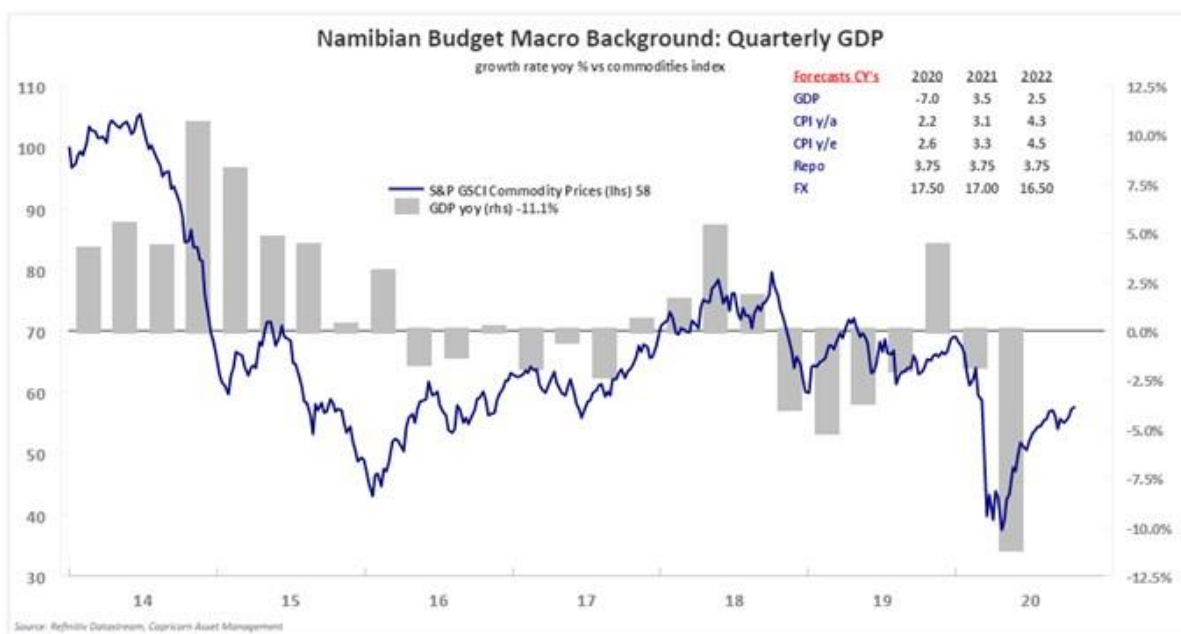




Market Update

Wednesday, 21 October 2020

Namibian Mid-Term Budget 2020/21



One comes away from yesterday’s Budget Statement with a sense of relief – if only because things were not worse than expected. These days one must take inspiration from wherever one can get it. In fact, Revenue estimates for the current year were revised to N\$55.2bn (-5.5%) from the initial estimate of N\$51.4bn (-12.0%). Total nominal GDP for the fiscal year also appears to be somewhat better – showing a -2.7% contraction rather than -4.4%. Nominal GDP growth of around 5.5% is foreseen for the next three years by the MoF (Minister of Finance). This seems eminently reasonable to us, even perhaps conservative. But for Revenue to grow by 9.4% in the outer year of the period is asking a bit much.

With Expenditure remaining at the estimated N\$72.8bn level, it means the Deficit is now likely to be of the order of 10% of GDP, rather than 12.5% previously expected. The MoF intends to cut back Expenditure next FY (fiscal year) to N\$68.5bn and then allow it to grow by only 2% pa thereafter. This will be a big ask, given the relentless pressure of the wage- and interest bills. The latter amounts to 14% of total Revenue, going on 16%, whilst the former is 52% of Revenue.

The Deficit is foreseen to reduce steadily from 10.1% to 4.1% of GDP over the period. We think the MoF missed a trick therein that he did not aim for a confidence inspiring 3%, especially since the intention is now to roll the Eurobond coming due in November 2021. The total funding requirement will remain large relative to the domestic economy. Initially the N\$27.7bn (16.2% of GDP) was intended to be funded as follows:

Funding	27,737
Utilisation of Cash	8,380
Domestic market	12,117
AfDB	4,990
IMF Rapid Funding	2,250

With the reduction in the Deficit, Namibia might not need the IMF funding in the end. As things stand domestic debt will amount to N\$75.8bn and foreign debt to N\$43.9bn for a total of N\$119.8bn or 68.8% of GDP. The debt trajectory will not stabilise over the forecast horizon, rising to 77% over three years. More needs to be done to get it under control.

Namibian Budget Outlook	2015/16	2016/17	2017/18	2018/19	2019/20	Budget 2020/21		MTEF		
	Outcome	Outcome	Outcome	Outcome	Outcome	May	Oct	21/22 MTBS	22/23 MTBS	23/24 MTBS
Total Revenue	51,069	50,931	58,658	55,884	58,425	51,397	55,200	55,075	57,541	62,976
% increase	3.1	-0.3	15.2	-4.7	4.5	-12.0	-5.5	-0.2	4.5	9.4
% of GDP	34.5	31.8	34.2	31.4	32.7	30.0	31.7	30.1	29.8	30.9
Total Expenditure	64,577	62,080	65,355	65,108	67,343	72,772	72,772	68,480	69,849	71,246
% increase	10.6	-3.9	5.3	-0.4	3.4	8.1	8.1	-5.9	2.0	2.0
% of GDP	43.6	38.8	38.1	36.5	37.6	42.5	41.8	37.4	36.2	35.0
Deficit	-13,508	-11,149	-6,697	-9,224	-8,918	-21,375	-17,572	-13,405	-12,308	-8,270
% of GDP	-9.1	-7.0	-3.9	-5.2	-5.0	-12.5	-10.1	-7.3	-6.4	-4.1
"Projects & Redempt's"	0	0	0	0	0	-6,361	-6,361	-1,775	-1,457	-1,552
Financing requirement	-13,508	-11,149	-6,697	-9,224	-8,918	-27,736	-23,933	-15,180	-13,765	-9,822
% of GDP	-9.1	-7.0	-3.9	-5.2	-5.0	-16.2	-13.7	-8.3	-7.1	-4.8
Debt	60,910	66,752	74,468	88,917	100,400	119,139	119,756	134,140	147,430	156,682
% of GDP	41.1	41.7	43.4	49.9	56.1	69.6	68.8	73.2	76.3	76.9
Guarantees	6,457	6,351	11,036	10,889	11,107	13,629	11,108	13,629	13,629	13,629
% of GDP	4.4	4.0	6.4	6.1	6.2	8.0	6.4	7.4	7.1	6.7
Debt & Guarantees	67,367	73,103	85,504	99,806	111,506	132,768	130,864	147,769	161,059	170,311
% of GDP	45.5	45.7	49.8	56.0	62.3	77.6	75.2	80.7	83.4	83.6
Nominal GDP	148,126	160,042	171,655	178,209	178,940	171,133	174,063	183,139	193,212	203,839
% increase	8.3	8.0	7.3	3.8	0.4	(4.4)	(2.7)	5.2	5.5	5.5
CPI FYave	3.9	7.1	5.1	4.5	2.4	3.2	3.2	3.5	4.4	3.9
Real GDP	4.4	0.9	2.2	(0.7)	(2.0)	(7.6)	(5.9)	1.7	1.1	1.6

As far as general policy goes, we feel the MoF was too superficial in his references to policy issues and reform initiatives. That was probably intentional, therein that he made it clear that the Presidency will announce an "Economic Growth and Recovery Plan" before the end of this year.

Some announcements that one could take note of are the following:

- The mobilisation of alternative forms of financing. This alludes to the so-called Public-Private-Partnerships, or PPP's for infrastructure investment, which aims not to load the fiscus with more debt. It has become somewhat of a buzzword, also in SA.
- MoF summarised the N\$8.1bn Covid Stimulus Relief Package's initiative, indicating that some success has been reached and a large number of people benefited from the Emergency Income Grant and Wage Subsidy scheme.

- An additional N\$500m scheme for SME financing is being facilitated by the Bank of Namibia (BoN), via the Banking system.
- The Public Procurement Process is being overhauled. This appears to be a bottleneck even for the N\$4bn of AfDB project specific funded initiatives.
- A “State Asset Ownership Policy” is being finalised. This is supposed to enable state divestitures and the listing of assets such MTC which is planned for next year.
- Other notable mentions: The resolutions of the Land Conference, Harambee, Vision 2030, NDP6, PSEMAS, NamRA, a Tax penalty and interest relief programme, Investment Promotion Act, Special Economic Zones, a National Single Window Facility (“ease of doing business”), FIMBILL finalisation.
- Namibia remains committed to the currency peg.

Overall a score of C+ for the Budget. MoF could have done more to stamp his authority on the processes by making more of the targets to get back to fiscal health and in discussing economic policy. It appears that the President has reserved the right to announce a comprehensive “Economic Growth and Recovery Plan”.

Global Markets

Asian shares and U.S. stock futures rose on Wednesday as renewed hopes for a new round of U.S. stimulus drew money into equities from government debt.

MSCI's broadest index of Asia-Pacific shares outside Japan rose 0.56%. Australian stocks edged up by 0.1%, while shares in China rose 0.07%. Tokyo shares gained 0.4%. U.S. stock futures also rose 0.44%.

The yuan surged to the strongest level against the dollar in more than two years on growing optimism about China's economy and speculation that a victory for U.S. Democrat presidential candidate Joe Biden next month will lead to better Sino-U.S. ties.

Benchmark U.S. Treasury yields hit a four-month high and the yield curve steepened on expectations for more U.S. fiscal spending, but some investors remain cautious about the chances of a deal before the U.S. presidential election on Nov. 3. "It will be quite a mixed day," said Ryan Felsman, senior economist at CommSec. "People are digesting the potential for a stimulus bill, and markets are very cautious on the back of that."

The White House and Democrats in the U.S. Congress moved closer to agreement on a new coronavirus relief package on Tuesday as President Donald Trump said he was willing to accept a large aid bill despite opposition from his own Republican Party. Negotiations will continue on Wednesday, an aide to top U.S. Democrat Nancy Pelosi said.

On Wall Street, shares of Google parent company Alphabet rose despite an antitrust lawsuit against it by the U.S. Justice Department. Netflix, however, reported disappointing earnings, leading its shares to fall 6% after trading hours. The Dow Jones Industrial Average ended up 0.40% on Tuesday. The S&P 500 rose 0.47%, and the tech-heavy Nasdaq Composite rose 0.33%.

The onshore yuan jumped to 6.6602 per dollar, the strongest since July 2018. Yuan bulls have been encouraged by recent signs from the People's Bank of China that it is more comfortable with currency appreciation. The U.S. dollar hit a one-month low against a basket of major currencies as investors awaited the outcome of the fiscal stimulus talks and as coronavirus cases spiked in Europe.

Oil prices fell on Wednesday after a surprise climb in U.S. crude stockpiles added to concerns about a global supply glut. Brent crude futures fell 0.56% to \$42.92 a barrel while U.S. crude futures slipped by 0.55% to \$42.92 per barrel.

Domestic Markets

South Africa's rand firmed on Tuesday, building on recent gains as investor demand for high-yielding, riskier assets was spurred by signs the United States would conclude a new stimulus package.

At 1600 GMT, the rand was 0.27% firmer at 16.4750 per dollar compared with an opening level of 16.5375. Trade was subdued, reflecting the overall caution in markets ahead of U.S. elections in November and concerns about a resurgence of COVID-19 infections, especially in Europe.

The U.S. stimulus programme, which will add to the \$3 trillion in coronavirus relief already approved this year, has been key to market sentiment. Democrats and Republicans were said to be close to agreeing a deal on Tuesday.

With no top-tier data due locally this week, and the medium term budget set for next Wednesday, the rand continued to be driven by global risk sentiment and investors search for high yields. South Africa's currency and bonds offer some of the highest returns among emerging markets, and have remained attractive despite mounting fiscal risks, with the economy in a four-quarter recession.

"The South African currency continued to benefit from external factors, with attractive carry underpinning rand strength despite a brittle economic backdrop. Global risk appetite supported the local unit," said analysts at NKC African Economics.

In fixed income, the yield on the benchmark government bond due in 2030 was flat at 9.3%.

Stocks rose slightly on hopes for the U.S. stimulus package. The benchmark Top-40 index rose 0.22% to 50,852 points and the All-Share index closed 0.2% higher at 55,272 points. Shares in Pick n Pay rose 2.17% to 52.66 rand after the supermarket chain declared a full-year dividend alongside an interim dividend. Among the decliners, the gold sector fell 2.03%, with Harmony Gold 1.97% weaker at 92.10 rand and AngloGold Ashanti closing down 3.16% at 429.25 rand.

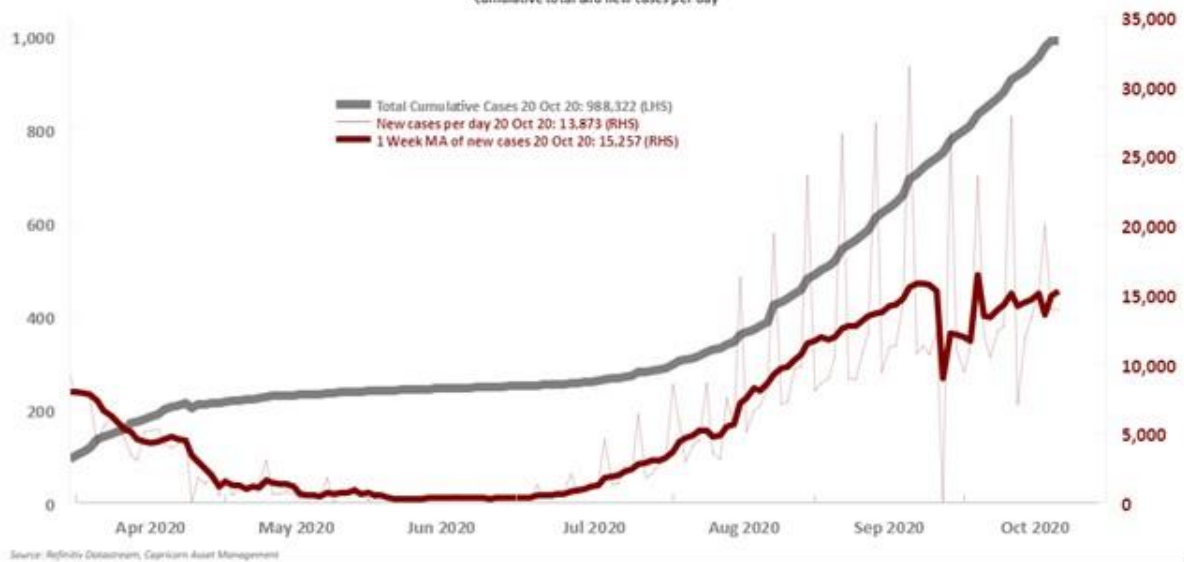
Source: Thomson Reuters

Corona Tracker

GLOBAL CASES SOURCE - REUTERS		21-Oct-2020		2:34
	Confirmed Cases	New Cases	Total Deaths	Total Recovered
GLOBAL	40,621,447	236,621	1,120,183	28,174,708

Spain: Covid Cases

cumulative total and new cases per day



"If all the economists were laid end to end, they would not reach a conclusion."

George Bernard Shaw

Market Overview

MARKET INDICATORS (Thomson Reuters)		21 October 2020			
Money Market TB Rates %		Last close	Difference	Prev close	Current Spot
3 months	↓	3.85	-0.009	3.86	3.85
6 months	⇒	3.90	0.000	3.90	3.90
9 months	↓	3.90	-0.008	3.91	3.90
12 months	↓	3.83	-0.017	3.85	3.83
Nominal Bond Yields %		Last close	Difference	Prev close	Current Spot
GC21 (Coupon 7.75%, BMK R208)	↑	4.00	0.100	3.90	4.00
GC22 (Coupon 8.75%, BMK R2023)	↑	5.02	0.035	4.98	5.02
GC23 (Coupon 8.85%, BMK R2023)	↑	4.92	0.035	4.88	4.92
GC24 (Coupon 10.50%, BMK R186)	↑	7.36	0.040	7.32	7.36
GC25 (Coupon 8.50%, BMK R186)	↑	7.37	0.040	7.33	7.37
GC26 (Coupon 8.50%, BMK R186)	↑	7.37	0.040	7.33	7.37
GC27 (Coupon 8.00%, BMK R186)	↑	7.66	0.040	7.62	7.66
GC30 (Coupon 8.00%, BMK R2030)	↑	9.59	0.015	9.58	9.60
GC32 (Coupon 9.00%, BMK R213)	↑	10.76	0.035	10.72	10.76
GC35 (Coupon 9.50%, BMK R209)	↑	11.86	0.015	11.85	11.87
GC37 (Coupon 9.50%, BMK R2037)	↑	12.63	0.020	12.61	12.63
GC40 (Coupon 9.80%, BMK R214)	↑	13.21	0.035	13.17	13.21
GC43 (Coupon 10.00%, BMK R2044)	↑	13.75	0.030	13.72	13.75
GC45 (Coupon 9.85%, BMK R2044)	↑	14.03	0.030	14.00	14.03
GC50 (Coupon 10.25%, BMK: R2048)	↑	14.08	0.015	14.06	14.09
Inflation-Linked Bond Yields %		Last close	Difference	Prev close	Current Spot
GI22 (Coupon 3.55%, BMK NCPI)	⇒	4.49	0.000	4.49	4.49
GI25 (Coupon 3.80%, BMK NCPI)	↑	4.49	0.000	4.49	4.49
GI29 (Coupon 4.50%, BMK NCPI)	⇒	5.91	0.000	5.91	5.91
GI33 (Coupon 4.50%, BMK NCPI)	⇒	6.82	0.000	6.82	6.82
GI36 (Coupon 4.80%, BMK NCPI)	⇒	7.09	0.000	7.09	7.09
Commodities		Last close	Change	Prev close	Current Spot
Gold	↑	1,906	0.11%	1,904	1,917
Platinum	↑	871	1.70%	856	877
Brent Crude	↑	43.2	1.27%	42.6	42.9
Main Indices		Last close	Change	Prev close	Current Spot
NSX Overall Index	↓	1,085	-0.38%	1,090	1,085
JSE All Share	↑	55,272	0.20%	55,161	55,272
SP500	↑	3,443	0.47%	3,427	3,443
FTSE 100	↑	5,889	0.08%	5,885	5,889
Hangseng	↑	24,570	0.11%	24,542	24,756
DAX	↓	12,737	-0.92%	12,855	12,737
JSE Sectors		Last close	Change	Prev close	Current Spot
Financials	↓	9,956	-0.21%	9,978	9,956
Resources	↓	53,788	-0.63%	54,130	53,788
Industrials	↑	75,567	1.08%	74,763	75,567
Forex		Last close	Change	Prev close	Current Spot
N\$/US dollar	↓	16.48	-0.22%	16.51	16.45
N\$/Pound	↓	21.32	-0.25%	21.38	21.35
N\$/Euro	↑	19.47	0.23%	19.43	19.48
US dollar/ Euro	↑	1.182	0.47%	1.177	1.184
		Namibia		RSA	
Interest Rates & Inflation		Latest	Previous	Latest	Previous
Central Bank Rate	↓	3.75	4.00	3.50	3.75
Prime Rate	↓	7.50	7.75	7.00	7.25
		Sep 20	Aug 20	Aug 20	Jul 20
Inflation	⇒	2.4	2.4	3.1	3.2

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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