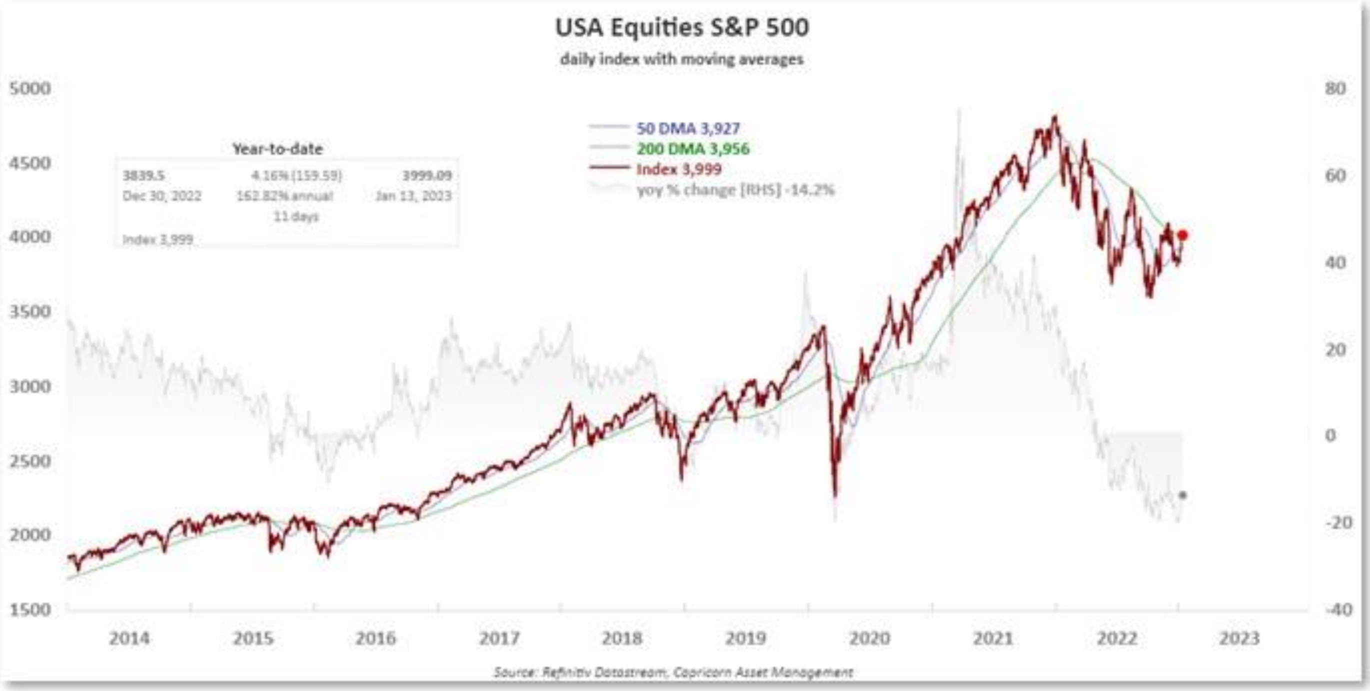
Market Update

Monday, 16 January 2023



Global Markets

Asian shares firmed on Monday as optimism about China's reopening offset concerns the Bank of Japan (BOJ) might temper its super-sized stimulus policy at a pivotal meeting this week, while a holiday in U.S. markets made for thin trading.

The yen climbed to its highest since May after rumours swirled the BOJ might hold an emergency meeting on Monday as it struggles to defend its new yield ceiling in the face of massive selling. That had local markets in an anxious mood, and Japan's Nikkei slipped 1.3% to a two-week low.

Yet MSCI's broadest index of Asia-Pacific shares outside Japan still added 0.9%, with hopes for a speedy Chinese reopening giving it a gain of 4.2% last week. Chinese blue chips extended their rally with a rise of 2.0%, while the yuan reached its highest since July.

EUROSTOXX 50 futures added 0.6%, while FTSE futures put on 0.1%. S&P 500 futures and Nasdaq futures edged up 0.1%, after a Wall Street bounce last week.

Earnings season gathers steam this week with Goldman Sachs, Morgan Stanley and the first big tech name, Netflix, among those reporting.

World leaders, policy makers and top corporate chiefs will be attending the World Economic Forum in Davos, and there are a host of central bankers speaking, including no fewer than nine members of the U.S. Federal Reserve.

The BOJ's official two-day meeting ends Wednesday and speculation is rife it will make changes to its yield curve control (YCC) policy given the market has pushed 10-year yields above its new ceiling of 0.5%. The BOJ bought almost 5 trillion yen ($39.12 billion) of bonds on Friday in its largest daily operation on record, yet yields still ended the session up at 0.51%. Early Monday, the bank offered to buy another 1.3 trillion yen of JGBs, but the yield stuck at 0.51%. "There is still some possibility that market pressure will force the BOJ to further adjust or exit the YCC," JPMorgan analysts said in a note. "We can't ignore this possibility, but at this stage we do not consider it a main scenario." "Although domestic demand has started to recover and inflation continues to rise, the economy is not heating up to the extent that a sharp rise in interest rates and potential risk of large yen appreciation can be tolerated," they added. "Thus, we think the economic environment does not strongly support consecutive policy changes." The BOJ's uber-easy policy has acted as a sort of anchor for yields globally, while dragging down on the yen. Were it to abandon the policy, it would put upward pressure on yields across developed markets and most likely see the yen surge.

The dollar is already at its lowest since May at 127.22 yen, having shed 3.2% last week, and threatens to break major support around 126.37. The euro also lost 1.5% on the yen last week, but was aided by gains on a broadly softer dollar, which saw it reach a fresh nine-month peak of $1.0872 on Monday. All of which saw the U.S. dollar index ease to its lowest since June at 101.780. The dollar has been undermined by falling U.S. bond yields as market wagers the Federal Reserve can be less aggressive in raising rates given inflation has clearly turned the corner.

Futures now imply almost no chance the Fed will raise rates by half a point in February, with a quarter-point move seen as a 94% probability. Yields on 10-year Treasuries are down at 3.51%, having fallen 6 basis points last week, close to its December trough, and major chart target of 3.402%.

Alan Ruskin, global head of G10 FX Strategy at Deutsche Securities, said the loosening of global supply bottlenecks in recent months was proving to be a disinflationary shock, which increases the chance of a soft landing for the U.S. economy. "The lower inflation itself encourages a soft landing through real wage gains, by allowing the Fed to more readily pause and encouraging a better behaved bond market, with favourable spillovers to financial conditions," Ruskin said. "A soft landing also reduces the tail risk of much higher U.S. rates, and this reduced risk premia helps global risk appetite," Ruskin added.

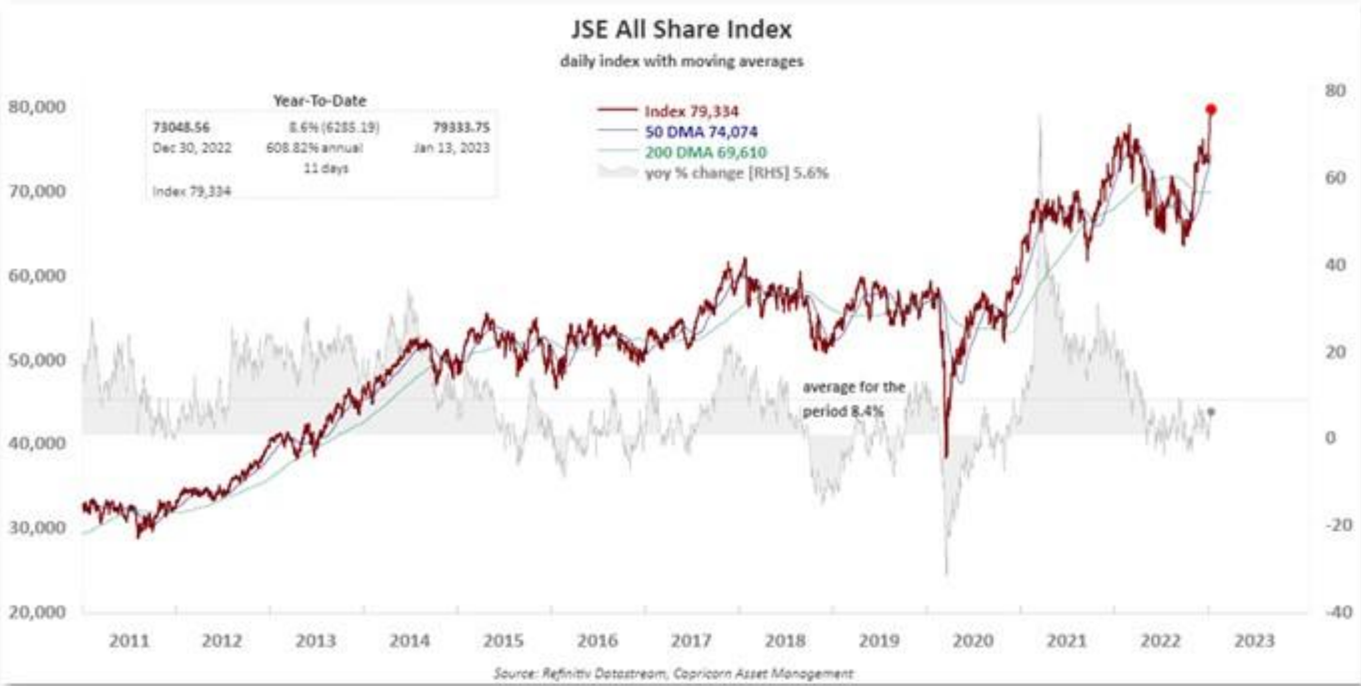
The drop in yields and the dollar has benefited gold, which jumped 2.9% last week and was trading at the highest since April at $1,927 an ounce.

Oil prices also rallied last week on hopes the speedy reopening of China would boost demand. Data on mobility, traffic and transport trips in China have shown a sharp revival in movement ahead of the Lunar New Year holidays next week. Chinese data on economic growth, retail sales and industrial output due this week are certain to be dismal, but markets will likely look past that to a rapid recovery now coronavirus restrictions have been dropped.

Prices eased back a touch on Monday, with Brent off 45 cents at $84.83 a barrel, while U.S. crude fell 38 cents to $79.48.

Source: Reuters Refinitiv

Domestic Markets



South Africa's rand retreated on Friday, losing gains made after U.S. data offered hope inflation was now on a sustained downward trend, potentially allowing the Federal Reserve to slow its policy tightening pace. At 1525 GMT, the rand traded at 16.8300 against the dollar, 0.6% weaker than its previous close.

The dollar index, which measures the currency against six rivals, was last up 0.05% at 102.23, aided by fading risk appetite and mixed U.S. company earnings.

Locally, investors are grappling with the prospect of prolonged periods without electricity for South Africans as the country is currently struggling with recurring power cuts of about six to eight hours a day for most households. The country's energy regulator on Thursday an 18.65% power price rise for beleaguered state utility Eskom for the financial year starting on April 1. "Looking forward, SA (South Africa) will see upwards pressure coming from the larger than expected 18.65% increase in electricity prices announced late yesterday by NERSA," Investec analyst Annabel Bishop said in a research note.

Shares on the Johannesburg Stock Exchange ended higher, mirroring similar moves in global equities as hopes of inflation easing took hold. Overall, the broader all-share index ended 0.9% higher, while the top-40 index closed up 0.98%.

The government's benchmark 2030 bond was stronger, with the yield down 6 basis points to 9.765%.

Source: Reuters Refinitiv

Come what may, all bad fortune is to be conquered by endurance.

Virgil

Market Overview

MARKET INDICATORS (Thomson Reuters Refinitiv)					16 January 2023
Money Market TB Rates %		**Last close**	**Difference**	**Prev close**	**Current Spot**
3 months	↑	8.11	0.016	8.09	8.11
6 months	↓	8.01	-0.009	8.02	8.01
9 months	→	8.44	0.000	8.44	8.44
12 months	↓	8.58	-0.025	8.61	8.58
Nominal Bond Yields %		**Last close**	**Difference**	**Prev close**	**Current Spot**
GC23 (Coupon 8.85%, BMK R2023)	→	9.19	0.000	9.19	9.19
GC24 (Coupon 10.50%, BMK R186)	↓	7.71	-0.030	7.74	7.72
GC25 (Coupon 8.50%, BMK R186)	↓	8.16	-0.030	8.19	8.17
GC26 (Coupon 8.50%, BMK R186)	↓	8.22	-0.030	8.25	8.23
GC27 (Coupon 8.00%, BMK R186)	↓	9.19	-0.030	9.22	9.20
GC30 (Coupon 8.00%, BMK R2030)	↓	11.06	-0.060	11.12	11.07
GC32 (Coupon 9.00%, BMK R213)	↓	11.29	-0.055	11.35	11.30
GC35 (Coupon 9.50%, BMK R209)	↓	12.10	-0.015	12.12	12.11
GC37 (Coupon 9.50%, BMK R2037)	↓	12.72	-0.020	12.74	12.73
GC40 (Coupon 9.80%, BMK R214)	↑	13.10	0.005	13.09	13.10
GC43 (Coupon 10.00%, BMK R2044)	↑	13.68	0.005	13.67	13.69
GC45 (Coupon 9.85%, BMK R2044)	↑	14.20	0.005	14.19	14.21
GC48 (Coupon 10.00%, BMK R2048)	→	14.25	0.000	14.25	14.26
GC50 (Coupon 10.25%, BMK: R2048)	→	14.26	0.000	14.26	14.27
Inflation-Linked Bond Yields %		**Last close**	**Difference**	**Prev close**	**Current Spot**
GI25 (Coupon 3.80%, BMK NCPI)	→	3.08	0.000	3.08	3.08
GI27 (Coupon 4.00%, BMK NCPI)	→	3.40	0.000	3.40	3.40
GI29 (Coupon 4.50%, BMK NCPI)	→	5.20	0.000	5.20	5.20
GI33 (Coupon 4.50%, BMK NCPI)	→	6.39	0.000	6.39	6.39
GI36 (Coupon 4.80%, BMK NCPI)	→	6.61	0.000	6.61	6.61
Commodities		**Last close**	**Change**	**Prev close**	**Current Spot**
Gold	↑	1,920	1.23%	1,897	1,918
Platinum	↓	1,065	-0.28%	1,068	1,065
Brent Crude	↑	85.3	1.49%	84.0	84.5
Main Indices		**Last close**	**Change**	**Prev close**	**Current Spot**
NSX Overall Index	↑	1,752	0.39%	1,745	1,752
JSE All Share	↑	79,334	0.90%	78,628	79,334
SP500	↑	3,999	0.40%	3,983	3,999
FTSE 100	↑	7,844	0.64%	7,794	7,844
Hangseng	↑	21,739	1.04%	21,514	21,663
DAX	↑	15,087	0.19%	15,058	15,087
JSE Sectors		**Last close**	**Change**	**Prev close**	**Current Spot**
Financials	↑	16,139	0.45%	16,066	16,139
Resources	↑	78,616	1.32%	77,592	78,616
Industrials	↑	99,708	0.95%	98,769	99,708
Forex		**Last close**	**Change**	**Prev close**	**Current Spot**
N$/US dollar	↑	16.78	0.30%	16.73	16.78
N$/Pound	↑	20.51	0.46%	20.42	20.55
N$/Euro	↑	18.17	0.11%	18.15	18.20
US dollar/ Euro	↓	1.083	-0.17%	1.085	1.085
		Namibia		**RSA**	
Interest Rates & Inflation		**Dec 22**	**Nov 22**	**Dec 22**	**Nov 22**
Central Bank Rate	→	6.75	6.75	7.00	7.00
Prime Rate	→	10.50	10.50	10.50	10.50
		Dec 22	**Nov 22**	**Nov 22**	**Oct 22**
Inflation	↓	6.9	7.0	7.4	7.6

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 the Overall Index, including dual listeds

Source: Thomson Reuters Refinitiv

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.

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