



The Daily Brief

Capricorn Asset Management

Market Update

Wednesday, 12 May 2021



Global Markets

An extended sell-off drove Asian shares to their lowest in seven weeks on Wednesday as surging commodity prices and growing inflationary pressure in the United States prompted markets to bet on earlier rate hikes and higher bond yields globally.

MSCI's broadest index of Asia-Pacific shares outside Japan slumped 1.5%, adding to Tuesday's 1.6% loss with all major indices under heavy selling pressure. Analysts said a combination of inflation fears and some investors cutting their exposure to over-stretched stocks or sectors was behind the recent downturn.

At 682 points, the regional index is not too far from a record high of 745.89 touched in February and is still up 3% this year so far, on top of a 19% jump in 2020 and a near 16% rise in 2019. China's blue-chip share index was off 0.3%. Australian stocks slipped 0.6% while South Korea's KOSPI index skidded 0.7%. Japan's Nikkei reversed early gains to be down 0.4%.

Taiwan's benchmark index plunged 6% from all-time highs to levels seen in February on fears it may raise its COVID-19 alert level in "coming days", which would lead to closure of shops dealing in non-essential items as infections rise. Analysts, however, doubted the broader equities sell-off would extend much further in a world of easy accommodative policy and fiscal largesse.

"Despite the severity of the moves, we sensed limited panic in our client conversations with many using (the) weakness as an opportunity to buy the dip, particularly in the value orientated areas e.g. banks, energy and insurance," JPMorgan analysts wrote in a note.

Overnight on Wall Street, technology stocks were among the biggest losers though the tech-focused Nasdaq reversed the bulk of its early 2% decline over the course of the day. The Dow dropped 1.4% and the S&P 500 fell 0.9%.

The equity rout barely helped drive any safe haven flows into the greenback even as futures pointed to yet another negative open for Wall Street. E-mini futures for the S&P 500 stumbled 0.7% while futures for the tech-heavy Nasdaq were down 0.9%.

"What is unusual about the last two days is that the equity-market angst did not provide the U.S. dollar with a notable lift," said Alvin T. Tan, head of Asia FX strategy at RBC Capital Markets. Tan said there was no sign of "risk-off" among regional currencies either with the high-carry Indian rupees and Indonesia rupiah largely holding their ground. "Still, it is not yet obvious if this signifies a new market paradigm. As they say, one swallow does not make a summer," Tan added.

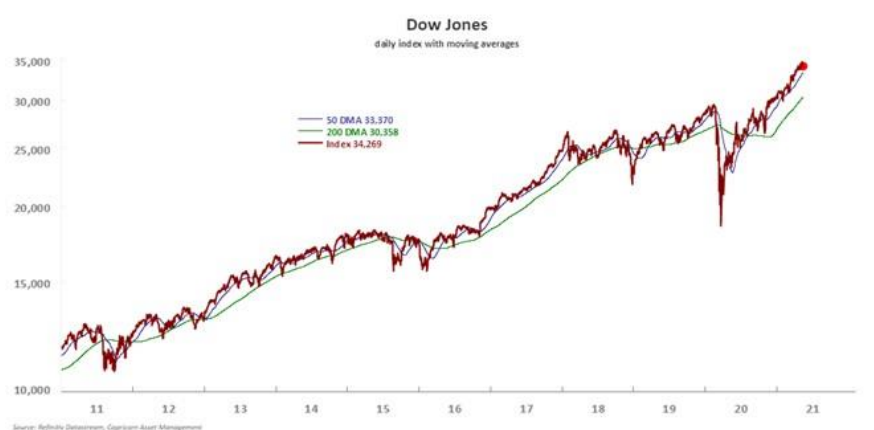
All eyes are now on the U.S. consumer price index report to be released by the U.S. Labour Department on Wednesday with market-based measures of inflation expectations having moved higher. "Prices are definitely on the increase and this is evident across a wide range of sectors and geographies. What is less clear is the longevity of the increase in prices," ANZ analysts wrote in a note.

Treasury yields have remained stuck to a tight range. The yield on benchmark 10-year Treasuries drifted lower to 1.6217%, a far cry from the 2% level seen in before the coronavirus pandemic. The U.S. Federal Reserve expects higher inflation though officials have pointed to transient factors and base effect for the temporary rise.

"The upshot is the Fed remains far away from achieving its aim of average inflation of 2% per year. The Fed's ultra-accommodative monetary policy is part of the reason why we consider the USD downtrend is intact," said Commonwealth Bank of Australia analyst Carol Kong.

The dollar was up 0.2% against the Japanese yen at 108.84 as it meandered in a narrow 107-110 band. The dollar index, which measures the greenback against six major currencies, was a shade higher at 90.398, after touching a two-month low of 89.979. The currencies of major natural resource suppliers such as Canada have been buoyant amid rising commodity prices. The loonie held near a 3-1/2-year high of C\$1.2078. The Australian dollar, another proxy for commodity prices, was not far from a 10-week high of \$0.7891 struck on Monday. The Aussie, which is also played as a liquid proxy for risk, fell 0.7% to \$0.7788.

Oil prices reversed some of the recent gains with U.S. crude off 18 cents at \$65.10 a barrel. Brent crude slipped 25 cents to \$68.30 per barrel. Spot gold was off slightly at \$1,827 an ounce. In cryptocurrencies, ether hit a fresh record high touched on Monday to be at \$4,349.44. The value of the second-biggest digital token has surged over 5.5 times so far this year.



Domestic Markets

South Africa's rand touched a 16-month high against the dollar on Tuesday afternoon, helped by manufacturing figures that were far stronger than expected. At 1555 GMT, the rand was at 13.9825 against the dollar, 0.25% stronger than its previous close.

The rand moved below 14 to the dollar for the first time since early January 2020 on Monday and posted further gains on Tuesday. Factors driving it higher include strong prices for metals the country exports, expectations that U.S. interest rates will not rise any time soon and signs that reform-minded President Cyril Ramaphosa is asserting his authority in the governing party.

Manufacturing output rose 4.6% year on year in March, data showed on Tuesday, outperforming the 0.45% increase forecast in a Reuters poll.

Government bonds firmed slightly, with the yield on the 2030 instrument dipping 2 basis points to 8.96%.

But the Johannesburg Stock Exchange posted its biggest daily percentage fall in three weeks, with some investors concerned about rising U.S. Treasury yields. The all-share index shed 1.66% to 67,241 points and the blue-chip index fell 1.71% to 61,320.

"If U.S. risk-free government bonds slowly reach 2% then why would you go to emerging market stocks and take all the risk? ...it is this sort of fear that occasionally grips the market," said Greg Davies, a trader at Cratos Capital.

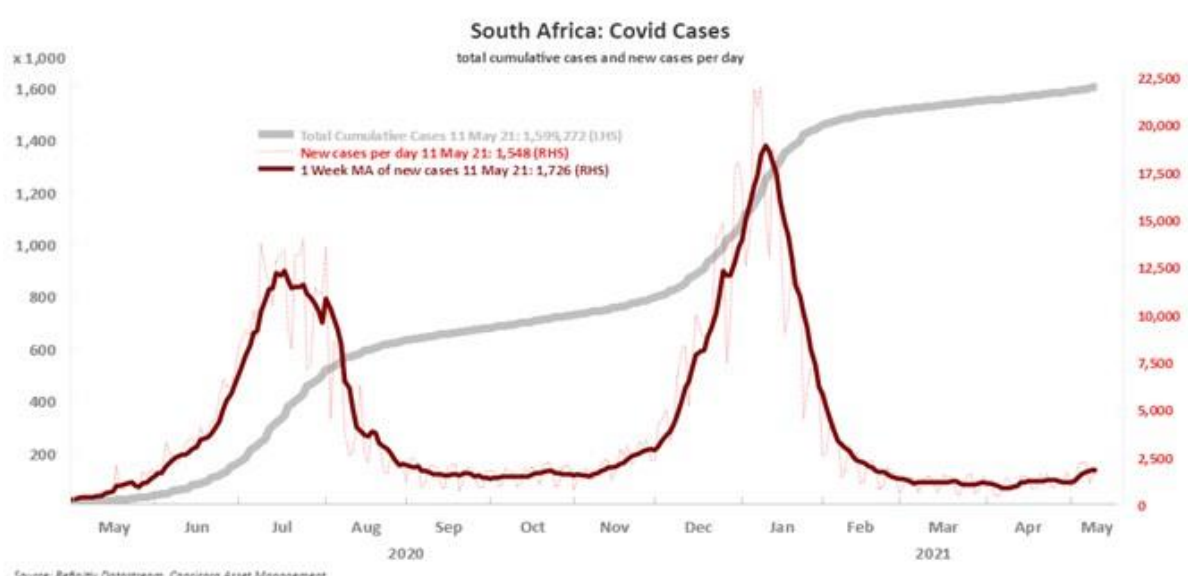
Banks fell less than most, with the banking index down 0.4%. Mining and industrials fell 2.6% and 1.7%, respectively.

Corona Tracker

GLOBAL CASES		12-May-2021		3:34
SOURCE - REUTERS				
	Confirmed Cases	New Cases	Total Deaths	Total Recovered
GLOBAL	159,209,576	502,514	3,448,798	108,516,107

The number of new cases is distorted by cut-off times.

Source: Thomson Reuters



Source: Refinitiv Datastream, Capricorn Asset Management

Market Overview

MARKET INDICATORS (Thomson Reuters)				12 May 2021	
Money Market TB Rates %		Last close	Difference	Prev close	Current Spot
3 months	↓	4.08	-0.100	4.18	4.08
6 months	↓	4.34	-0.050	4.39	4.34
9 months	↓	4.57	-0.050	4.62	4.57
12 months	⇒	4.63	0.000	4.63	4.63
Nominal Bond Yields %		Last close	Difference	Prev close	Current Spot
GC21 (Coupon 7.75%, BMK R208)	↑	4.40	0.035	4.36	4.38
GC22 (Coupon 8.75%, BMK R2023)	↑	5.36	0.055	5.31	5.36
GC23 (Coupon 8.85%, BMK R2023)	↑	5.26	0.055	5.21	5.26
GC24 (Coupon 10.50%, BMK R186)	↑	7.63	0.075	7.56	7.62
GC25 (Coupon 8.50%, BMK R186)	↑	7.64	0.075	7.57	7.63
GC26 (Coupon 8.50%, BMK R186)	↑	7.64	0.075	7.57	7.63
GC27 (Coupon 8.00%, BMK R186)	↑	7.93	0.075	7.86	7.92
GC30 (Coupon 8.00%, BMK R2030)	↑	9.28	0.010	9.27	9.28
GC32 (Coupon 9.00%, BMK R213)	↑	10.34	0.005	10.33	10.33
GC35 (Coupon 9.50%, BMK R209)	↓	11.34	-0.020	11.36	11.32
GC37 (Coupon 9.50%, BMK R2037)	↓	11.82	-0.015	11.84	11.80
GC40 (Coupon 9.80%, BMK R214)	↓	12.60	-0.005	12.61	12.57
GC43 (Coupon 10.00%, BMK R2044)	↓	12.89	-0.015	12.91	12.87
GC45 (Coupon 9.85%, BMK R2044)	↓	13.17	-0.015	13.19	13.15
GC50 (Coupon 10.25%, BMK: R2048)	↓	13.18	-0.020	13.20	13.17
Inflation-Linked Bond Yields %		Last close	Difference	Prev close	Current Spot
GI22 (Coupon 3.55%, BMK NCPI)	⇒	3.89	0.000	3.89	3.89
GI25 (Coupon 3.80%, BMK NCPI)	⇒	4.00	0.000	4.00	4.00
GI29 (Coupon 4.50%, BMK NCPI)	⇒	5.65	0.000	5.65	5.65
GI33 (Coupon 4.50%, BMK NCPI)	⇒	6.80	0.000	6.80	6.80
GI36 (Coupon 4.80%, BMK NCPI)	⇒	7.35	0.000	7.35	7.35
Commodities		Last close	Change	Prev close	Current Spot
Gold	↑	1,837	0.08%	1,835	1,830
Platinum	↓	1,235	-0.92%	1,247	1,229
Brent Crude	↑	68.6	0.34%	68.3	68.6
Main Indices		Last close	Change	Prev close	Current Spot
NSX Overall Index	↓	1,444	-0.89%	1,457	1,444
JSE All Share	↓	67,241	-1.66%	68,377	67,241
SP500	↓	4,152	-0.87%	4,188	4,152
FTSE 100	↓	6,948	-2.47%	7,124	6,948
Hangseng	↓	28,014	-2.03%	28,596	28,027
DAX	↓	15,120	-1.82%	15,400	15,120
JSE Sectors		Last close	Change	Prev close	Current Spot
Financials	↓	12,659	-0.64%	12,740	12,659
Resources	↓	70,627	-2.06%	72,112	70,627
Industrials	↓	84,184	-1.73%	85,665	84,184
Forex		Last close	Change	Prev close	Current Spot
N\$/US dollar	↓	13.99	-0.38%	14.04	14.02
N\$/Pound	↓	19.78	-0.24%	19.82	19.81
N\$/Euro	↓	16.99	-0.24%	17.03	17.00
US dollar/ Euro	↑	1.215	0.14%	1.213	1.213
		Namibia		RSA	
Interest Rates & Inflation		Apr 21	Mar 21	Apr 21	Mar 21
Central Bank Rate	⇒	3.75	3.75	3.50	3.50
Prime Rate	⇒	7.50	7.50	7.00	7.00
		Mar 21	Feb 21	Mar 21	Feb 21
Inflation	↑	3.1	2.7	3.2	2.9

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: Thomson Reuters



For enquiries concerning the Daily Brief please contact us at

Daily.Brief@capricorn.com.na

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