies.

Infighting within the ruling ANC intensified heading into the weekend, but in a press briefing late on Monday President Cyril Ramaphosa stamped his authority, saying party officials must take leave from their positions if charged with corruption and resign if convicted.

His response also eased speculation of cabinet moves that had riled sentiment toward the rand. "Good news indeed, but we have all been in this game far too long to take a politician's word for anything," said Standard Bank's Warrick Butler in a note.

Some analysts have forecast a rand recovery heading into end-year, despite signs of deep recession due to COVID-19, citing the high yield offered by the currency. "We have held the view for some time," economists at ETM Analytics said. "With loose liquidity conditions across the globe and a fundamentally fragile USD seen helping the ZAR unwind some of its undervaluation".

The Johannesburg Stock Exchange (JSE) reversed the losses it suffered on Monday to end the day in green as positive manufacturing data from China and Russia and growth in the local Absa PMI number in August boosted hopes of a quicker global economic recovery from the coronavirus.

The FTSE/JSE all share index was up almost one percent to end the trading day at 56,025 points while the FTSE/JSE top 40 companies index was up 0.93% at the day's close to 51,704 points.

Bonds also rallied, with the yield on the benchmark 2030 government bond down 15 basis points to 9.135%.

Source: Thomson Reuters

South African state firms seek coronavirus crisis bailouts

South African state companies have asked for billions of rand in government funding to help them through the coronavirus crisis, a finance ministry presentation to parliament on Tuesday showed. Loss-making state firms have been a long-term drain on Africa's most industrialised economy, requiring bailouts that have strained public finances at a time of weak economic growth, helping to tip its sovereign credit to a "junk" rating.

The South African Post Office (SAPO) has requested 4.9 billion rand ($293 million) in support, while broadcaster SABC is seeking 1.5 billion and airports operator ACSA has applied for an equity injection of 3.5 billion, the presentation showed. Ailing power utility Eskom's financial performance is worse than budgeted for as a result of limited economic activity during the pandemic, while arms firm Denel faces the risk of entering bankruptcy protection or being liquidated, the report by National Treasury officials revealed.

SABC told Reuters it had displaced revenue-generating programming, while expanding news content and educational coverage because of the COVID-19 pandemic. SAPO and Eskom did not respond to requests for comment. ACSA was not immediately able to comment and Denel declined comment.

Denel, which makes military equipment for South Africa's armed forces and clients around the world, told Reuters last week that it was not planning to seek new government equity injections, despite a liquidity crunch.

It is unclear how much funding will be issued to the firms. Ratings agency Moody's said in a research report on emerging markets on Tuesday that there was a "meaningful risk" of wider deficits in countries like South Africa because governments could be forced to expand support to weak state firms.

South Africa's economy is forecast to contract at least 7% this year and its budget deficit could balloon to as much as 16% of gross domestic product because of the COVID-19 crisis.

One bright spot in the presentation was state agricultural lender Land Bank, which it said had resumed interest payments to lenders from Aug. 11, after defaulting earlier this year and being promised a bailout in a June budget.

Corona Tracker

GLOBAL CASES SOURCE - REUTERS			02-Sep-2020	5:32
	Confirmed Cases	New Cases	Total Deaths	Total Recovered
GLOBAL	25,748,430	246,089	855,590	17,067,638

Market Overview

MARKET INDICATORS (Thomson Reuters)					02 September 2020
Money Market TB's		**Last close**	**Difference**	**Prev close**	**Current Spot**
3 months	➡	3.96	0.000	3.96	3.96
6 months	➡	4.07	0.000	4.07	4.07
9 months	⬇	4.17	-0.008	4.18	4.17
12 months	⬇	4.20	-0.008	4.20	4.20
Nominal Bonds		**Last close**	**Difference**	**Prev close**	**Current Spot**
GC21 (BMK: R208)	⬆	4.18	0.070	4.11	4.18
GC22 (BMK: R2023)	⬇	5.13	-0.125	5.25	5.13
GC23 (BMK: R2023)	⬇	5.10	-0.125	5.22	5.10
GC24 (BMK: R186)	⬇	7.56	-0.155	7.71	7.56
GC25 (BMK: R186)	⬇	7.57	-0.155	7.72	7.57
GC26 (BMK: R186)	⬇	7.61	-0.155	7.76	7.61
GC27 (BMK: R186)	⬇	7.86	-0.155	8.01	7.86
GC30 (BMK: R2030)	⬇	9.44	-0.150	9.59	9.45
GC32 (BMK: R213)	⬇	10.28	-0.140	10.42	10.28
GC35 (BMK: R209)	⬇	11.66	-0.115	11.77	11.66
GC37 (BMK: R2037)	⬇	12.24	-0.115	12.35	12.24
GC40 (BMK: R214)	⬇	12.83	-0.100	12.93	12.84
GC43 (BMK: R2044)	⬇	13.15	-0.125	13.28	13.16
GC45 (BMK: R2044)	⬇	13.70	-0.125	13.83	13.71
GC50 (BMK: R2048)	⬇	13.78	-0.115	13.89	13.79
Inflation-Linked Bonds		**Last close**	**Difference**	**Prev close**	**Current Spot**
GI22 (BMK: NCPI)	➡	4.49	0.000	4.49	4.49
GI25 (BMK: NCPI)	➡	4.49	0.000	4.49	4.49
GI29 (BMK: NCPI)	➡	5.98	0.000	5.98	5.98
GI33 (BMK: NCPI)	➡	6.82	0.000	6.82	6.82
GI36 (BMK: NCPI)	➡	7.15	0.000	7.15	7.15
Commodities		**Last close**	**Change**	**Prev close**	**Current Spot**
Gold	⬆	1,970	0.02%	1,970	1,963
Platinum	⬆	941	1.20%	930	936
Brent Crude	⬆	45.6	0.66%	45.3	46.0
Main Indices		**Last close**	**Change**	**Prev close**	**Current Spot**
NSX Overall Index	⬆	1,076	2.21%	1,053	1,076
JSE All Share	⬆	55,928	0.81%	55,476	55,928
SP500	⬆	3,527	0.75%	3,500	3,527
FTSE 100	⬇	5,862	-1.70%	5,964	5,862
Hangseng	⬆	25,185	0.03%	25,177	25,159
DAX	⬆	12,974	0.22%	12,945	12,974
JSE Sectors		**Last close**	**Change**	**Prev close**	**Current Spot**
Financials	⬆	9,984	2.43%	9,747	9,984
Resources	⬆	55,989	0.68%	55,612	55,989
Industrials	⬆	75,268	0.69%	74,753	75,268
Forex		**Last close**	**Change**	**Prev close**	**Current Spot**
N$/US dollar	⬇	16.62	-1.84%	16.94	16.60
N$/Pound	⬇	22.24	-1.76%	22.64	22.21
N$/Euro	⬇	19.80	-2.06%	20.21	19.76
US dollar/ Euro	⬇	1.191	-0.22%	1.194	1.191
		Namibia		**RSA**	
Economic data		**Latest**	**Previous**	**Latest**	**Previous**
Inflation	➡	2.1	2.1	3.2	2.2
Prime Rate	⬇	7.50	8.00	7.00	7.25
Central Bank Rate	⬇	3.75	4.00	3.50	3.75

Notes to the table:

- The money market rates are TB rates
- "BMK" = Benchmark
- "NCPI" = Namibian inflation rate
- "Difference" = change in basis points
- Current spot = value at the time of writing
- NSX is a Bloomberg calculated Index

Important Note:

This is not a solicitation to trade and CAM will not necessarily trade at the yields and/or prices quoted above. The information is sourced from the data vendor as indicated. The levels of and changes in the yields need to be interpreted with caution due to the illiquid nature of the domestic bond market.

Source: Bloomberg

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