Market Update — Tuesday, 10 March 2020

Global Markets

Asian shares bounced and bond yields rose from historic lows on Tuesday as speculation of coordinated stimulus from global central banks and governments calmed panic selling. Yields on benchmark U.S. 10-year Treasury debt doubled to 0.68% and oil prices rallied more than 6%, offering hope that markets had found a floor, even just fleetingly. "Talk of coordinated fiscal and monetary support is getting louder," said Rodrigo Catril, a senior FX strategist at National Australia Bank, noting U.S. President Donald Trump was promising "major" steps to support the economy.

Trump plans a news conference later on Tuesday to lay out proposed measures and dealers reported rumours Treasury Secretary Steve Mnuchin was pushing for radical action. Investors seemed to take heart with E-Mini futures for the S&P 500 rallying 2.4% after an early slide. EUROSTOXX 50 futures also rose 1.7%. MSCI's broadest index of Asia-Pacific shares outside Japan edged up 0.4%, having shed more than 5% on Monday. Australia rose 1.9% as some went hunting for bargains in beaten down stocks. Japan's Nikkei eased 0.4% but was well above early lows.

Wall Street had been on the brink of a bear market with all the major indices down almost 20% from their all-time peak, which amazingly were touched just 13 sessions ago. The Dow fell an eye-watering 7.79%, while the S&P 500 lost 7.60% and the Nasdaq 7.29%. Energy stocks had led the losses as markets braced for a price war between Saudi Arabia and Russia. A steadier tone on Tuesday saw Brent crude futures add $2.22 to $36.58 a barrel, while U.S. crude bounced $1.66 to $32.79.

Yet headlines on the coronavirus were still no brighter with Italy ordering everyone across the country not to move around other than for work and emergencies, while banning all public gatherings. "Although uncertainty is very high, we now expect similar restrictions will be put in place across Europe in the coming weeks," warned economists at JPMorgan. "We are now expecting a rolling 1H20 global growth contraction and a powerful global disinflationary wave to take hold," they added. "We expect the Fed to cut to zero at or before its March 18 meeting."

Such has been the conflagration of market wealth, that analysts assumed policy makers would have to react aggressively to prevent a self-fulfilling economic crisis. The U.S. Federal Reserve on Monday sharply stepped up the size of its fund injections into markets to head off stress. Having delivered an emergency rate cut only last week, investors are fully pricing an easing of at least 75 basis points at the next Fed meeting on March 18, while a cut to near zero was now seen as likely by April.

Britain's finance minister is due to deliver his annual budget on Wednesday and there is much talk of coordinated stimulus with the Bank of England. The European Central Bank meets on Thursday and will be under intense pressure to act, even though rates there are already deeply negative.

"Italy's decision to quarantine the whole country will affect 15% of Europe's GDP, putting the ECB at the forefront of efforts to cushion the escalating economic deterioration," said Brian Martin, a senior international economist at ANZ. "We expect interest rates to be cut, forward guidance to be enhanced and emergency liquidity measures aimed at supporting SMEs and supply-chain finance to be implemented."

Bonds had charged ahead of the central banks to essentially price in a global recession of unknown length. Yields on 10-year U.S. Treasuries reached as low as 0.318% on Monday - a level unthinkable just a week ago - but rose back to 0.68% on Tuesday amid the stimulus chatter. That in turn helped the dollar recoup some of its recent hefty losses to reach 103.54 yen, edging away from Monday's three-year trough around 101.17. The euro eased back to $1.1388, after climbing 1.4% on Monday to the highest in over 13 months at $1.1492. Gold was restrained to $1,667.38 per ounce amid talk some investors were having to sell to raise cash to cover margin calls in stocks and other assets.

Source: Thomson Reuters

Domestic Markets

South Africa's rand tumbled to a four-year low on Monday, joining a global sell-off in riskier assets as the coronavirus outbreak continued to spread globally and oil prices collapsed. The rand was already on the back foot after ratings firm Moody's, the last of the top three agencies to rank the country at investment level, cut it 2020 growth forecast on Friday to 0.4% from 0.7%, citing the impact of the coronavirus alongside long-standing fiscal frailties.

South Africa confirmed its first case of the virus on Thursday, and by the weekend officials had confirmed another two cases, but offshore risks to the rand looked set to drag the currency even lower. At 0630 GMT, the rand was 3.82% weaker at 16.3000 per dollar, having plunged to 16.9850, its lowest since February 2016, earlier in the session.

The sell-off was exacerbated by low liquidity as well as the ongoing unwinding of carry trades as downgrade risks heightened. Against the euro, the rand was down 4.8% to 18.5622 and 3% softer versus the British pound at 21.2407. The local currency hit a record low against the Japanese yen giving up more than 6%.

Volatility on the rand also spiked, with the one-month risk reversals, used to hedge against sharp price moves, climbing to a 7-month high.

Bonds also suffered despite indications that central banks in developed markets, including the U.S. Federal Reserve, would intervene further by cutting lending rates to shield their economies.

"While this should theoretically play into the hands of the rand as the interest rate differential grows, only time will tell whether this is sufficient to prevent a full-blown rotation out of EM assets," ETM Analytics economists said in a note. "We've been warning for some time that the imprudent fiscal environment and fundamental pressures that exist in South Africa suggest the rand will be amongst the most susceptible to an external shock, and this is exactly what appears to be materializing at the moment."

The yield on the benchmark 2030 government issue was up 12.5 basis points to 9.18%.
Source: Thomson Reuters

Market Overview

MARKET INDICATORS (Thomson Reuters)					Tuesday, 10 March 2020
Money Market TB's		**Last close**	**Difference**	**Prev close**	**Current Spot**
3 months	↓	7.00	-0.288	7.28	7.00
6 months	↓	7.37	-0.065	7.44	7.37
9 months	↑	7.44	0.002	7.44	7.44
12 months	↓	7.47	-0.010	7.48	7.47
Nominal Bonds		**Last close**	**Difference**	**Prev close**	**Current Spot**
GC20 (BMK: R207)	↑	7.05	0.011	7.04	7.04
GC21 (BMK: R2023)	↓	7.22	-0.015	7.23	7.18
GC22 (BMK: R2023)	↑	7.26	0.015	7.24	7.23
GC23 (BMK: R2023)	↑	8.01	0.015	7.99	7.98
GC24 (BMK: R186)	↑	8.61	0.140	8.47	8.54
GC25 (BMK: R186)	↑	8.72	0.140	8.58	8.65
GC27 (BMK: R186)	↑	9.16	0.140	9.02	9.09
GC30 (BMK: R2030)	↑	10.18	0.135	10.05	10.13
GC32 (BMK: R213)	↑	10.79	0.140	10.65	10.74
GC35 (BMK: R209)	↑	11.48	0.100	11.38	11.43
GC37 (BMK: R2037)	↑	11.52	0.115	11.40	11.47
GC40 (BMK: R214)	↑	11.76	0.100	11.66	11.71
GC43 (BMK: R2044)	↑	12.09	0.100	11.99	12.05
GC45 (BMK: R2044)	↑	12.33	0.100	12.23	12.29
GC50 (BMK: R2048)	↑	12.35	0.100	12.25	12.30
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)	→	5.98	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	↑	1,680	0.34%	1,674	1,664
Platinum	↓	863	-4.25%	901	876
Brent Crude	↓	34.4	-24.10%	45.3	36.9
Main Indices		**Last close**	**Change**	**Prev close**	**Current Spot**
NSX Overall Index	↓	1,073	-5.69%	1,137	1,073
JSE All Share	↓	48,820	-6.23%	52,065	48,820
SP500	↓	2,747	-7.60%	2,972	2,747
FTSE 100	↓	5,966	-7.69%	6,463	5,966
Hangseng	↓	25,040	-4.23%	26,147	25,560
DAX	↓	10,625	-7.94%	11,542	10,625
JSE Sectors		**Last close**	**Change**	**Prev close**	**Current Spot**
Financials	↓	12,779	-4.37%	13,364	12,779
Resources	↓	37,675	-12.01%	42,815	37,675
Industrials	↓	65,798	-3.93%	68,491	65,798
Forex		**Last close**	**Change**	**Prev close**	**Current Spot**
N$/US dollar	↑	16.08	2.69%	15.66	15.90
N$/Pound	↑	21.12	3.35%	20.43	20.72
N$/Euro	↑	18.41	4.16%	17.67	18.05
US dollar/ Euro	↑	1.145	1.44%	1.129	1.135
		Namibia		**RSA**	
Economic data		**Latest**	**Previous**	**Latest**	**Previous**
Inflation	↓	2.1	2.6	4.0	3.6
Prime Rate	↓	10.25	10.50	9.75	10.00
Central Bank Rate	↓	6.25	6.50	6.25	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
- 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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