Market Update — Friday, 05 June 2020

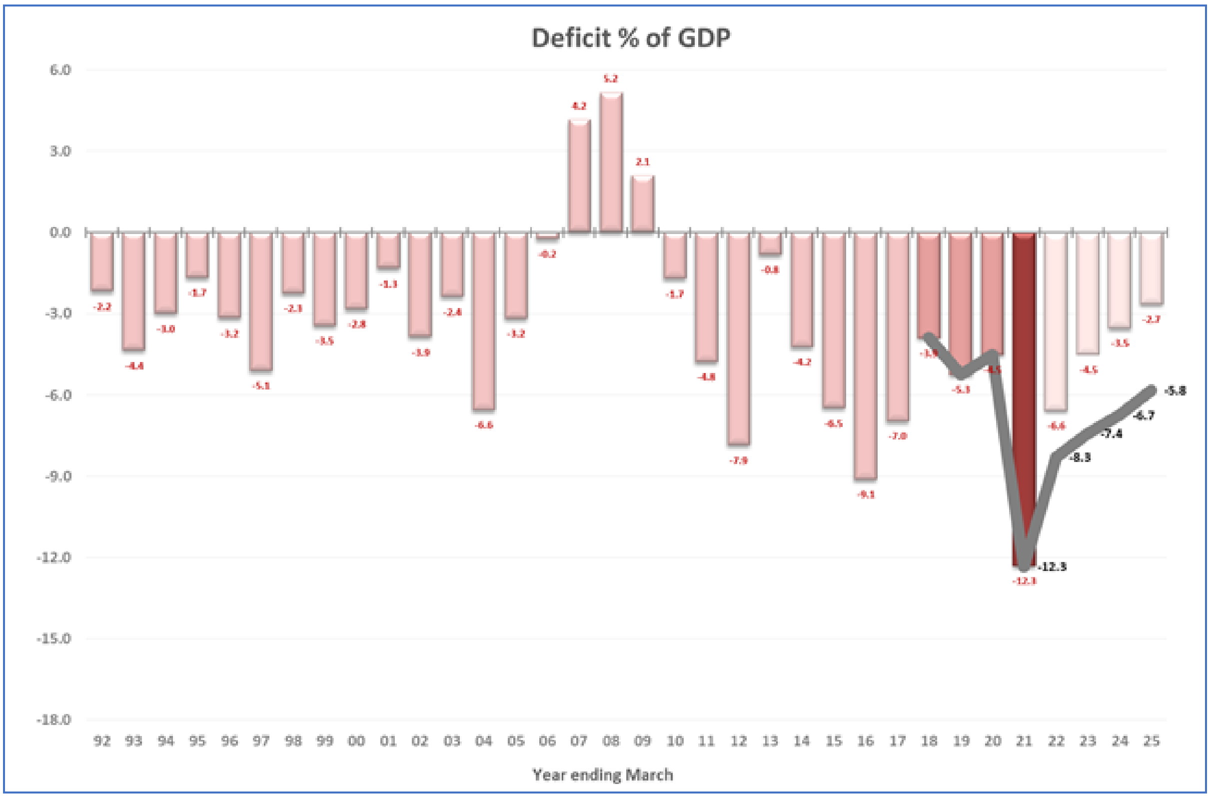
Namibia Bond Tender

This week we saw strong demand for Namibian Government bonds – N$220m was on offer, for which bids totalling N$918.7m were received (see table). This means that BoN as the funding agent of Government could have raised nearly N$1bn if they were so inclined. However, yields are quite high (good for the investor who lends to Government) not so good for the borrower (the Government that is in the process of funding its Budget deficit).

At the current yields investors are quite willing to lend, especially in the medium term (GC30, the 10yr bond at a yield of 9.4%), compared to the ultra-long end (GC50, the 30 yr bond at a yield of 12.8%). This can be seen from the Bid/Offer ratio in the table. The GC30 was 8.1 times oversubscribed because N$364.9m was bid for N$45m on offer, which was also the amount that was allocated.

Bond tender 3 June 20	GC30	GC35	GC40	GC45	GC50	Total
Offered N$	45,000,000	50,000,000	40,000,000	40,000,000	45,000,000	220,000,000
Bids N$	364,870,000	215,830,000	137,110,000	103,050,000	97,870,000	918,730,000
Bid/offer	8.1	4.3	3.4	2.6	2.2	4.2
Allocated N$	45,000,000	50,000,000	40,000,000	40,000,000	45,000,000	220,000,000
Maturity	15 January 2030	15 July 2035	15 October 2040	15 July 2045	15 July 2050	n/a
Yield %	**9.40**	**11.84**	**12.19**	**12.78**	**12.81**	n/a

Yields remain high (attractive for investors) because the borrowing requirement of Government is big – see chart. The Covid-affected fiscal stance with its concomitant high spending needs in the face of recession-driven weak revenue, means that the deficit will reach a record level of N$21bn (12.3% of GDP). The funding plan calls for N$10bn to be raised on the domestic capital market.



In the contracting economy credit growth in the private sector is weak. This means that the need for funding, generally, by businesses and households is low. The result is that there is quite a degree of liquidity in the money- and capital markets looking for a home. That is why the appetite for lending to Government is quite high at the reigning yields (also called long term interest rates). The bars in the chart above denotes a “hopeful” scenario where economic recovery and spending restraint result in the deficit being brought down. However, our “likely” scenario denoted by the grey line, means that the borrowing requirement of Government remains high, resulting in high yields.

Global Markets

Asian stocks were set to hold tight ranges on Friday after a mixed Wall Street session and as investors’ awaited key U.S. jobs data while sustained hopes about a global economic recovery kept pressure on the safe-haven dollar.

The week's global equity rally lost some steam on Thursday as traders took winnings from seven days of gains, backing away ahead of Friday's nonfarm payrolls data, which is expected to show further deterioration in the U.S. jobs market. Australian S&P/ASX 200 futures lost 0.2% in early trading while Japan's Nikkei 225 futures slipped 0.4%. Hong Kong's Hang Seng index futures lost 0.55%. E-mini futures for the S&P 500 rose 0.14%.

The dollar index fell 0.6%, with the euro up 0.04% to $1.134. "This market has gone up so far so fast there's a lot of people saying, 'I'm going to take a little profit,'" said Jim Paulson, chief investment strategist at The Leuthold Group in Minneapolis. MSCI's global stock index slipped 0.15% on Thursday, while the S&P 500 lost 0.34% and the Nasdaq Composite lost 0.69%. The Dow Jones Industrial Average held a slender gain of 0.05% to 26,281.82. The pan-European STOXX 600 index lost 0.72%.

Friday's U.S. employment report is expected to show nonfarm payrolls fell in May by 8 million jobs after a record 20.54 million plunge in April, according to a Reuters survey of economists. The U.S. unemployment rate is forecast to rocket to 19.8%, a post-World War Two record, from 14.7% in April.

Currency markets, however, showed continued confidence in the revival of the global economy, particularly after the European Central Bank pledged more support. The euro jumped to a 12-week high against the dollar on Thursday after the ECB increased the size of emergency bond purchases by 600 billion euros ($674 billion) to 1.35 trillion euros, more than the 500 billion-euro increase analysts had expected. The ECB also extended the program until at least June 2021 and pledged to reinvest returns in a reminder of how far some governments will go to support the economy.

"European policy makers have picked up the baton with respect to more policy stimulus – both monetary and fiscal. This is showing up more in currencies than it is in equities," Ray Attrill, head of FX Strategy Markets at National Australia Bank wrote to clients on Friday morning. Next week, the U.S. Federal Reserve holds its regular two-day policy meeting.

The dollar index, which measures the greenback against a basket of major currencies, declined for the past two weeks through Thursday as risk sentiment improved on optimism that the worst of the economic downturn from the coronavirus has passed. The Australian dollar rose 0.07% versus the greenback to $0.695. The Aussie, one of the best recent performers due to the increase in risk appetite, on Thursday reached as high as $0.6987, the strongest since Jan. 3.

Traders raising cash for riskier investments also sold 10-year U.S. Treasury notes for the fourth consecutive day on Thursday, lifting the yield to 0.8251% from 0.761% the day before. Oil prices were little changed in choppy trade as investors awaited a decision from top crude producers on whether to extend record output cuts. U.S. crude recently fell 0.16% to $37.35 per barrel and Brent was flat on the day. Spot gold added 0.2% to $1,713.09 an ounce. Gold was up more than 1% for the day on Thursday as weakened equity markets lent some support to demand for the metal.

Source: Thomson Reuters

Domestic Markets

South Africa's rand was largely flat on Thursday, pausing from a recent rally as investors took profits and awaited further signs of a global economic recovery. At 1530 GMT, the rand traded at 16.9400 per dollar, 0.04% weaker than its close on Wednesday, when it climbed to an 11-week peak of 16.8900.

Governments around the world have gradually started to lift tough lockdown measures imposed to contain the coronavirus which has infected more than 6.43 million people globally and killed over 380,000.

In South Africa, the government on Monday partially lifted a lockdown that has battered the economy which was already in recession before the coronavirus crisis, allowing mines and factories to run at full capacity.

Traders kept mostly on the sidelines awaiting the widely watched United States unemployment figures due on Friday. "The rand has continued to post gains over the most recent sessions, having extended these to a recent best level of 16.8900," said analysts at Nedbank in a note. "Crucially, it has thus far consolidated these gains to hold steady sub the 17.0000 level. There will be much focus on the U.S. NFP data tomorrow, but the technical indicators for the local unit suggest the potential for additional gains."

In fixed income, the yield on the 10-year government bond due in 2030 was up 7.5 basis points to 8.74%.

Stocks also paused on Thursday after hitting a more than three-month high in the last session, as investors locked in profits from recent strong gains in banks and shopping mall owners. The Johannesburg All-Share index fell 0.74% to 53,250 points, while the Blue-Chip Top-40 Index closed 0.83% lower to 48,891 points. Banks also gave some of their previous session's gains back, declining 1.1%. "Today it's just a case of taking some profits," Independent Securities trader Ryan Woods said. "There was no real reason other than one would have to say it was probably sector rotation."

South African lender FirstRand said on Thursday its full-year profits were likely to be more than 20% lower than in 2019 due to falling revenues and a spike in bad debts, pushing its shares down 2.69%. Overall, global stock markets have been moving higher since hitting a low in mid-March as countries implemented coronavirus lockdowns. With the majority of countries lifting the restrictions, investors have been cheering signs of a global economic recovery as businesses begin to reopen.

The All-Share index has jumped more than 40% since a low of 37,963 points hit in March 19.

Source: Thomson Reuters

Corona Tracker

GLOBAL CASES SOURCE - REUTERS			04-Jun-2020	18:01
	Confirmed Cases	New Cases	Total Deaths	Total Recovered
GLOBAL	6,559,236	43,490	385,940	2,768,613

Market Overview

MARKET INDICATORS (Thomson Reuters)					05 June 2020
Money Market TB's		**Last close**	**Difference**	**Prev close**	**Current Spot**
3 months		4.50	-0.280	4.78	4.50
6 months		4.82	-0.115	4.93	4.82
9 months		4.88	-0.090	4.97	4.88
12 months		4.95	-0.110	5.06	4.95
Nominal Bonds		**Last close**	**Difference**	**Prev close**	**Current Spot**
GC21 (BMK: R208)		4.23	-0.005	4.23	4.23
GC22 (BMK: R2023)		6.00	0.055	5.94	6.01
GC23 (BMK: R2023)		6.09	0.055	6.03	6.10
GC24 (BMK: R186)		7.79	0.140	7.65	7.79
GC25 (BMK: R186)		7.79	0.140	7.65	7.79
GC27 (BMK: R186)		8.00	0.140	7.86	8.00
GC30 (BMK: R2030)		9.38	0.090	9.29	9.40
GC32 (BMK: R213)		10.26	0.090	10.17	10.28
GC35 (BMK: R209)		11.83	0.070	11.76	11.84
GC37 (BMK: R2037)		11.87	0.045	11.83	11.89
GC40 (BMK: R214)		12.17	0.035	12.14	12.19
GC43 (BMK: R2044)		12.62	0.035	12.59	12.63
GC45 (BMK: R2044)		12.77	0.035	12.74	12.78
GC50 (BMK: R2048)		12.79	0.035	12.76	12.81
Inflation-Linked Bonds		**Last close**	**Difference**	**Prev close**	**Current Spot**
GI22 (BMK: NCPI)		4.35	-0.050	4.40	4.35
GI25 (BMK: NCPI)		4.50	-0.100	4.60	4.50
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		1,711	0.77%	1,698	1,709
Platinum		837	1.31%	826	837
Brent Crude		40.0	0.50%	39.8	40.2
Main Indices		**Last close**	**Change**	**Prev close**	**Current Spot**
NSX Overall Index		1,075	-0.96%	1,085	1,075
JSE All Share		53,205	-0.82%	53,645	53,205
SP500		3,112	-0.34%	3,123	3,112
FTSE 100		6,341	-0.64%	6,382	6,341
Hangseng		24,366	0.17%	24,326	24,371
DAX		12,431	-0.45%	12,487	12,431
JSE Sectors		**Last close**	**Change**	**Prev close**	**Current Spot**
Financials		10,957	-0.83%	11,049	10,957
Resources		48,850	-0.27%	48,983	48,850
Industrials		72,440	-1.35%	73,430	72,440
Forex		**Last close**	**Change**	**Prev close**	**Current Spot**
N$/US dollar		16.90	-0.19%	16.93	16.85
N$/Pound		21.28	-0.02%	21.29	21.26
N$/Euro		19.16	0.74%	19.02	19.13
US dollar/ Euro		1.134	0.93%	1.123	1.135
		Namibia		**RSA**	
Economic data		**Latest**	**Previous**	**Latest**	**Previous**
Inflation		1.6	2.4	4.1	4.6
Prime Rate		8.00	9.00	7.75	8.75
Central Bank Rate		4.25	5.25	4.25	5.25

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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