

The Daily Brief



Capricorn Asset Management

Market Update

Friday, 20 October 2023



Global Markets

Asian shares plumbed a fresh 11-month trough on Friday as fears of a regional conflict in the Middle East intensified and as a relentless rise in long-term U.S. yields pressured valuations, while supply concerns lifted oil prices further. The surge in the 10-year U.S. benchmark yield overnight to 5% has raised borrowing costs around the world. On Friday, the Bank of Japan intervened in the Japanese government bond (JGB) market as the 10-year JGB yield touched a decade high. A much-watched speech overnight from Federal Reserve Chair Jerome Powell led to a choppy market response, although most investors leaned further into bets that the Fed will extend its rate pause in November.

MSCI's broadest index of Asia-Pacific shares outside Japan skidded 0.8% to a fresh low since November last year, bringing the weekly loss to a sizeable 3%. Tokyo's Nikkei fell 1% and was down 3.6% for the week. China's blue chips fell 0.4%, while Hong Kong's Hang Seng index slumped 1%. China on Friday held its benchmark lending rates steady as the economy showed signs of stabilisation. Sentiment is also fragile after Tesla shares dropped 9% after its quarterly results disappointed, with a warning about consumer demand from Elon Musk sparking a sell off in EV stocks.

On the geopolitical front, fears of a spreading regional conflict are rising after the U.S. intercepted three cruise missiles and several drones launched by the Iran-aligned Houthi movement from Yemen potentially toward Israel. U.S. President Joe Biden in a speech on Thursday asked Americans to spend billions more dollars to help Israel fight Hamas, as an expected ground invasion with the aim of annihilating Hamas nears. "World leaders continue to trek to the Middle East to – if nothing else – delay the onset of any further hostility," said Kyle Rodda, senior financial market analyst at.

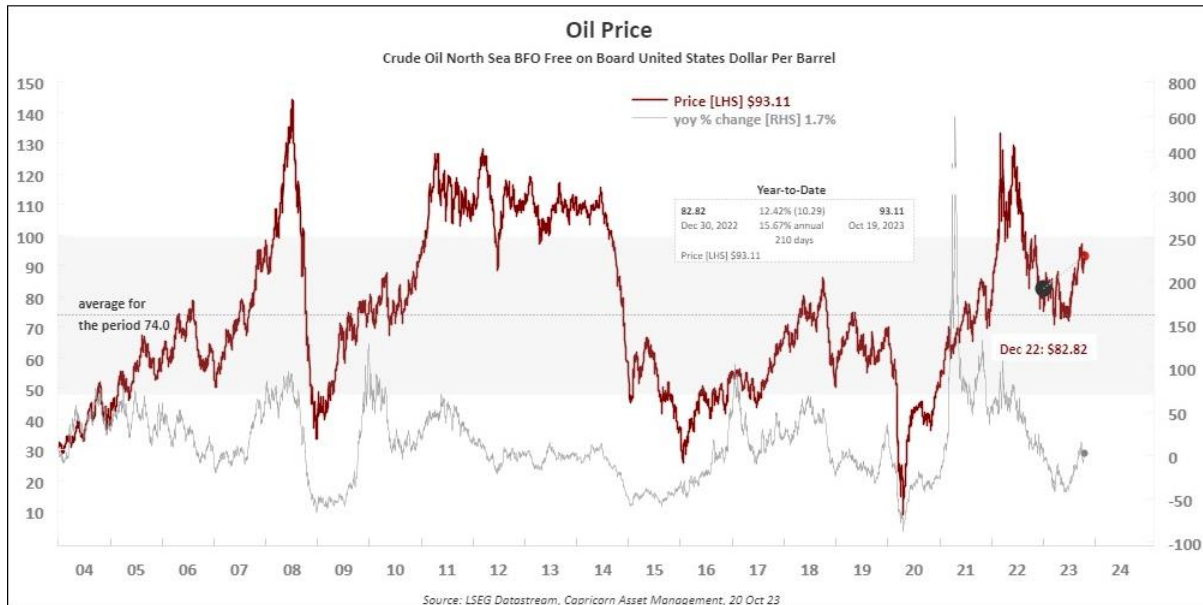
"The markets are shuffling nervously as they await a move: gold and oil, as the most apparent indicators of sentiment towards the conflict, continue to rise." Gold prices scaled a fresh two-month peak of \$1982.09 per ounce, the highest since late July, as investors sought safe-haven assets in the turmoil. Oil prices are headed for the second weekly gain on supply fears from an escalating regional conflict in the Middle East. U.S. crude CLC1 jumped 1% to \$90.33 per barrel and Brent was at \$93.2, up 0.8% on the day.

Overnight, Fed chair Powell appeared to align himself with Fed colleagues who have recently said the bond market is now doing some of the central bank's work for it. However, Powell walked a narrow line in his remarks, leaving open the possible need for more rate hikes because the economy had proved stronger than expected, but also noting emerging risks and a need to move with care.

The U.S. dollar was within a hair's breadth of the closely watched 150 yen level on Friday. It was up 0.1% against its peers at 106.34, not too far from an 11-month top of 107.34 hit in early this month. The 10-year yield has since steadied at 4.9620% in Asia, after hitting the 5.0% mark for the first since 2007, as investors grappled with U.S. economic resilience, concerns about the increase in U.S. debt issuance, and interest rates remaining high for longer. It was up 35 basis points this week, its biggest weekly rise in over a decade.

Quincy Krosby, chief global strategist at LPL Financial, said the focus on supply has become a fixation for the treasury market, and the concern is that the U.S. deficit is poised to climb higher because of the larger defence funding needs for Washington. "Now we're talking about not just the Ukraine-Russia conflict, that front, but now you have another front, that's in the Middle East that has to be satisfied... The U.S. is going to need more and more supply in terms of what we auction to pay for all of this."

Source: Thomson Reuters Refinitiv



Domestic Markets

The South African rand was weaker on Thursday on soaring U.S. Treasury yields and market jitters over a wider Middle East conflict, ahead of a speech by Federal Reserve Chair Jerome Powell. At 1505 GMT, the rand traded at 19.0425 against the dollar, about 0.3% weaker than its previous close.

Market jitters intensified on concerns over the conflict in the Middle East and rate hike expectations in developed economies, ETM Analytics market analyst Bheki Mahlobo told Reuters. "The prospect of a prolonged war has also led to surging oil prices, weakening SA's trade dynamics and denting the outlook of the ZAR (rand)," he added. U.S. Treasury yields hit 16-year highs on Thursday, boosted by expectations that the Fed would keep interest rates higher for longer.

The rand often takes cues from global factors such as U.S. monetary policy in addition to local factors. Global markets will turn their attention to a speech by Powell later in the day for hints on the future interest rate path of the world's biggest economy.

Shares on the Johannesburg Stock Exchange closed lower, with the blue-chip Top-40 index down about 1.5% and the broader all-share index about 1.4%. South Africa's benchmark 2030 government bond was weaker, with the yield up 6 basis points to 10.885%

Source: Thomson Reuters Refinitiv

Nine-tenths of wisdom is being wise in time.

Theodore Roosevelt

Market Overview

MARKET INDICATORS (Thomson Reuters Refinitiv)				20 October 2023	
Money Market TB Rates %		Last close	Difference	Prev close	Current Spot
3 months	↑	8.25	0.008	8.24	8.25
6 months	↑	8.81	0.016	8.79	8.81
9 months	↑	8.99	0.048	8.94	8.99
12 months	↑	9.09	0.033	9.06	9.09
Nominal Bond Yields %		Last close	Difference	Prev close	Current Spot
GC24 (Coupon 10.50%, BMK R186)	↑	9.73	0.060	9.67	9.73
GC25 (Coupon 8.50%, BMK R186)	↑	9.55	0.060	9.49	9.55
GC26 (Coupon 8.50%, BMK R186)	↑	9.46	0.060	9.40	9.46
GC27 (Coupon 8.00%, BMK R186)	↑	9.93	0.060	9.87	9.93
GC28 (Coupon 8.50%, BMK R2030)	↑	10.49	0.060	10.43	10.49
GC30 (Coupon 8.00%, BMK R2030)	↑	10.81	0.060	10.75	10.81
GC32 (Coupon 9.00%, BMK R213)	↑	11.01	0.033	10.98	11.01
GC35 (Coupon 9.50%, BMK R209)	↓	11.94	-0.005	11.94	11.94
GC37 (Coupon 9.50%, BMK R2037)	→	12.51	0.000	12.51	12.51
GC40 (Coupon 9.80%, BMK R214)	↓	12.91	-0.055	12.96	12.91
GC43 (Coupon 10.00%, BMK R2044)	↓	12.95	-0.025	12.97	12.95
GC45 (Coupon 9.85%, BMK R2044)	↓	13.35	-0.025	13.37	13.35
GC48 (Coupon 10.00%, BMK R2048)	↓	13.45	-0.025	13.48	13.45
GC50 (Coupon 10.25%, BMK: R2048)	↓	13.54	-0.025	13.57	13.54
Inflation-Linked Bond Yields %		Last close	Difference	Prev close	Current Spot
GI25 (Coupon 3.80%, BMK NCPI)	→	3.20	0.000	3.20	3.20
GI27 (Coupon 4.00%, BMK NCPI)	→	4.68	0.000	4.68	4.71
GI29 (Coupon 4.50%, BMK NCPI)	→	5.15	0.000	5.15	5.20
GI33 (Coupon 4.50%, BMK NCPI)	→	5.81	0.000	5.81	5.81
GI36 (Coupon 4.80%, BMK NCPI)	→	6.19	0.000	6.19	6.19
Commodities		Last close	Change	Prev close	Current Spot
Gold	↑	1,974	1.34%	1,948	1,979
Platinum	↑	891	0.58%	886	889
Brent Crude	↑	92.4	0.96%	91.5	93.3
Main Indices		Last close	Change	Prev close	Current Spot
NSX Overall Index	↓	1,538	-0.46%	1,545	1,538
JSE All Share	↓	70,961	-1.40%	71,969	70,961
SP500	↓	4,278	-0.85%	4,315	4,278
FTSE 100	↓	7,500	-1.17%	7,588	7,500
Hangseng	↓	17,296	-2.46%	17,733	17,229
DAX	↓	15,045	-0.33%	15,095	15,045
JSE Sectors		Last close	Change	Prev close	Current Spot
Financials	↓	15,858	-0.26%	15,899	15,858
Resources	↓	57,783	-2.16%	59,059	57,783
Industrials	↓	94,065	-1.75%	95,739	94,065
Forex		Last close	Change	Prev close	Current Spot
N\$/US dollar	↑	19.02	0.24%	18.97	19.01
N\$/Pound	↑	23.09	0.26%	23.03	23.06
N\$/Euro	↑	20.12	0.67%	19.99	20.10
US dollar/ Euro	↑	1.058	0.42%	1.054	1.058
		Namibia		RSA	
Interest Rates & Inflation		Sep 23	Aug 23	Sep 23	Aug 23
Central Bank Rate	→	7.75	7.75	8.25	8.25
Prime Rate	→	11.50	11.50	11.75	11.75
		Sep 23	Aug 23	Sep 23	Aug 23
Inflation	↑	5.4	4.7	5.4	4.8

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 listed

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.



Capricorn Asset Management



Bank Windhoek

For enquiries concerning the Daily Brief please contact us at

Daily.Brief@capricorn.com.na

Disclaimer

The information contained in this note is the property of Capricorn Asset Management (CAM). The information contained herein has been obtained from sources and persons whom the writer believes to be reliable but is not guaranteed for accuracy, completeness or otherwise. Opinions and estimates constitute the writer's judgement as of the date of this material and are subject to change without notice. This note is provided for informational purposes only and may not be reproduced in any way without the explicit permission of CAM.

A member of  **Capricorn Group**
