

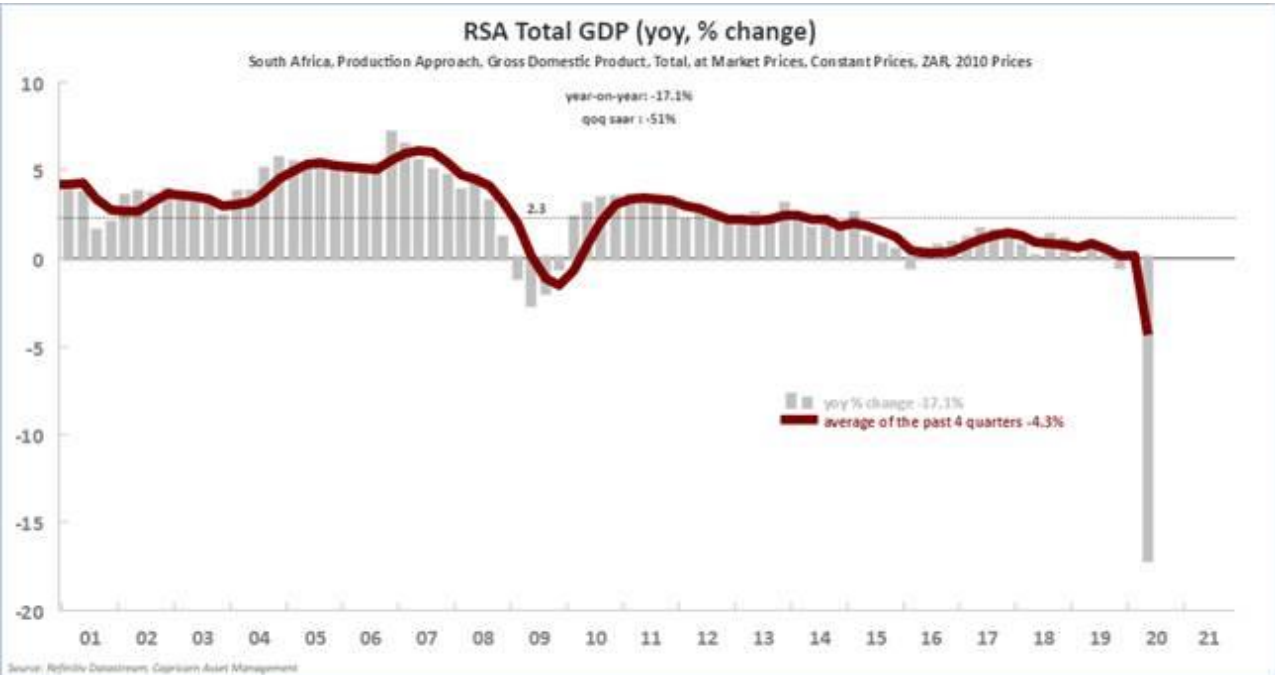


The Daily Brief

Capricorn Asset Management

Market Update

Wednesday, 09 September 2020



SA Economy Plunged During Strict Lockdown

South Africa's economic output plunged in the second quarter, recording its largest contraction ever as a strict lockdown to curb the spread of the coronavirus shut down most activity, data showed on Tuesday. Output fell 51.0% in quarter-on-quarter annualised terms, the main reading presented by Statistics South Africa to show how the economy would perform over a full year if the quarter-on-quarter growth rate were to occur four times in succession.

In unadjusted terms, which is how many countries present their data, the contraction was 16.4%, and in year-on-year terms it was 17.1%, showing the extent of the economic impact of the COVID-19 pandemic on Africa's most industrialised nation. Analysts polled by Reuters had predicted a 47.3% annualised contraction because of the lockdown restrictions, among the harshest in the world as South Africa has suffered the seventh-largest number of coronavirus cases worldwide.

"This is the first time in history that the South African economy has contracted for four straight quarters," Statistician-General Risenga Maluleke told a news conference. The rand fell more than 1% against the dollar on the data to trade at 16.9375 per dollar. Joe de Beer, another top official at

the statistics agency, said that after adjusting for inflation the economy was roughly the same size in the April-June quarter of this year as in the first quarter of 2007.

Most sectors declined steeply except for agriculture, which grew 15.1% in the second quarter from January-March, helped by fruit and nut exports, and better-than-average winter rainfall. Mining declined 73.1%, manufacturing 74.9% and construction 76.6%. Gross domestic product (GDP) for the whole economy shrank 17.1% from the same period in 2019. Reacting to the data, President Cyril Ramaphosa said his government was finalising an economic recovery strategy to enable a rapid rebound. The strategy will include fast-tracking reforms, employment programmes, and large-scale investment in infrastructure, he said.

Jeff Schultz, economist at BNP Paribas, said the global impact of the pandemic coupled with the recent return of power cuts would hamper any economic recovery. The government expects a GDP decline of at least 7% in 2020, a worrying prediction in a country where unemployment was at around 30% before the COVID-19 pandemic. Pamela Mutandwa, 37, who runs a roadside vegetable stand in Pretoria, said times were hard. "It was really difficult during lockdown. There were no people buying and I struggled. When I opened in 2009 there were more customers." Tlouama Abrama, 31, a petrol attendant, said he was disappointed by the government's economic policies. "They should be doing more to revive the factories around here so people can get jobs. Their policies are not working," he said.

Global Markets

Asian shares fell on Wednesday and oil prices hit lows not seen since June after a rout in technology shares sank Wall Street for a third consecutive day and a major drug maker delayed testing of a coronavirus vaccine.

MSCI's broadest index of Asia-Pacific shares outside Japan slid 1.06%. Australian stocks dropped 2.47%, while shares in China fell 1.53%. Japan's Nikkei skidded 1.12%. U.S. S&P 500 E-mini stock futures erased losses and rose 0.25%, while Nasdaq futures also rose 0.83%. Euro Stoxx 50 futures were down 0.03%, German DAX futures fell 0.14%, and FTSE futures fell 0.29%. Sentiment for equities and other risky assets also took a hit after AstraZeneca Plc paused a late-stage trial of one of the leading COVID-19 vaccine candidates due to an unexplained illness in a study participant.

Treasury yields extended declines as investors sought the safety of holding government debt. Risk aversion also pushed the yen to a one-week high against the dollar. A sell-off in high-flying U.S. technology shares, fuelled partly by concerns about excess purchases of call options, has increased the risk of a larger correction across other markets.

"The performance of Wall Street is going to leave a heavy residue, and most noteworthy is how the tech names dropped down quite aggressively. Investors will take a close note of that," said Tom Piotrowski, a markets analyst at Australian broker CommSec. "The dramatic fall in oil prices in the last day is being seen as a proxy for global growth expectations. That 7.6% fall will certainly be resonating."

The Dow Jones Industrial Average fell 2.25%, the S&P 500 lost 2.78%, and the Nasdaq Composite dropped 4.11% on Wall Street on Wednesday. Among U.S. technology names, electric-car maker Tesla plunged 21.06% on Tuesday, its biggest daily percentage drop, after it was excluded from a group of companies being added to the S&P 500. SoftBank Group Corp shares fell 3.64% on Wednesday due to worries about the Japanese conglomerate's trading in call options on U.S. tech stocks. SoftBank has fallen around 12% since sources told Reuters and other media late last week.

that it built up stakes in major U.S. tech companies worth around \$4 billion and bought a similar amount of call options for the underlying shares.

Counterparties who sold the call options to SoftBank would have to hedge their exposure by buying the underlying shares, which likely contributed to the Nasdaq and S&P 500 reaching record highs only days ago, some traders say. Options are pricing in bigger market swings from Sept. 16 to Oct. 16, according to one investor.

The U.S. Federal Reserve's next meeting ends on Sept. 16, which could have a big impact on stock markets because many analysts say excess liquidity created by the Fed has contributed to rising equity prices this year.

U.S. 10-year Treasury yields fell to 0.6690%, while the yield curve between two-year and 10-year notes flattened slightly, highlighting declining appetite for risk. The British pound fell to six-week lows against both the dollar and the euro. Escalating concerns over Britain leaving the European Union without a trade agreement are weighing on sterling. The dollar index against a basket of six major currencies stood near a four-week high as Wall Street's sell-off and renewed fears about Brexit boosted safe-harbour demand for the greenback.

Oil futures extended their sharp decline to the lowest levels since June due to concern about weak global energy demand and excess supply. Brent slipped 0.63% to \$39.53 a barrel, while U.S. crude lost 0.73% to trade at \$36.49.

Domestic Markets

South Africa's rand tumbled more than one percent on Tuesday after data showed the economy contracted sharply in the second quarter due to coronavirus restrictions, rattling already fragile investor sentiment and upping expectations of reforms.

At 1430 GMT, the rand was down 1.3% at 16.9750 per dollar, most of the losses coming after statistics showed Africa's most advanced economy shrank 51% in the second quarter, its fourth consecutive quarterly contraction.

"The GDP print might be a good incentive for the South African authorities to continue to push on with the well-needed reforms," said Vladimir Demishev, a senior fixed income specialist at Sova Capital. The economic slowdown was broad-based. Mining declined 73.1%, manufacturing fell 74.9% and construction shrank 76.6%.

"Of far greater concern is the fact that South Africa was already battling a recession before the pandemic hit, meaning that the virus may finally have tipped the economy over the edge into a depression," said Maarten Ackerman, chief economist at Citadel.

It was the first time in the history of the data that growth had shrunk for four consecutive quarters, according to the stats agency.

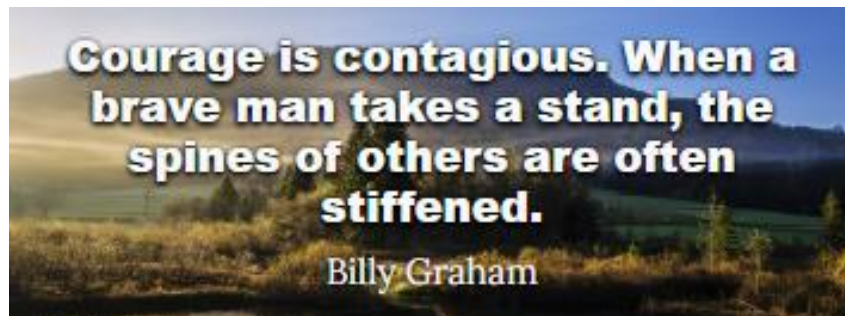
Bonds also suffered, with the demand falling at the government auction of long-dated bonds earlier. At 1430 GMT the yield on the 2030 bond was up 5 basis points to 9.265%.

Stocks were flat, with the benchmark FTSE/JSE all share index was up 0.1% to 54,450 points, while the top 40 companies index inched up 0.08% to 50,223 points at close of trading hours.

Supermarket chain Shoprite was among the big climbers on the day, with its share price up 10.6% to 128.72 rand after it reported record sales of 156.9 billion rand, up 6.4% for the year ended June 28, with like-for-like sales up 4.4%. **Source: Thomson Reuters**

Corona Tracker

GLOBAL CASES SOURCE - REUTERS		09-Sep-2020		4:02
	Confirmed Cases	New Cases	Total Deaths	Total Recovered
GLOBAL	27,565,733	214,076	895,990	18,567,636



Market Overview

MARKET INDICATORS (Thomson Reuters)		09 September 2020			
Money Market TB's		Last close	Difference	Prev close	Current Spot
3 months	⇒	3.96	0.000	3.96	3.96
6 months	⇒	4.05	0.000	4.05	4.05
9 months	⇩	4.09	-0.008	4.10	4.09
12 months	⇩	4.12	-0.017	4.14	4.12
Nominal Bonds		Last close	Difference	Prev close	Current Spot
GC21 (BMK: R208)	⇒	4.16	0.000	4.16	4.16
GC22 (BMK: R2023)	⇩	5.11	-0.030	5.14	5.10
GC23 (BMK: R2023)	⇩	5.08	-0.030	5.11	5.07
GC24 (BMK: R186)	⇒	7.58	0.000	7.58	7.57
GC25 (BMK: R186)	⇒	7.59	0.000	7.59	7.58
GC26 (BMK: R186)	⇒	7.63	0.000	7.63	7.62
GC27 (BMK: R186)	⇒	7.88	0.000	7.88	7.87
GC30 (BMK: R2030)	⇧	9.56	0.065	9.49	9.55
GC32 (BMK: R213)	⇧	10.36	0.050	10.31	10.36
GC35 (BMK: R209)	⇧	11.73	0.060	11.67	11.73
GC37 (BMK: R2037)	⇧	12.34	0.050	12.29	12.34
GC40 (BMK: R214)	⇧	12.93	0.065	12.86	12.90
GC43 (BMK: R2044)	⇧	13.22	0.055	13.17	13.22
GC45 (BMK: R2044)	⇧	13.77	0.055	13.72	13.77
GC50 (BMK: R2048)	⇧	13.83	0.055	13.78	13.83
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)	⇒	6.82	0.000	6.82	6.82
GI36 (BMK: NCPI)	⇒	7.15	0.000	7.15	7.15
Commodities		Last close	Change	Prev close	Current Spot
Gold	⇧	1,931	0.11%	1,929	1,926
Platinum	⇩	901	-0.72%	908	898
Brent Crude	⇩	39.8	-5.31%	42.0	39.6
Main Indices		Last close	Change	Prev close	Current Spot
NSX Overall Index	⇧	1,057	1.58%	1,041	1,057
JSE All Share	⇧	54,439	0.07%	54,400	54,439
SP500	⇩	3,332	-2.78%	3,427	3,332
FTSE 100	⇩	5,930	-0.12%	5,937	5,930
Hangseng	⇧	24,624	0.14%	24,590	24,411
DAX	⇩	12,968	-1.01%	13,100	12,968
JSE Sectors		Last close	Change	Prev close	Current Spot
Financials	⇧	9,771	2.77%	9,507	9,771
Resources	⇩	54,940	-1.05%	55,525	54,940
Industrials	⇧	72,541	0.19%	72,401	72,541
Forex		Last close	Change	Prev close	Current Spot
N\$/US dollar	⇧	16.94	1.20%	16.73	16.91
N\$/Pound	⇩	21.98	-0.22%	22.03	21.92
N\$/Euro	⇧	19.94	0.85%	19.77	19.92
US dollar/ Euro	⇩	1.178	-0.32%	1.182	1.177
		Namibia		RSA	
Economic data		Latest	Previous	Latest	Previous
Inflation	⇒	2.1	2.1	3.2	2.2
Prime Rate	⇩	7.50	8.00	7.00	7.25
Central Bank Rate	⇩	3.75	4.00	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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