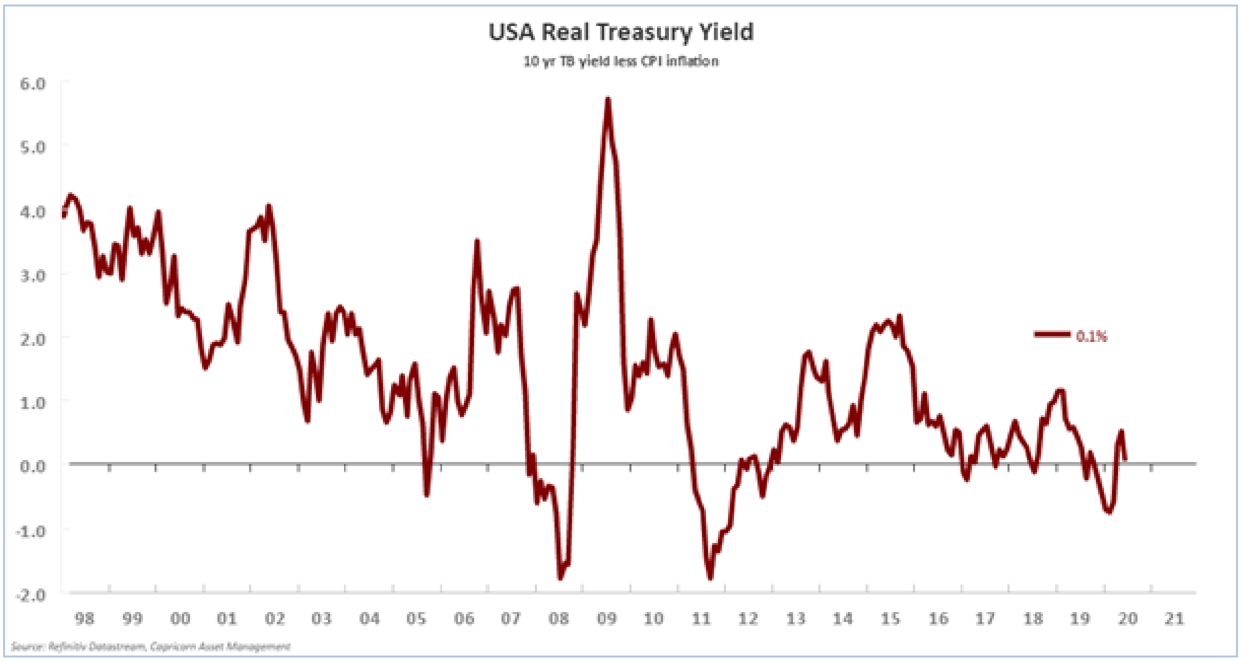

## Market Update — Monday, 03 August 2020




## Global Markets

Asian share markets turned mixed on Monday as U.S. lawmakers struggled to hammer out a new stimulus plan amid a global surge of new coronavirus cases, though a squeeze on crowded short positions left the dollar clinging to a tentative bounce.

Sentiment was helped by a survey showing China's factory activity expanded at the fastest pace in nearly a decade in July, with the Caixin/Markit PMI at 52.8. That lifted Chinese blue chips 1.0%. MSCI's broadest index of Asia-Pacific shares outside Japan dipped 0.5%, though that was from a six-month top. Japan's Nikkei added 2.1% courtesy of a pullback in the yen, while South Korea shares were flat. E-Mini futures for the S&P 500, EUROSTOXX 50 futures and FTSE futures were all little changed. Investors were nervous at the lack of a new stimulus package in the United States with White House Chief of Staff Mark Meadows not optimistic on reaching agreement soon on a deal.

On Friday, Fitch Ratings cut the outlook on the United States' triple-A rating to negative from stable, citing eroding credit strength and a ballooning deficit. The credit rating agency also said the future direction of U.S. fiscal policy depends in part on the November election and the resulting makeup of Congress, cautioning there is a risk policy gridlock could continue.

Strong results from tech giants helped the S&P 500 climb 5.5% last month, while the NASDAQ rose 6.8%. Other sectors, however, did not fair nearly as well as many states rowed back on opening their economies in the face of surging infections.

"Amid improvements in business sentiment, signals are emerging that the initial boost from pent-up demand is fading and consumer confidence is slipping lower," wrote economists at Barclays in a note. "Together with concerns about labour market and virus developments, this clouds the outlook and could be exacerbated if U.S. fiscal support is not renewed in time."

Much will depend on what key data show this week including the ISM survey of manufacturing later on Monday and the crucial payrolls report on Friday. The uncertainty saw benchmark 10-year Treasury yields hit their lowest since March at 0.52% last week and were currently just a fraction higher at 0.54%. The 10-year real rate has broken below -1% for the first time amid a marked flattening of the yield curve as investors wager on yet more accommodation from the Federal Reserve.

That took a heavy toll on the U.S. dollar which suffered its worst monthly drubbing in a decade in July, though it was attempting a rally on Monday as bears took profits on crowded short positions. The dollar was last at $1.1780 per euro, with the single currency having gained 4.8% in July to stretch as far as $1.1908. Against a basket of currencies, the dollar stood at 93.423 having touched its lowest since May 2018 on Friday at 92.538. The dollar steadied on the yen at 105.81 after hitting a 4-1/2-month low last week at 104.17. It had bounced in part when Japanese Finance Minister Taro Aso described the yen's recent rise as "rapid", signalling concern that a strong currency could add pain to an export-led economy already in recession.

The decline in the dollar combined with super-low real bond yields has been a boon for gold, which boasted its biggest monthly gain since February 2016. The metal made a fresh peak early Monday at $1,984 an ounce and seemed on track to take out $2,000 soon.

Oil prices eased on concerns about oversupply as OPEC and its allies, together known as OPEC+, are due to pull back from production cuts in August while an increase in COVID-19 cases worldwide raised fears of slower pick-up in fuel demand. Brent crude futures dipped 17 cents to $43.35 a barrel, while U.S. crude eased 22 cents to $40.05.

## Domestic Markets

South Africa's economy could contract 8.2% this year, and grow just 0.6% in 2021, if a second wave of COVID-19 cases hits the country and its main trading partners, the OECD said on Friday. If a second wave of infections is avoided, the economy will contract 7.5% in 2020 before rebounding 2.5% next year, the OECD said in a report on Africa's most industrialised economy.

South Africa was in recession before the pandemic struck, with recurring power cuts by struggling state utility Eskom and weak business confidence dampening economic activity. President Cyril Ramaphosa's government has promised to fast-track reforms to raise economic growth potential, but some investors are becoming restless about the pace of change.

"South Africa cannot afford to delay reforms. It is essential to undertake reforms to restore long-run fiscal sustainability and growth, while continuing to support the economy in the short run," Alvaro Pereira, the OECD's economics department country studies director, told a news conference. National Treasury Director-General Dondo Mogajane told the news conference that low levels of productivity and competitiveness were inhibiting job creation and investment, and said the government was focused on addressing those problems.

In its report, the OECD - a global organisation that seeks to promote economic growth, prosperity and sustainable development - suggested the South African government was right to prioritise reining in the public sector wage bill, which it said was high by OECD standards.  The OECD proposed indexing civil servants' salaries below inflation for three years, a move likely to exacerbate existing conflict between the government and trade unions, who are already fighting in the courts over promised wage increases.

Other recommendations included developing tourism, raising investment in transport infrastructure, easing regulatory restrictions and reforming the pension system to boost coverage.

South Africa's rand slumped to a new three-week low in an emerging market rout on Friday as investors' hopes for a global recovery were dented by a sharp contraction in the U.S. economy.  At 1640 GMT, the rand was 1.63% weaker at 17.0250 per dollar, its weakest since July 8, adding to Thursday's 2% plunge.

Sentiment towards the rand has been driven by offshore events in recent weeks, with stimulus programmes by developed market central banks and a relaxation of lockdown restrictions spurring the currency to pre-COVID-19 pandemic levels in June.

But signs of a resurgence in global infections have since tamed global demand for assets perceived as risky. That has put renewed pressure on the rand, which was already vulnerable given South Africa's economic recession and jump in coronavirus cases.

"Fearful of the fundamental economic weakness across the globe, investors have fled to U.S. treasuries and gold. As you'd expect, EM (emerging market) currencies are struggling, with the rand surrendering 20c to the dollar," said RMB's Nema Ramkhelawan-Bhana.

Data on Thursday showed the United States, the world's largest economy, contracted at its steepest pace since the Great Depression in the second quarter.

South African stocks dipped, tracking global markets.  The Johannesburg Stock Exchange's Top-40 Index fell 0.16% to 51,369 points, and the broader All-Share Index closed down 0.22% at 55,722 points.  Among the fallers, the bullion sector shed 2.45%, with AngloGold Ashanti down 5.34% to 554.73 rand.  Shares in MTN closed down 2.46% after scrapping its 2020 interim dividend and announcing its CEO had been appointed to head the enterprise unit of British broadband and mobile operator BT from next year.

Bonds were firmer, with the yield on the benchmark government bond due in 2030 down 5 basis point to 9.245%.

**Source: Thomson Reuters**

## Corona Tracker

| GLOBAL CASES<br>SOURCE - REUTERS | | | 03-Aug-2020 | 6:02 |
|---|---|---|---|---|
| | Confirmed Cases | New Cases | Total Deaths | Total Recovered |
| GLOBAL | 18,079,773 | 211,785 | 687,259 | 10,443,282 |

## Market Overview

| MARKET INDICATORS (Thomson Reuters) | | | | | 03 August 2020 |
|---|---|---|---|---|---|
| **Money Market TB's** | | **Last close** | **Difference** | **Prev close** | **Current Spot** |
| 3 months | | 4.18 | -0.017 | 4.20 | 4.18 |
| 6 months | | 4.34 | -0.025 | 4.37 | 4.34 |
| 9 months | | 4.48 | -0.042 | 4.52 | 4.48 |
| 12 months | | 4.55 | -0.008 | 4.55 | 4.55 |
| **Nominal Bonds** | | **Last close** | **Difference** | **Prev close** | **Current Spot** |
| GC21 (BMK: R208) | | 4.01 | 0.005 | 4.01 | 4.01 |
| GC22 (BMK: R2023) | | 5.57 | -0.190 | 5.76 | 5.62 |
| GC23 (BMK: R2023) | | 5.55 | -0.190 | 5.74 | 5.60 |
| GC24 (BMK: R186) | | 7.88 | -0.080 | 7.96 | 7.92 |
| GC25 (BMK: R186) | | 7.93 | -0.080 | 8.01 | 7.97 |
| GC26 (BMK: R186) | | 7.98 | -0.080 | 8.06 | 8.02 |
| GC27 (BMK: R186) | | 8.06 | -0.080 | 8.14 | 8.10 |
| GC30 (BMK: R2030) | | 9.86 | -0.060 | 9.92 | 9.94 |
| GC32 (BMK: R213) | | 10.60 | -0.050 | 10.65 | 10.69 |
| GC35 (BMK: R209) | | 11.82 | -0.025 | 11.85 | 11.89 |
| GC37 (BMK: R2037) | | 12.35 | -0.040 | 12.39 | 12.43 |
| GC40 (BMK: R214) | | 12.63 | -0.040 | 12.67 | 12.73 |
| GC43 (BMK: R2044) | | 13.30 | -0.060 | 13.36 | 13.41 |
| GC45 (BMK: R2044) | | 13.47 | -0.060 | 13.53 | 13.58 |
| GC50 (BMK: R2048) | | 13.53 | -0.025 | 13.55 | 13.58 |
| **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) | | 6.70 | 0.000 | 6.70 | 6.70 |
| GI36 (BMK: NCPI) | | 6.99 | 0.000 | 6.99 | 6.99 |
| **Commodities** | | **Last close** | **Change** | **Prev close** | **Current Spot** |
| Gold | | 1,975 | 0.78% | 1,960 | 1,975 |
| Platinum | | 907 | 0.47% | 903 | 898 |
| Brent Crude | | 43.3 | 0.84% | 42.9 | 43.4 |
| **Main Indices** | | **Last close** | **Change** | **Prev close** | **Current Spot** |
| NSX Overall Index | | 1,092 | -0.67% | 1,099 | 1,092 |
| JSE All Share | | 55,722 | -0.22% | 55,845 | 55,722 |
| SP500 | | 3,271 | 0.77% | 3,246 | 3,271 |
| FTSE 100 | | 5,898 | -1.54% | 5,990 | 5,898 |
| Hangseng | | 24,595 | -0.47% | 24,711 | 24,385 |
| DAX | | 12,313 | -0.54% | 12,380 | 12,313 |
| **JSE Sectors** | | **Last close** | **Change** | **Prev close** | **Current Spot** |
| Financials | | 10,156 | -2.61% | 10,428 | 10,156 |
| Resources | | 55,558 | 0.28% | 55,405 | 55,558 |
| Industrials | | 74,508 | 0.22% | 74,341 | 74,508 |
| **Forex** | | **Last close** | **Change** | **Prev close** | **Current Spot** |
| N$/US dollar | | 16.93 | 1.03% | 16.76 | 17.13 |
| N$/Pound | | 22.15 | 0.95% | 21.94 | 22.35 |
| N$/Euro | | 19.94 | 0.44% | 19.85 | 20.11 |
| US dollar/ Euro | | 1.177 | -0.61% | 1.185 | 1.176 |
| | | **Namibia** | | **RSA** | |
| **Economic data** | | **Latest** | **Previous** | **Latest** | **Previous** |
| Inflation | | 2.1 | 2.1 | 2.2 | 2.1 |
| Prime Rate | | 7.75 | 8.00 | 7.25 | 7.75 |
| Central Bank Rate | | 4.00 | 4.25 | 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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