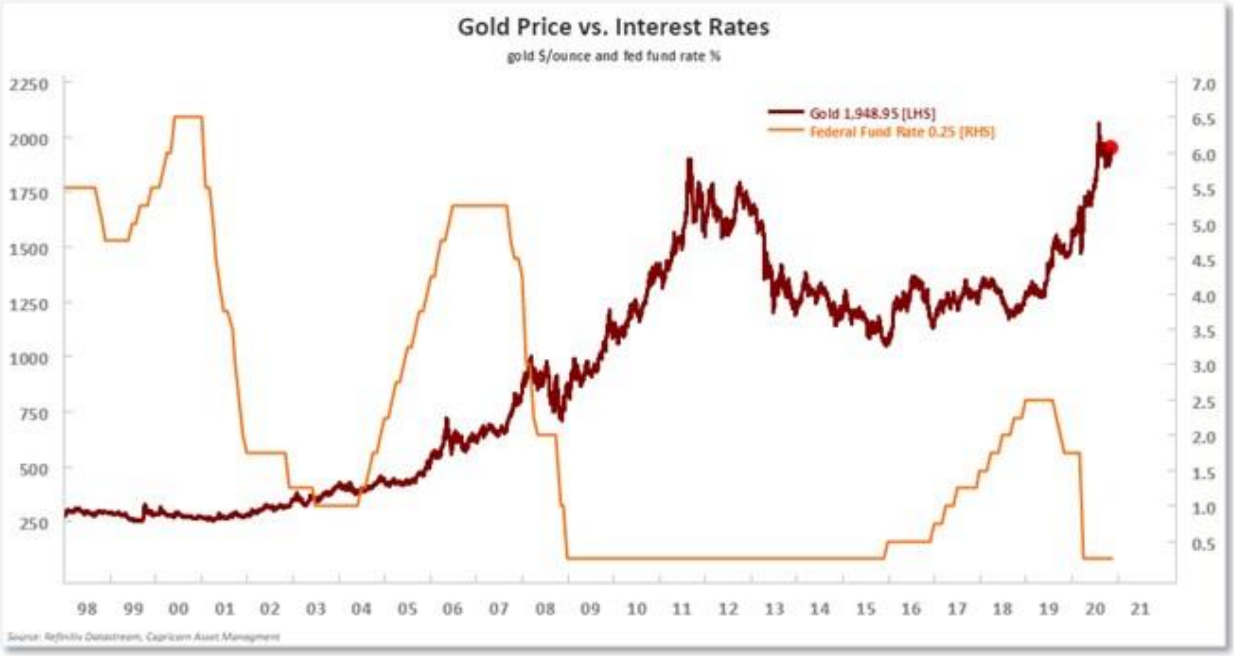
Market Update Friday, 06 November 2020



The Federal Reserve

The Federal Reserve kept its loose monetary policy intact on Thursday and pledged again to do whatever it can in coming months to sustain a U.S. economic recovery losing speed amid a spreading coronavirus pandemic and facing uncertainty over a still-undecided presidential election.

The economy is still growing but "I would not say that anybody is feeling comfortable about this," Fed Chair Jerome Powell said in a news conference after the Fed's latest two-day policy meeting. "We've gotten through the first five, six months of the expansion better than expected ... But we have to be humble where we are relative to this disease. It has not gone away."

The short-term outlook is also clouded by doubts about where fiscal policy may be headed in coming weeks, or how smooth a possible transition would be between an incoming Democratic administration led by Joe Biden and a lame-duck administration led by Republican President Donald Trump that will still hold sway over upcoming decisions on funding the government and extending the U.S. central bank's emergency programs.

Powell said the Fed is only now beginning to consider whether it needs to extend various emergency credit facilities beyond their Dec. 31 expiration. Results from Tuesday's U.S. election were still being tabulated in a few key states, though Biden was near the minimum 270 votes in the state-by-state Electoral College needed to win the White House. The policy statement released after the end of the Fed's meeting did not mention the election, and Powell volunteered no commentary on the possible economic fallout from a protracted dispute over it.

But the Fed chief did say the U.S. economy was now recovering more slowly after being boosted earlier in the year by fiscal aid and the re-opening of some businesses. "A full economic recovery is unlikely until people are confident that it's safe to reengage in a broad range of activities," Powell told reporters, noting that while the housing market had fully recovered since the pandemic hit, spending on services remained low. He also said the recent rise in coronavirus infections in the United States and abroad was "particularly concerning," and noted that social distancing and masks were needed to help contain the virus and support the economy.

U.S. stocks, up sharply before the Fed's statement was released, largely held their gains to close higher on the day. Yields on U.S. Treasury debt securities were little changed, and the dollar remained weaker against a basket of major trading partners' currencies. In a statement virtually unchanged from the one issued at its September policy meeting, the Fed's policy-setting Federal Open Market Committee repeated its pledge to use its "full range of tools" to support the economy, and promised not to consider raising interest rates until maximum employment had been restored and inflation was heading above its 2% target.

"Economic activity and employment have continued to recover but remain well below their levels at the beginning of the year," it said in a unanimous statement which left the central bank's key overnight interest rate unchanged at near zero. "The COVID-19 pandemic is causing tremendous human and economic hardship across the United States and around the world." The Fed said it would for now continue buying "at least" $120 billion per month in government bonds and use its other tools and programs as needed depending on how the economy evolves. Tamping expectations that "quantitative easing" might be ramped up in coming months, Powell said the Fed's existing bond-buying program was debated at the just-concluded meeting and is considered to be providing an appropriate amount of economic support.

The U.S. employment report for October, due to be released by the Labour Department on Friday, will give the latest glimpse of how quickly the economy is pulling the millions unemployed by the pandemic back into jobs. Beyond that the Fed will also be waiting to see whether Biden does indeed win the presidency or whether Trump manages to remain in power, and what either scenario could mean in terms of additional government spending to help those out of work.

"The risks to the economic recovery have increased since the Fed last met in September, with rising coronavirus cases, slower job growth, a lack of new stimulus for consumers and small businesses, and now an unresolved presidential election," Greg McBride, Bankrate.com's chief financial analyst, said in an email. "The Fed has done what they can do at this point, despite saying they have a range of tools still available."

Global Markets

A gauge of Asian shares rallied to a near three-year peak while the dollar stayed sluggish and U.S. bond yields slipped on Friday in anticipation that a divided U.S. legislature would limit major policy changes and keep the status quo on economic policies. Investors expect Democrat Joe Biden to beat

President Donald Trump and the Republicans to retain control of the Senate, allowing them to block the Democrats' agenda, such as corporate tax hikes and massive borrowing for large spending.

"With the prospects of fiscal stimulus constrained by a likely gridlock in Washington, monetary policy will likely have to do heavy lifting, boosting risk assets and putting pressure on the dollar," said Hiroshi Watanabe, economist at Sony Financial Holdings.

Japan's Nikkei average rose 0.7% to almost its best level in 30 years while MSCI's broadest gauge of Asian Pacific shares outside Japan rose 0.3%. U.S. S&P futures dropped 0.3% in early Asian trade, a day after the underlying stock index rose 1.95%. U.S. Treasury yields drifted lower again as investors bet that a divided U.S. government will cap debt-funded government spending and limit bond supply. Ten-year Treasury yield edged lower to 0.773%, more than 150 basis points below the pre-U.S. election level seen on Tuesday. It had struck a three-week low of 0.7180% on Thursday.

"There will no longer be the massive largesse people were imagining. After all when it comes to fiscal spending, the Senate really matters," said Kazushige Kaida, head of FX sales, at State Street Bank's Tokyo Branch. U.S. networks project almost no Democratic gains in the Senate, though vote-counting is ongoing. The Federal Reserve on Thursday kept its monetary policy loose and pledged to do whatever it takes to sustain an unsteady U.S. economic recovery. With COVID-19 raging in the United States and parts of Europe, many investors assume more monetary stimulus will be inevitable.

The Bank of England expanded its asset purchase scheme on Thursday while the European Central Bank is widely expected to announce more stimulus next month. Investors also focus on the stalled talks on a U.S. coronavirus relief package. "We still anticipate that there will be a fiscal package in excess of $1 trillion next year," said James Knightley, chief international economist at ING Group. "This stimulus, when combined with a long-anticipated COVID-19 vaccine, can really lift the economy and drive growth. We consequently remain very upbeat on the prospects for 2021 and 2022."

Trump's campaign pursued lawsuits challenging the election process in several states but few investors expect him to retain the presidency through the courts. "Markets think Biden will win even after court battles. There are uncertainties but they are uncertainties with a time-limit," said Nana Otsuki, chief analyst at Monex Securities.

In the currency market, lower yields undermined the dollar against many currencies. The dollar index touched a two-month low of 92.473 and last stood at 92.718. The euro traded at $1.1810 while the offshore Chinese yuan hit a near 2 1/2-year high of 6.6000 to the dollar. A softer dollar supported the Japanese yen, which climbed to a near eight-month high of 103.43 yen against the dollar overnight. It was steady in early Asian trade at 103.52 yen.

Gold, which is limited in supply and seen as a hedge against inflation in an era of ultra-loose monetary and fiscal policies, eased slightly to $1,942 per ounce after jumping over 2% overnight. Oil prices were sluggish after a bout of profit-taking in early trade. Brent crude was down 1.73% at $40.22 a barrel.

Domestic Markets

South Africa's rand firmed on Thursday, remaining below the key technical level of 16.00 to the dollar breached in a rally driven by increasing indications that Joe Biden was moving closer to victory in a tight U.S. presidential election.

At 1505 GMT, the rand was 0.33% firmer at 15.7975 per dollar, after hitting a new eight-month best of 15.7575 earlier in the session. Government bonds also firmed, with the yield on the benchmark 2030 paper dropping 28 basis points to 8.98%.

Biden, a Democrat, edged closer to victory in the race for the White House on Thursday as election officials tallied votes in the handful of states that will determine the outcome. Republican President Donald Trump alleged fraud without providing evidence, filed lawsuits and called for recounts in a race yet to be decided two days after polls closed.

"Given how the exit polls are indicating a win for Democrat challenger Joe Biden but a divided Congress, markets are pricing in the prospects of lower stimulus spending – something that continues to weaken the dollar," Lukman Otunuga, senior research analyst at FXTM, said in a note. "This sentiment may offer further support to the rand."

Otunuga said that while the election remained a big deal, markets focus was also on the U.S. Federal Reserve policy decision on Thursday. "Should the central bank sound dovish, this could end up weakening the dollar, consequently providing a tailwind to emerging market currencies like the rand," said Otunuga.

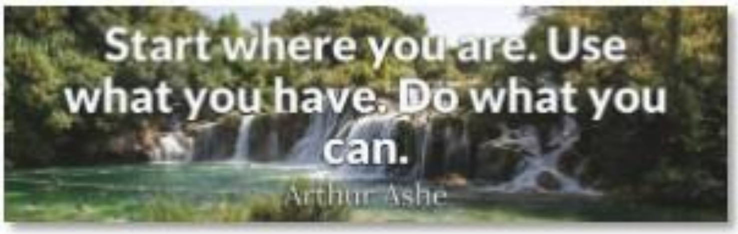
The Johannesburg Stock Exchange (JSE) recovered all of last week's losses to post a fourth consecutive day of rally with the all share index closing up 2.76% at 55,137 points. The top 40 companies index was up 2.81% to close at 50,687 points.

"The blue wave has not materialised even with a Biden win," said Greg Davies, head of wealth at Cratos Capital, adding that a Republican-controlled U.S. Senate means it will not be easy for Biden to implement proposed tax measures which is boosting the markets. The broad-based rally was largely led by technology and gold mining stocks. Index heavyweight Naspers Ltd, which holds a more than 30% stake in Chinese internet giant Tencent via subsidiary Prosus NV, was up by almost 6% on the back of soaring Chinese technology stocks. The gold mining index was up 4.53% as the price of safe haven gold soared.

Source: Thomson Reuters

Corona Tracker

GLOBAL CASES SOURCE - REUTERS				
	Confirmed Cases	New Cases	Total Deaths	Total Recovered
GLOBAL	48,637,599	47,784	1,232,347	32,362,901



Market Overview

MARKET INDICATORS (Thomson Reuters)					06 November 2020
Money Market TB Rates %		**Last close**	**Difference**	**Prev close**	**Current Spot**
3 months	⇨	3.85	0.000	3.85	3.85
6 months	⇨	3.93	0.000	3.93	3.93
9 months	⇨	3.91	0.000	3.91	3.91
12 months	⇩	3.85	-0.009	3.86	3.85
Nominal Bond Yields %		**Last close**	**Difference**	**Prev close**	**Current Spot**
GC21 (Coupon 7.75%, BMK R208)	⇩	3.90	-0.130	4.03	3.90
GC22 (Coupon 8.75%, BMK R2023)	⇩	4.86	-0.085	4.94	4.86
GC23 (Coupon 8.85%, BMK R2023)	⇩	4.76	-0.085	4.84	4.76
GC24 (Coupon 10.50%, BMK R186)	⇩	7.07	-0.240	7.31	7.07
GC25 (Coupon 8.50%, BMK R186)	⇩	7.08	-0.240	7.32	7.08
GC26 (Coupon 8.50%, BMK R186)	⇩	7.08	-0.240	7.32	7.08
GC27 (Coupon 8.00%, BMK R186)	⇩	7.37	-0.240	7.61	7.37
GC30 (Coupon 8.00%, BMK R2030)	⇩	9.28	-0.265	9.55	9.29
GC32 (Coupon 9.00%, BMK R213)	⇩	10.46	-0.270	10.73	10.46
GC35 (Coupon 9.50%, BMK R209)	⇩	11.59	-0.240	11.83	11.60
GC37 (Coupon 9.50%, BMK R2037)	⇩	12.36	-0.240	12.60	12.37
GC40 (Coupon 9.80%, BMK R214)	⇩	13.02	-0.245	13.27	13.02
GC43 (Coupon 10.00%, BMK R2044)	⇩	13.53	-0.245	13.78	13.53
GC45 (Coupon 9.85%, BMK R2044)	⇩	13.81	-0.245	14.06	13.81
GC50 (Coupon 10.25%, BMK: R2048)	⇩	13.87	-0.250	14.12	13.87
Inflation-Linked Bond Yields %		**Last close**	**Difference**	**Prev close**	**Current Spot**
GI22 (Coupon 3.55%, BMK NCPI)	⇨	4.49	0.000	4.49	4.49
GI25 (Coupon 3.80%, BMK NCPI)	⇨	4.25	0.000	4.25	4.25
GI29 (Coupon 4.50%, BMK NCPI)	⇨	4.38	0.000	4.38	4.38
GI33 (Coupon 4.50%, BMK NCPI)	⇨	6.76	0.000	6.76	6.76
GI36 (Coupon 4.80%, BMK NCPI)	⇨	7.02	0.000	7.02	7.02
Commodities		**Last close**	**Change**	**Prev close**	**Current Spot**
Gold	⇧	1,949	2.38%	1,903	1,941
Platinum	⇧	893	2.69%	869	891
Brent Crude	⇩	40.9	-0.73%	41.2	39.9
Main Indices		**Last close**	**Change**	**Prev close**	**Current Spot**
NSX Overall Index	⇩	1,047	-0.04%	1,048	1,047
JSE All Share	⇧	55,225	2.92%	53,656	55,225
SP500	⇧	3,510	1.95%	3,443	3,510
FTSE 100	⇧	5,906	0.39%	5,883	5,906
Hangseng	⇧	25,696	3.25%	24,886	25,646
DAX	⇧	12,568	1.98%	12,324	12,568
JSE Sectors		**Last close**	**Change**	**Prev close**	**Current Spot**
Financials	⇧	10,139	1.23%	10,016	10,139
Resources	⇧	50,695	2.34%	49,536	50,695
Industrials	⇧	78,248	3.90%	75,313	78,248
Forex		**Last close**	**Change**	**Prev close**	**Current Spot**
N$/US dollar	⇩	15.68	-1.10%	15.86	15.69
N$/Pound	⇧	20.61	0.10%	20.59	20.60
N$/Euro	⇩	18.55	-0.22%	18.59	18.55
US dollar/ Euro	⇧	1.182	0.84%	1.172	1.182
		Namibia		**RSA**	
Interest Rates & Inflation		**Latest**	**Previous**	**Latest**	**Previous**
Central Bank Rate	⇩	3.75	4.00	3.50	3.75
Prime Rate	⇩	7.50	7.75	7.00	7.25
		Sep 20	**Aug 20**	**Sep 20**	**Aug 20**
Inflation	⇨	2.4	2.4	3.0	3.1

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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