Market Update **Monday, 04 November 2019**

Global Markets

Asian shares surged to more than 14-week highs on Monday as growing optimism over U.S.-China trade talks and upbeat U.S. job data boosted global investors' appetite for riskier assets. MSCI's broadest index of Asia-Pacific shares outside Japan jumped 1%, touching its highest level since July 25. Hong Kong's Hang Seng led gains in the region, rising 1.4%, and Seoul's Kospi added 1.3%. In mainland China, blue chips were up 0.8%, and Australian shares were 0.3% higher. Markets in Japan were closed for a holiday.

The United States and China both said on Friday that they had made progress in talks aimed at defusing their protracted 16-month-long trade war, and U.S. officials said a deal could be signed this month. But in a morning note, analysts at National Australia Bank sounded a note of caution. "As much as the U.S.-China trade updates continue to point to a Phase 1 deal looking like a certainty, the contentious issues on whether the U.S. will cancel the planned December tariffs and remove some of the current tariffs in line with China's demands remains an unknown and if the issue is not resolved then a deal could easily collapse," they said.

In comments on Friday, White House economic adviser Larry Kudlow said tariffs set to kick in on Dec. 15, which would cover Chinese imports such as laptops, toys and electronics, would remain on the table, and the decision whether to cancel them would be made by U.S. President Donald Trump. Any lingering uncertainty over the outlook for trade talks was not enough to keep the S&P 500 from gaining 0.97% and the Nasdaq rising 1.13% to fresh record closing highs on Friday. The Dow Jones Industrial Average rose 1.11%. On Monday, U.S. S&P 500 e-mini stock futures were up 0.2% at 3,067.8.

U.S. job growth slowed less than expected in October and hiring in the prior two months was stronger than previously estimated, data from the Labour Department showed on Friday. Those numbers followed a private survey of manufacturers in China that showed better-than-expected factory activity in October. Rob Carnell, Asia-Pacific chief economist at ING in Singapore, said some market optimism was "probably justified" in the wake of the positive data. "Everybody had been looking for a much worse number and it didn't materialise, so some bounce from that was entirely plausible and reasonable." But he added that continued uncertainty over trade talks and less room for monetary easing by global central banks made for a murky outlook. "It's difficult to see why you wouldn't be at least thinking, there is a 'good profit-taking opportunity right now' and positioning for a slightly worse outcome," he said.

While cash treasuries were not trading due to the Japanese market holiday, U.S. 10-year Treasury futures were down 0.06% amid the broadly bullish market mood. The implied yield on the 10-year Treasury futures contract expiring in December was 1.63%. Oil prices, which had surged on hopes for a U.S.-China trade deal, pulled back Monday. Global benchmark Brent crude was off 0.6% at $61.35 per barrel and U.S. West Texas Intermediate crude was 0.4% lower at $55.96.

In the currency market, the dollar was up 0.03% against the yen to 108.20, and the euro was up 0.04% to buy $1.1170. The dollar index, which tracks the greenback against a basket of six major rivals, was down 0.06% at 97.183. Those small moves contrasted with a 1.3% jump in the South African rand against the dollar. The currency rallied on relief that Moody's maintained South Africa's investment-grade rating on Friday, though the agency cut its outlook on the rating to "negative". Gold was slightly lower as investors moved into riskier assets. Spot gold was trading at $1,512.60 per ounce, down 0.06%.

Source: Thomson Reuters

Domestic Markets

The South African rand rose in thin Asian trading on Monday as investors were seemingly relieved that Moody's had only downgraded the ratings outlook for the country's debt and did not cut it to junk as some had feared.

The U.S. dollar was quoted down 1.2% on Reuters dealing at 14.8650 rand, paring some of the sharp gains it made last week.

Moody's on Friday revised its outlook on South Africa's 'Baa3' rating to negative, citing a deterioration in the economic growth outlook and rising debt.

Analysts had expected the move after a bleak mid-term budget statement last week that slashed this year's growth forecast to 0.5% and showed government debt racing to more than 70% of gross domestic product by 2023.

Source: Thomson Reuters

Moody’s

Moody's left South Africa on the brink of "junk" status on Friday after it revised the outlook on the country's last investment-grade credit rating to "negative," piling pressure on President Cyril Ramaphosa to quicken the pace of reform. Moody's said the outlook revision on its 'Baa3' rating, the lowest rung of investment grade, was motivated by a deterioration in the economic growth outlook and rising debt. Analysts had expected the move after a bleak mid-term budget statement this week that slashed this year's growth forecast to 0.5% and showed government debt racing to more than 70% of gross domestic product by 2023.

The rand tumbled more than 2.5% over the past week against the dollar, its sharpest weekly drop since early August. Yields on local 10-year government bond issues traded on Monday at just over 8% but climbed as high as 8.6% following the dire budget predictions.

The negative outlook means there is a window of 12-18 months in which a downgrade could be delivered, but it could come sooner if Moody's isn't impressed by the fiscal picture presented at the next budget statement in February. "The development of a credible fiscal strategy to contain the rise in debt, including in the 2020 budget process and statement, will be crucial to sustain the rating at its current level," Moody's said in a statement after South African financial markets had closed.

It added that its new outlook reflected rising concern that the government would not find "the political capital to implement the range of measures it intends, and that its plans will be largely ineffective in lifting growth". The finance ministry responded by saying the country had "a narrow window to demonstrate faster and concrete implementation of reforms". Ramaphosa has struggled to revive Africa's most advanced economy since taking over from scandal-plagued Jacob Zuma in February 2018.

The wave of optimism among foreign and local investors that accompanied his rise to power has fizzled out as the economic challenges have grown more acute, with unemployment reaching an 11-year high above 29% and state power company Eskom struggling to keep the lights on. One of the greatest worries is rising government debt, which shows no signs of stabilising soon amid repeated bailouts for state-owned companies.

Fund managers said they were not expecting a steep sell-off in government bonds and the rand when financial markets re-open on Monday, because the outlook revision was expected by so many and South African assets had fallen sharply over the past week. The spread of South African dollar debt over U.S. Treasuries is already wider than on some junk-rated sovereigns, reflecting longstanding concerns over the country's fiscal health. "Valuations are already reflecting this outcome. So on any sell-offs, we would see it as a buying opportunity," said Jean-Charles Sambor, deputy head of emerging market fixed income at BNP Paribas Asset Management.

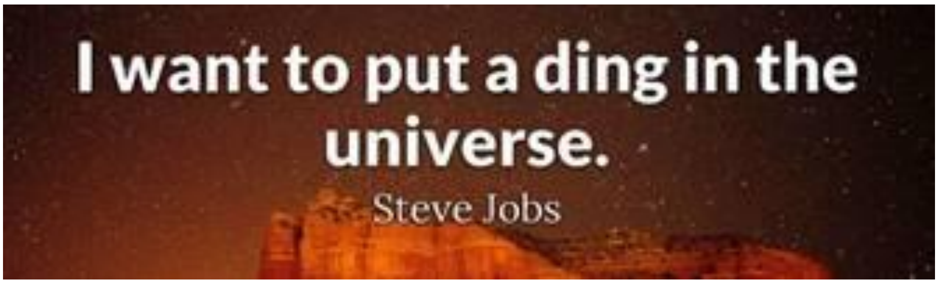
S&P Global and Fitch already moved South Africa's debt to sub-investment level in 2017, when the country was embroiled in corruption scandals under Zuma. A move to "junk status" from all three agencies typically increases a government's cost of borrowing by raising the premium that investors demand to hold its debt. It could also see South Africa evicted from the benchmark World Government Bond Index of local-currency debt, which could trigger billions of dollars of passive outflows.

Phoenix Kalen, director of emerging markets strategy at Societe Generale, said South Africa was now in the "last-chance saloon" and that it had to stabilise its debt. "This will be a Herculean task," Kalen said, citing financial pressures at state companies among causes for concern.

Ramaphosa's government has promised Eskom 230 billion rand ($15.3 billion) of bailouts over the next decade, on top of a 59 billion rand "special appropriation" over the next two fiscal years. But analysts say it will need more state money than that.

Kevin Lings, chief economist at asset manager Stanlib, said a downgrade in 2020 was now his "base case" and that some investors would be reluctant to buy South African debt until the downgrade had happened. Next year is going to be marked by consistent uncertainty around the currency and bond markets, it's going to put South Africa under a lot of strain," he said.

Source: Thomson Reuters



Market Overview

MARKET INDICATORS (Thomson Reuters)		Monday, 04 November 2019			
Money Market TB's		**Last close**	**Difference**	**Prev close**	**Current Spot**
3 months	➔				6.99
6 months	➔				7.23
9 months	➔				7.34
12 months	➔				7.43
Nominal Bonds		**Last close**	**Difference**	**Prev close**	**Current Spot**
GC20 (BMK: R207)	↓	7.37	-0.001	7.37	7.37
GC21 (BMK: R2023)	➔	7.57	0.000	7.57	7.57
GC22 (BMK: R2023)	↑	8.28	0.225	8.05	8.30
GC23 (BMK: R2023)	↑	8.77	0.237	8.53	8.81
GC24 (BMK: R186)	↑	9.23	0.025	9.21	9.11
GC25 (BMK: R186)	↑	9.04	0.245	8.79	9.10
GC27 (BMK: R186)	↑	9.24	0.245	8.99	9.30
GC30 (BMK: R2030)	↓	9.70	-0.740	10.44	9.76
GC32 (BMK: R213)	➔	10.79	0.000	10.79	10.32
GC35 (BMK: R209)	↓	10.65	-0.750	11.40	10.69
GC37 (BMK: R2037)	↑	10.76	0.230	10.53	10.80
GC40 (BMK: R214)	↑	11.18	0.220	10.96	11.22
GC43 (BMK: R2044)	↑	11.23	0.215	11.01	11.26
GC45 (BMK: R2044)	↑	11.55	0.215	11.33	11.58
GC50 (BMK: R2048)	↑	11.84	0.220	11.62	11.87
Inflation-Linked Bonds		**Last close**	**Difference**	**Prev close**	**Current Spot**
GI22 (BMK: NCPI)	➔	4.40	0.000	4.40	4.40
GI25 (BMK: NCPI)	➔	4.60	0.000	4.60	4.60
GI29 (BMK: NCPI)	➔	5.51	0.000	5.51	5.51
GI33 (BMK: NCPI)	➔	6.11	0.000	6.11	6.11
GI36 (BMK: NCPI)	➔	6.40	0.000	6.40	6.40
Commodities		**Last close**	**Change**	**Prev close**	**Current Spot**
Gold	↑	1,514	0.03%	1,513	1,512
Platinum	↑	946	1.50%	932	954
Brent Crude	↑	61.7	2.42%	60.2	61.3
Main Indices		**Last close**	**Change**	**Prev close**	**Current Spot**
NSX Overall Index	↑	1,326	0.84%	1,315	1,326
JSE All Share	↑	56,650	0.40%	56,425	56,650
SP500	↑	3,067	0.97%	3,038	3,067
FTSE 100	↑	7,302	0.75%	7,248	7,302
Hangseng	↑	27,101	0.72%	26,907	27,483
DAX	↑	12,961	0.73%	12,867	12,961
JSE Sectors		**Last close**	**Change**	**Prev close**	**Current Spot**
Financials	↓	15,829	-0.16%	15,854	15,829
Resources	↑	47,062	1.05%	46,572	47,062
Industrials	↑	70,077	0.44%	69,773	70,077
Forex		**Last close**	**Change**	**Prev close**	**Current Spot**
N$/US dollar	↓	15.02	-0.42%	15.09	14.82
N$/Pound	↓	19.43	-0.47%	19.52	19.17
N$/Euro	↓	16.77	-0.29%	16.82	16.55
US dollar/ Euro	↑	1.117	0.13%	1.115	1.117
		Namibia		**RSA**	
Economic data		**Latest**	**Previous**	**Latest**	**Previous**
Inflation	↓	3.3	3.7	4.1	4.3
Prime Rate	↓	10.25	10.50	10.00	10.25
Central Bank Rate	↓	6.50	6.75	6.50	6.75

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

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.

Source: Thomson Reuters

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