Market Update Tuesday, 05 November 2019

Global Markets

Asian shares approached their July peak on Tuesday on signs the United States and China are inching closer to a truce in their trade war and on optimism the U.S. economy is poised for solid, consumer-driven growth. MSCI's broadest index of Asia-Pacific shares outside Japan ticked up 0.1% after hitting a four-month high the previous day. China's mainland shares were little changed while Japan's Nikkei rose 1.34% to one-year high after a market holiday on Monday. On Wall Street, the S&P 500 gained 0.37% to a record high of 3,078.27 on Monday while the Dow Jones and the Nasdaq also clinched all-time highs. In Europe, shares rallied more than 1%, with many reaching their highest level since January 2018. The STOXX 600 index of small, mid-sized and large companies across Europe surged to highs last seen in July 2015.

U.S. S&P500 futures gained a further 0.2% in Asia after the Financial Times reported on Tuesday that the United States is considering rolling back levies on $112 billion of Chinese imports, which were introduced at a 15% rate on Sept. 1. The story came after Beijing and Washington spoke of progress in trade talks on Friday and U.S. Commerce Secretary Wilbur Ross said licenses for U.S. companies to sell components to China's Huawei Technologies Co will come "very shortly." "Economic uncertainties are receding. That means those who had held off their activities, both in the real economy and financial markets, are getting active," said Masaru Ishibashi, joint general manager of trading at Sumitomo Mitsui Bank. Chinese President Xi Jinping said on Tuesday the global community needs to bring down trade barriers.

U.S. employment data released on Friday showed strong job gains despite the drag from a strike at General Motors, offering some assurance that consumers would continue to support the slowing economy. "The data suggests the U.S. is almost in a full employment. More importantly those strong numbers came after three rate cuts by the Fed," said Norihiro Fujito, chief investment strategist at Mitsubishi UFJ Morgan Stanley Securities. "When the Fed did precautionary easing in the past - after Mexico crisis in 1994 and Asia/Russian crisis in 1997-98 - a rally in stock prices followed. No wonder money is flowing to risk assets now," he said.

Bonds are losing some of their appeal and the yield on benchmark 10-year notes rose back to 1.799% compared to last week's low of 1.670%.

In the currency market, the dollar gained to 108.60 yen, extending its recovery from 107.89 touched on Friday. Trade optimism kept the Chinese yuan near its highest levels since mid-August, with the onshore yuan at 7.0259 per dollar, up slightly on the day. The currency maintained gains even after China's central bank cut its one-year medium-term lending facility (MLF) rate by 5 basis points, for the first time since early 2016. The currency shrugged off the Caixin/Markit services purchasing managers' index (PMI) showing China's services sector activity expanded at its slowest pace in eight months in October. The euro changed hands at $1.1125, off last week's high of $1.1175.

The Australian dollar traded at $0.68805, staying near one-week low after a dire set of retail sales numbers released on Monday suggested the economy was still struggling despite three cuts in interest rates. Still, that has did little to change market expectations that the Reserve Bank of Australia is expected to hold fire at its interest rate decision on Tuesday.

Oil prices ticked lower in Asia but stayed not far from their highest levels since late September, buoyed by an improved outlook for crude demand as better-than-expected U.S. jobs growth added to market hopes a preliminary U.S.-China trade deal would be reached this month. U.S. West Texas Intermediate (WTI) crude traded at $56.42 per barrel, down 0.21% after having hit a six-week high of $57.43 on Monday.

Domestic Markets

The South African rand and government bonds jumped on Monday after ratings agency Moody's kept the country's last investment-grade credit rating intact, but many investors expected the rally could fade soon. Moody's decision on Friday to leave South Africa's sovereign debt at Baa3, the lowest rung of investment grade, was a relief to beleaguered President Cyril Ramaphosa, who is battling to stimulate growth in Africa's most advanced economy. But by revising the outlook on that rating from stable to negative, Moody's sent a warning that a downgrade could follow in the next 12-18 months - or sooner if the government doesn't come up with a credible budget in February. A downgrade to "junk" status on the local-currency rating could trigger large outflows from South African government bonds, as they would be ejected from the benchmark World Government Bond Index.

At 1500 GMT, the rand traded at 14.80 versus the U.S. dollar, around 1.5% stronger than its previous close. South Africa's dollar-denominated sovereign bonds surged, with longer-dated issues adding as much as 1.3 cents in the dollar. The yield on the benchmark 2026 rand bond fell 17 basis points to 8.405%, while the Johannesburg Stock Exchange's Top-40 Index saw modest gains of around 0.5%. Traders and fund managers expected gains could probably be short-lived, as it would be hard for Finance Minister Tito Mboweni to present a greatly improved fiscal picture in February. Warrick Butler, executive for rand and emerging market spot trading at Standard Bank, said the three to four months until the February budget was "a very short period of time to pump the water from the Titanic".

Part of the reason for Monday's rally was that South Africa had escaped with the best of the possible outcomes from Moody's, said Wayne McCurrie at FNB Wealth and Investments. A small minority had thought the rating would be downgraded or Moody's would place South Africa "on watch" - both bleaker outcomes than a negative outlook.

A healthy appetite for high-yielding assets in emerging markets more broadly and last week's steep sell-off in South Africa underpinned the rally. On Wednesday, the rand saw its largest daily fall in over a year, after Mboweni's medium-term budget slashed this year's growth forecast to 0.5% and showed government debt racing to exceed 70% of gross domestic product by 2023.

Deutsche Bank analysts warned clients not to be "fooled" by Monday's strong gains, adding they were extremely cautious on local government debt and predicted the rand could sink to 15.50 to the dollar, more than 4% weaker than its current level. Those bearish projections - echoed by some local analysts - come at a bad time for Ramaphosa, who is hosting a summit in Johannesburg this week to try to woo foreign investors. Adrian Saville, chief executive of Cannon Asset Managers, said the fact that South African credit spreads traded in line with some junk-rated sovereigns showed the bond market had made up its mind.

Despite positive changes to governance at state firms and greater certainty on energy policy, Ramaphosa's reforms were moving at a "glacial pace," Saville said. Investors want to see progress cutting a bloated public-sector wage bill and rescuing state power utility Eskom from crisis.

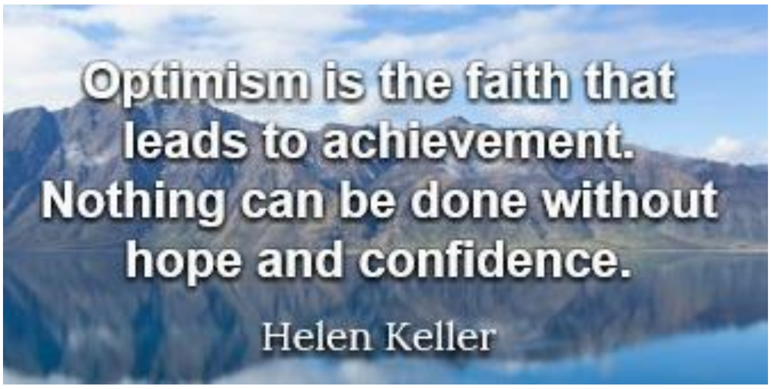
But those who are more risk-averse have been jettisoning South African bonds for years on the expectation the country would be cut to junk. Bank of America Merrill Lynch's David Hauner estimates investment grade-only investors now hold around $1.5-$2 billion of South African local-currency bonds, down from $10 billion three years ago. 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



Market Overview

MARKET INDICATORS					05 November 2019
Money Market TB's		**Last Close**	**Change**	**Prev Close**	**Current Spot**
3 months	↑	7.099	0.068	7.031	7.099
6 months	↑	7.257	0.024	7.233	7.257
9 months	↑	7.353	0.044	7.309	7.353
12 months	↓	7.458	-0.006	7.464	7.458
Nominal Bonds		**Last Close**	**Change**	**Prev Close**	**Current Spot**
GC20 (BMK: R207)	↑	7.233	0.034	7.199	7.196
GC21 (BMK: R2023)	↑	8.154	0.002	8.152	8.153
GC22 (BMK: R2023)	↑	8.252	0.034	8.218	8.170
GC23 (BMK: R2023)	↓	8.346	-0.004	8.350	8.341
GC24 (BMK: R186)	↑	8.973	0.018	8.955	8.968
GC25 (BMK: R186)	↑	8.984	0.022	8.962	8.983
GC27 (BMK: R186)	↑	9.087	0.017	9.070	9.082
GC30 (BMK: R2030)	↑	10.037	0.317	9.720	10.106
GC32 (BMK: R213)	↑	10.225	0.032	10.193	10.148
GC35 (BMK: R209)	↑	10.817	0.238	10.579	10.740
GC37 (BMK: R2037)	↑	10.943	0.060	10.883	10.865
GC40 (BMK: R214)	↑	11.095	0.009	11.086	11.093
GC43 (BMK: R2044)	↑	11.097	0.008	11.089	11.160
GC45 (BMK: R2044)	↑	11.350	0.071	11.279	11.378
GC50 (BMK: R2048)	↓	11.212	-0.104	11.316	11.249
Inflation-Linked Bonds		**Last Close**	**Change**	**Prev Close**	**Current Spot**
GI22 (BMK: NCPI)	↓	4.349	-0.014	4.363	4.351
GI25 (BMK: NCPI)	↓	4.621	-0.030	4.651	4.622
GI29 (BMK: NCPI)	↓	5.545	-0.007	5.552	5.546
GI33 (BMK: NCPI)	↓	6.126	-0.002	6.128	6.127
GI36 (BMK: NCPI)	↓	6.436	-0.043	6.479	6.437
Commodities		**Last Close**	**Change**	**Prev Close**	**Current Spot**
Gold	↓	1,509.82	-0.30%	1,514.34	1,506.96
Platinum	↓	936.40	-1.51%	950.75	938.53
Brent Crude	↑	62.13	0.71%	61.69	62.19
Main Indices		**Last Close**	**Change**	**Prev Close**	**Current Spot**
NSX Overall Index	↑	608.17	1.16%	601.17	608.17
JSE All Share	↑	56,928.87	0.49%	56,650.01	56,928.87
S&P 500	↑	3,078.27	0.37%	3,066.91	3,078.27
FTSE 100	↑	7,369.69	0.92%	7,302.42	7,369.69
Hangseng	↑	27,715.05	0.61%	27,547.30	27,715.05
DAX	↑	13,136.28	1.35%	12,961.05	13,136.28
JSE Sectors		**Last Close**	**Change**	**Prev Close**	**Current Spot**
Financials	↓	15,829.01	-0.16%	15,854.22	16,139.59
Resources	↑	47,061.55	1.05%	46,572.16	47,035.65
Industrials	↑	70,076.74	0.44%	69,772.98	70,161.50
Forex		**Last Close**	**Change**	**Prev Close**	**Current Spot**
N$/US Dollar	↓	14.81	-1.53%	15.04	14.79
N$/Pound	↓	19.08	-1.90%	19.45	19.05
N$/Euro	↓	16.48	-1.85%	16.79	16.45
US Dollar/ Euro	↓	1.11	-0.89%	1.12	1.11
		Namibia		**RSA**	
Economic data		**Latest**	**Previous**	**Latest**	**Previous**
Inflation	↓	3.26	3.71	4.10	4.30
Prime Rate	↓	10.25	10.50	10.00	10.00
Central Bank Rate	↓	6.50	6.75	6.50	6.50

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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