Market Update **Wednesday, 23 October 2019**

The Namibian Mid-Year Budget: moving in the right direction

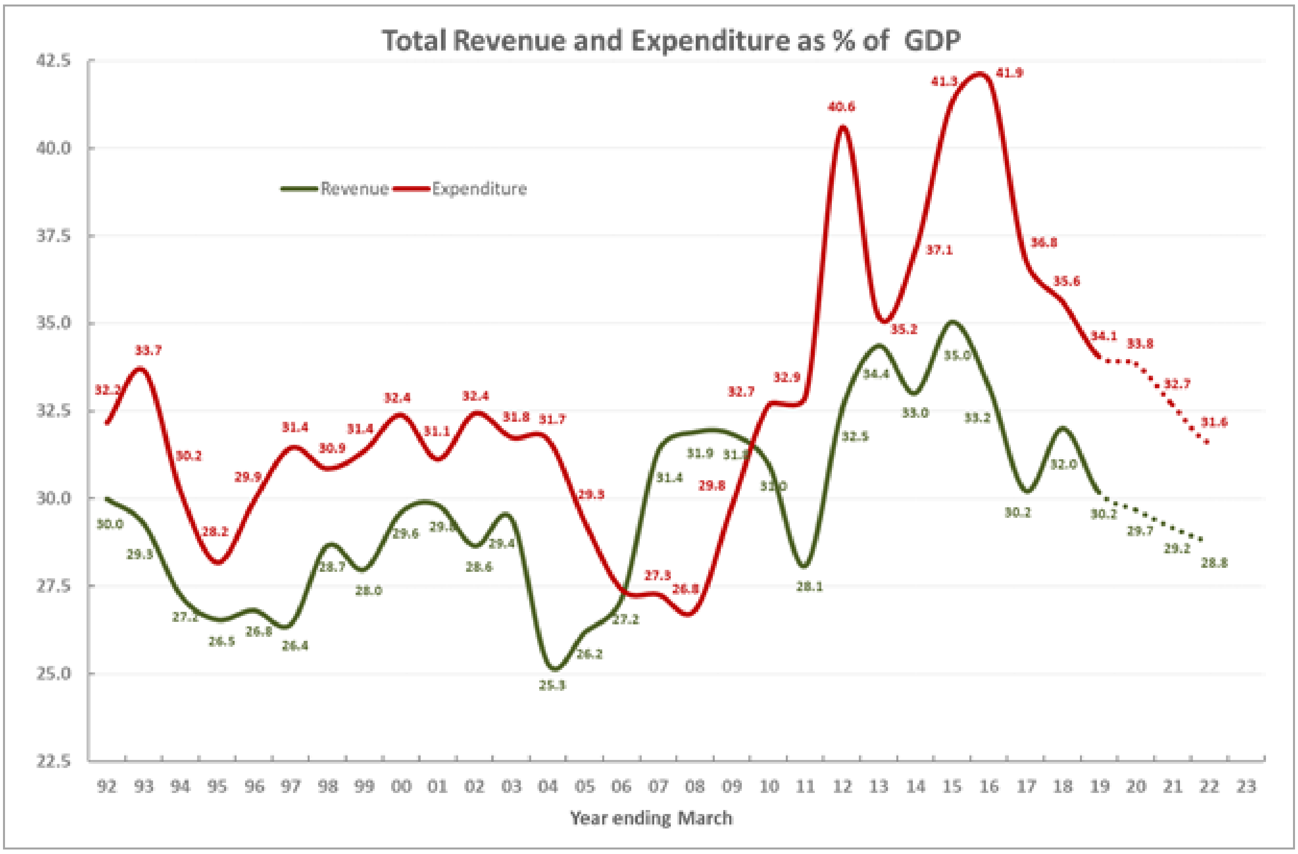
No nasty surprises!

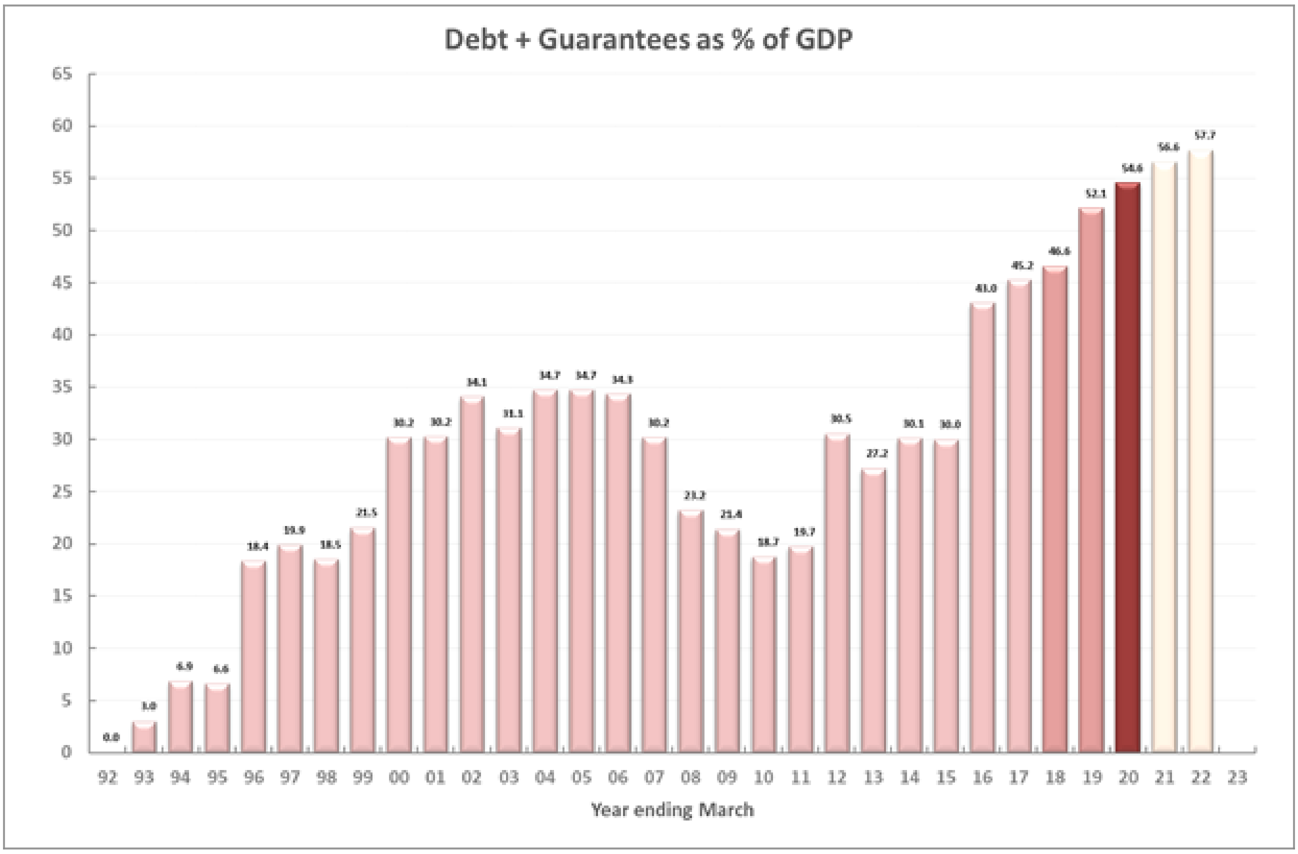
A big positive is that the slippage is not as bad as we feared for the current fiscal year that is ending in March 2020. In fact, Revenue of N$58.4bn is still expected, virtually the same as budgeted. However, Non-Mining Company taxes have not been re-estimated from that budgeted – so there is downside risk here. The MoF (Minister of Finance) does warn that: “The revenue outlook is characterised by a plethora of risks, which are tilted on the downside. The main risks to the revenue outlook is coming from the domestic macroeconomic risks, potential shocks on SACU revenue and external risks arising from the global economic, trade and financial environment.” Expenditure, also, is still expected to be N$66.6bn – the same as budgeted. This means that the deficit remains at an estimated N$8.1bn which is 4.1% of GDP. On the face of it, it therefore seems that we are on track with fiscal policy overall. We will have to see at Budget time in March 2020 whether these expectations are met. The MoF typifies policy as follows: “The Government will continue implementing the fiscal consolidation framework that is moderately paced to avoid sudden a withdrawal of fiscal support to the economy and the provision of basic services.”

The MoF shows ample awareness of the funding challenges, indicating that the relief experienced from upping the domestic asset requirement to 45% has reached its limits. Switch auctions will continue for the GC20, which matures on 15 April 2020 and will be started for the GC21 which matures on 15 October 2021. The JSE listed bond, the NAM02, matures on 29 June 2020 and the first Eurobond matures on 3 November 2021. Treasury therefore has their work cut out for them, but the Debt management program seems manageable. The sale of Government’s stake in MTC will help quite a bit.

The main risks remain, in our view the situation with the SOE’s. However, it appears that a tougher stance is being taken. Furthermore, in total, guarantees amounts to N$11.1bn or 5.6% of GDP, including Aircraft Leases (a much better position than the RSA where guarantees amount to 22% of GDP, including Eskom debt of R400bn, give or take).

Overall we are relieved at the absence of nasty surprises and the holding of the line – no tax hikes and no fiscal slippage. This means that Government revenue and spending should continue to decline as % of GDP as targeted (see chart). Let’s hope the ship is still on course in March 2020, because the sharp spike in debt of recent years needs be brought under control as a matter of urgency (see chart).





Global Markets

U.S. stock futures and Asian shares slipped on Wednesday as revenue warnings from Texas Instruments raised worries about the global tech sector and after British lawmakers forced the government to hit the pause button on the latest Brexit deal.

S&P500 mini futures dropped 0.3% while Japan's Nikkei last stood almost flat after having fallen 0.4%. MSCI's broadest index of Asia-Pacific shares outside Japan fell 0.5%. On Tuesday, the S&P 500 lost 0.36%. After the bell, Texas Instruments, whose broad lineup of products makes it a proxy for the global chip industry, forecast current-quarter revenue to fall 10 to 17% from a year earlier, well below estimates. Texas Instruments shares tumbled 9.8% in after-hour trade, driving down other chipmaker shares including Intel and Nvidia. Worries that the global microchip industry is being squeezed by a downturn in demand and a prolonged U.S.-China trade dispute sent some Asian chip-related shares lower. Taiwan's TSMC fell 0.2% while South Korea's SK Hynix shed 0.7% and Japan's Tokyo Electron slumped 3.7%. "Given recent rally in semi-conductor shares, some adjustments will be inevitable," said Nobuhiko Kuramochi, chief strategist at Mizuho Securities. "But our investor survey has shown that many investors are still cautious on the sector so a bit of weakness in the industry would surprise few of them," he added.

In the currency market, sterling dipped 0.15% to $1.2851, falling further from five-month highs of $1.3012 set on Monday. But the currency still kept hefty gains made over the past fortnight on growing expectations that a no-deal Brexit will be avoided even though it is still not clear how the process will unravel.

On Tuesday, the British parliament voted in favour of Prime Minister Boris Johnson's Brexit plan, but then rejected his timetable to fast-track legislation to take Britain out of the European Union. That effectively meant Britain would not be able to finalise its exit by Johnson's Oct. 31 deadline. The next step, Johnson said, would be waiting for the EU to respond to a request to delay the Oct. 31 Brexit date, which the prime minister reluctantly sent to Brussels on Saturday after being forced to do so by lawmakers. A source in Johnson's office said on Tuesday that a new election is the only way to move on from Britain's Brexit crisis if the European Union agrees to a delay until January. "Broadly speaking, there are two scenarios. There will be a short extension before the parliament will agree on Johnson's plan. Or there could be a general election, which would need a longer extension," said Kyosuke Suzuki, director of forex at Societe Generale. "But it now seems unlikely that Britain will crash out of the EU on Oct. 31," he said.

Receding worries about a no-deal Brexit also underpinned the euro, which stood at $1.1122, flat on the day and a tad below Monday's two-month high of $1.1180. The yen ticked up 0.15% to 108.31 yen per dollar, in a slow recovery since hitting a 2-1/2-month low of 108.94 on Thursday. The dollar was broadly weak, ahead of a Federal Reserve policy meeting next week, where policy makers are expected to cut interest rates by 0.25 percentage point.

Oil prices fell after industry group data showed U.S. crude stocks rose more than expected last week. Still, on the whole the market held firm after China signalled progress in trade talks with the United States and OPEC and its allies pondered deeper production cuts. Brent crude futures fell 0.52% to $59.39 a barrel while U.S. West Texas Intermediate (WTI) crude lost 0.81% to $54.04 per barrel.

Domestic Markets

South Africa's rand powered to a one-month best on Tuesday, lifted by a brightening outlook on a trade deal between China and the United States and locally by a second day without electricity blackouts.

Stocks slipped despite grocer Pick n Pay's shares climbing by their most in 18 years, with the bourse dragged down by resource miners and rand hedges.

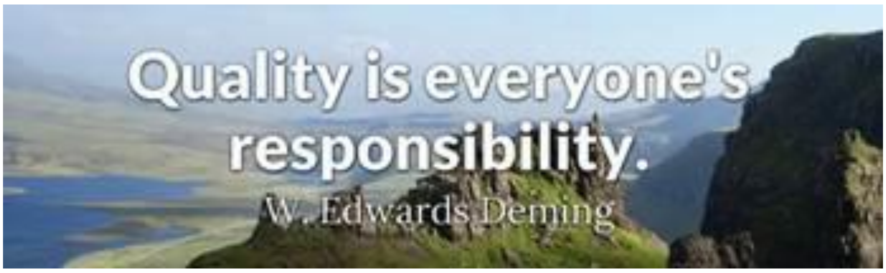
At 1630 GMT the rand was 1.05% firmer at 14.6150 per dollar, its best level since Sept. 19, compared to an open of 14.7550. The rand marked a fourth consecutive session of gains, shaking off lingering concerns about electricity supply after shock outages last week as state firm Eskom said failures at some of its stations had throttled capacity.

On Tuesday Eskom had not cut power since Saturday, and was further boosted by parliament's decision to greenlight a 59 billion rand bailout proposed by the treasury in July.

Progress in trade talks between Beijing and Washington has also helped the rand as emerging market risk appetite picked up globally. Government bonds also rallied, with the yield on the benchmark 2026 bond down 7 basis point to 8.205%.

In stocks, the Johannesburg All-Share index fell 0.31% to 55,936 points, while the Top-40 index dipped 0.45% to 49,610 points, with gold miners the main drag on the bourse. "Anglo American and its subsidiaries Kumba Iron Ore and Anglo Platinum all released production reports for the third quarter, which has seen these shares trade mostly lower on the day," said senior analyst at IG Markets at Shaun Murison. Anglo Platinum was down 3.82% to 105.40 rand, Kumba fell 6.38% to 336.81 rand. Petrochemical giant Sasol saw a 7.38% slide on the day to 267.22 rand. Supermarket chain Pick n Pay Stores Ltd led the All-Share, up more than 10.54% to 67.96 rand after a .5% rise in first-half earnings.

Source: Thomson Reuters



Market Overview

MARKET INDICATORS (Thomson Reuters)		Wednesday, 23 October 2019		
Money Market TB's	**Last close**	**Difference**	**Prev close**	**Current Spot**
3 months				6.81
6 months				7.06
9 months				7.28
12 months				7.40
Nominal Bonds	**Last close**	**Difference**	**Prev close**	**Current Spot**
GC20 (BMK: R207)	7.36	-0.002	7.37	7.36
GC21 (BMK: R2023)	7.53	0.000	7.53	7.53
GC22 (BMK: R2023)	8.07	0.005	8.06	8.09
GC23 (BMK: R2023)	8.56	-0.001	8.56	8.59
GC24 (BMK: R186)	8.92	-0.070	8.99	8.92
GC25 (BMK: R186)	9.50	-0.070	9.57	8.86
GC27 (BMK: R186)	8.94	-0.971	9.92	8.97
GC30 (BMK: R2030)	10.16	-0.070	10.23	10.16
GC32 (BMK: R213)	10.47	-0.070	10.54	10.46
GC35 (BMK: R209)	11.19	-0.010	11.20	10.53
GC37 (BMK: R2037)	10.60	0.000	10.60	10.64
GC40 (BMK: R214)	11.01	0.005	11.01	11.05
GC43 (BMK: R2044)	11.03	0.005	11.02	11.07
GC45 (BMK: R2044)	11.39	0.005	11.39	11.44
GC50 (BMK: R2048)	11.63	0.005	11.63	11.68
Inflation-Linked Bonds	**Last close**	**Difference**	**Prev close**	**Current Spot**
GI22 (BMK: NCPI)	4.40	0.000	4.40	4.40
GI25 (BMK: NCPI)	4.65	0.000	4.65	4.65
GI29 (BMK: NCPI)	5.61	0.000	5.61	5.61
GI33 (BMK: NCPI)	6.19	0.000	6.19	6.19
GI36 (BMK: NCPI)	6.54	0.000	6.54	6.54
Commodities	**Last close**	**Change**	**Prev close**	**Current Spot**
Gold	1,488	0.23%	1,484	1,491
Platinum	891	0.37%	888	893
Brent Crude	59.7	1.26%	59.0	59.5
Main Indices	**Last close**	**Change**	**Prev close**	**Current Spot**
NSX Overall Index	1,323	0.45%	1,317	1,322
JSE All Share	55,937	-0.31%	56,111	55,626
SP500	2,996	-0.36%	3,007	2,996
FTSE 100	7,212	0.68%	7,164	7,212
Hangseng	26,786	0.23%	26,726	26,564
DAX	12,755	0.05%	12,748	12,721
JSE Sectors	**Last close**	**Change**	**Prev close**	**Current Spot**
Financials	16,352	1.02%	16,187	16,189
Resources	43,860	-2.16%	44,829	44,233
Industrials	69,971	0.11%	69,896	69,082
Forex	**Last close**	**Change**	**Prev close**	**Current Spot**
N$/US dollar	14.58	-1.14%	14.75	14.63
N$/Pound	18.76	-1.80%	19.11	18.82
N$/Euro	16.22	-1.35%	16.44	16.28
US dollar/ Euro	1.112	-0.22%	1.115	1.112
	Namibia		**RSA**	
Economic data	**Latest**	**Previous**	**Latest**	**Previous**
Inflation	3.3	3.7	4.3	4.0
Prime Rate	10.25	10.50	10.00	10.25
Central Bank Rate	6.50	6.75	6.50	6.75

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

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.

Source: Thomson Reuters

Capricorn Asset Management   Bank Windhoek

For enquiries concerning the Daily Brief please contact us at

Daily.Brief@capricorn.com.na

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