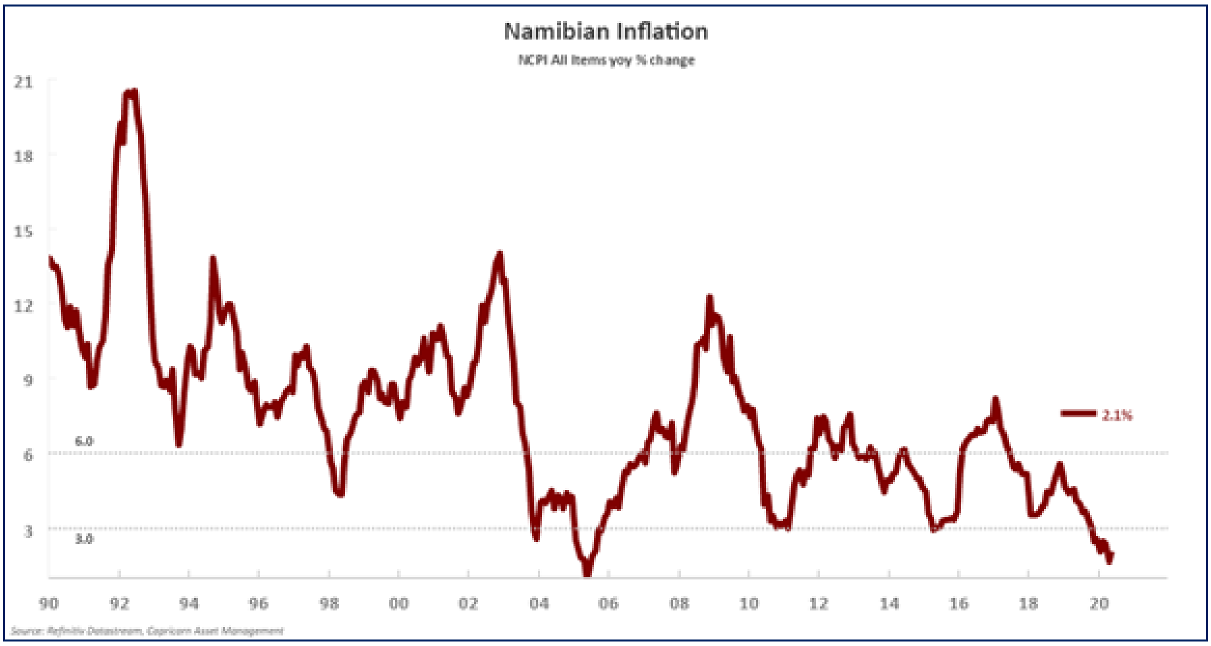
Market Update

Monday, 15 June 2020

Namibian Inflation



Inflation in Namibia has been on a firm down-trend over the past 18 months. The latest number for May printed at 2.1%. This recent down-leg fits the long-term, structural down-trend that we can see from the chart. It is very noticeable how the cyclical peaks have fallen over the past 30 years. In the early 1990's it peaked out at 20%, in the early 2000's it peaked at 14% and in the wake of the dislocations of the Great Credit Crisis of 2008 at 12%, while the most recent peak was 8%.

Lower food inflation and oil prices played a big part, as did the collapse of the real estate market. The prices of houses are not part of consumer inflation directly, but rents and mortgage payments are. And these were weak of late. The down trend is also in line with the global phenomenon of ever lower inflation.

The fact that Namibia's monetary policy is anchored by the peg to the rand, meant that the economy is linked to the inflation fighting SARB (South African Reserve Bank). The SARB has a target range of 3% to 6% for inflation (indicated on the chart). This means that the SARB will hike interest rates if they sense that inflation is likely to approach 6% or more. This is a policy of maintaining positive real interest rates.

Low inflation helps households therein that disposable income “goes further”. Furthermore, low inflation means that the SARB and the BoN (Bank of Namibia) can lower interest rates. This they have done with gusto over the past six months. The Covid-induced policy measures that have hammered already weak economies played a big part in recent interest rate decisions. The SA and Namibian economies are in dire need of relief and, in fact, would be facing a catastrophe, were it not for aggressive policy measures such as the deep cuts to interest rates.

We foresee that inflation will average 2.1% in 2020 and end the year at, virtually, current levels of 2.2%. This gives the BoN space to cut interest rates even more. Over the next few years, inflation should rise somewhat, largely induced by the base effect. We foresee that the next cyclical peak will be around 4.5% by the end of 2022, incidentally, the mid-point of the SARB target range.

Global Markets

Asian shares stumbled on Monday and oil prices slipped as fears of a second wave of coronavirus infections in Beijing sent investors scurrying for safe-havens while underwhelming data from China further weighed on sentiment. MSCI's broadest index of Asia-Pacific shares outside Japan was down 0.3% with Australian shares off 0.1% and South Korea easing 0.3%. Japan's Nikkei faltered 0.7%. Chinese shares opened in the red with the blue-chip CSI300 index down 0.1%.

Monday's losses follow a strong rally in global equities since late March, fuelled by central bank and fiscal stimulus and optimism as countries gradually lifted restrictions put in place to curb the spread of the novel coronavirus. "Any new outbreak will be looked at very, very cautiously by investors. The market is putting into perspective that the COVID-19 issue has not been resolved yet. It's a reality check," said James McGlew, analyst at stockbroker Argonaut. McGlew expects a further correction "as markets quantify what lies ahead of us."

The lead from Wall Street was also dour with e-minis for the S&P500 sinking 1.1% in early Asian trading. Risk sentiment took a knock after Beijing recorded dozens of new COVID-19 cases in recent days, all linked to a major wholesale food market. Authorities have closed the centre and locked down nearby housing districts.

Investors are also fretting over a spike in cases in the United States where more than 25,000 new cases were reported on Saturday. Worldwide coronavirus cases have crossed 7.86 million with 430,501 deaths, according to a Reuters tally.

Economic data from China did little to revive risk appetite. China's industrial output rose 4.4% in May from a year ago when analysts had forecast a gain of 5.0% while retail sales fell a larger-than-expected 2.8% in a sign of weak domestic demand. The Chinese yuan extended losses in offshore trade after the data to be last at 7.0883 per dollar.

Some analysts were still hopeful of a revival in sentiment. "We assume that any second wave is likely to be more manageable than the first given earlier policy experience," analysts at Morgan Stanley wrote in a note. "Policy easing will also help Asia (excluding Japan) get back on its feet better."

The risk-sensitive currencies of Australia and New Zealand sold off with both down 0.4% at $0.6855 and $0.6424, respectively. Elsewhere, the safe haven Japanese yen rose on the greenback to 107.18 yen.

Analysts said further tests awaited global markets this week – in particular whether re-opening hopes could still push equities higher. Federal Reserve Chairman Jerome Powell is also due to testify before Congress where "he may try to spin a more upbeat/hopeful outlook – but whether markets listen remains to be seen," said Betashares chief economist David Bassanese.

Also of interest is U.S. May retail sales figures on Tuesday, which are expected to bounce smartly after a slump in April. In commodities, oil extended losses after posting its first weekly loss since late April. Brent crude was last down 2.25% at $37.86 a barrel while U.S. crude fell 3.09% to $35.14. Oil investors await OPEC+ committee meetings of experts later this week who will advise the producer group and its allies on output cuts. Gold rose 0.2% to $1,732.2 an ounce on safe haven demand.

Source: Thomson Reuters

Domestic Markets

The South African rand recovered slightly on Friday as investors returned to riskier assets following a steep selloff a day earlier.

At 1532 GMT, the rand traded at 17.0910 per dollar, 0.5% firmer than its close on Thursday, when it fell more than 3% on a brutal day for global markets. Thursday's decline was a sharp reversal for a currency that had notched up gains of more than 11% since the start of May.

But analysts at Capital Economics said they did not expect the recovery in risky assets to be over, citing unprecedented support from central banks and saying the worst for the world economy could have passed. "Third, the valuations of most risky assets are currently not high in our view," they said in a research note.

Investors in South African assets have tended to overlook a grim domestic economic outlook in recent weeks, focusing on government measures to cushion the blow from COVID-19 and the attractive yields of local government debt over worrying fiscal metrics or recent credit rating downgrades.

Africa's most industrialised economy was already in recession before COVID-19 struck.

Local stocks also gained on Friday, with the Johannesburg bourse's All-share Index rising around 0.7%, its first day of gains this week. The Top-40 index rose a similar amount.

In fixed income, the yield on the 2030 government bond rose 6.5 basis points to 9.23%.

Source: Thomson Reuters

Corona Tracker

GLOBAL CASES SOURCE - REUTERS			15-Jun-2020	4:16
	Confirmed Cases	New Cases	Total Deaths	Total Recovered
GLOBAL	7,905,859	109,710	432,038	3,659,427

Market Overview

MARKET INDICATORS (Thomson Reuters)					15 June 2020
Money Market TB's		**Last close**	**Difference**	**Prev close**	**Current Spot**
3 months	↓	4.46	-0.280	4.74	4.46
6 months	↓	4.78	-0.090	4.87	4.78
9 months	↓	4.88	-0.049	4.93	4.88
12 months	↓	4.97	-0.060	5.03	4.97
Nominal Bonds		**Last close**	**Difference**	**Prev close**	**Current Spot**
GC21 (BMK: R208)	↑	4.17	0.035	4.13	4.17
GC22 (BMK: R2023)	↑	6.06	0.020	6.04	6.06
GC23 (BMK: R2023)	↑	6.04	0.020	6.02	6.04
GC24 (BMK: R186)	↑	8.11	0.090	8.02	8.11
GC25 (BMK: R186)	↑	8.16	0.090	8.07	8.16
GC27 (BMK: R186)	↑	8.24	0.090	8.15	8.24
GC30 (BMK: R2030)	↑	9.84	0.075	9.77	9.84
GC32 (BMK: R213)	↑	10.56	0.075	10.49	10.56
GC35 (BMK: R209)	↑	11.78	0.055	11.73	11.78
GC37 (BMK: R2037)	↑	12.25	0.075	12.18	12.25
GC40 (BMK: R214)	↑	12.68	0.070	12.61	12.68
GC43 (BMK: R2044)	↑	13.11	0.080	13.03	13.11
GC45 (BMK: R2044)	↑	13.28	0.080	13.20	13.28
GC50 (BMK: R2048)	↑	13.31	0.075	13.24	13.31
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)	→	6.70	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	↑	1,730	0.15%	1,727	1,728
Platinum	↓	806	-0.69%	811	795
Brent Crude	↑	38.7	0.47%	38.6	38.1
Main Indices		**Last close**	**Change**	**Prev close**	**Current Spot**
NSX Overall Index	↑	1,073	8.97%	985	1,073
JSE All Share	↑	53,640	0.65%	53,295	53,640
SP500	↑	3,041	1.31%	3,002	3,041
FTSE 100	↑	6,105	0.47%	6,077	6,105
Hangseng	↓	24,301	-0.73%	24,480	24,162
DAX	↓	11,949	-0.18%	11,970	11,949
JSE Sectors		**Last close**	**Change**	**Prev close**	**Current Spot**
Financials	↑	10,775	1.10%	10,658	10,775
Resources	↑	49,390	0.44%	49,175	49,390
Industrials	↑	73,340	0.73%	72,805	73,340
Forex		**Last close**	**Change**	**Prev close**	**Current Spot**
N$/US dollar	↓	17.02	-0.78%	17.16	17.06
N$/Pound	↓	21.35	-1.25%	21.62	21.35
N$/Euro	↓	19.16	-1.16%	19.38	19.20
US dollar/ Euro	↓	1.125	-0.38%	1.130	1.126
		Namibia		**RSA**	
Economic data		**Latest**	**Previous**	**Latest**	**Previous**
Inflation	↑	2.1	1.6	4.1	4.6
Prime Rate	↓	8.00	9.00	7.75	8.75
Central Bank Rate	↓	4.25	5.25	4.25	5.25

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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