



The Daily Brief

Capricorn Asset Management

Market Update

Tuesday, 25 August 2020



Global Markets

Renewed confidence in a Sino-U.S. trade deal after talks between the countries helped lift most Asian stocks on Tuesday, as did fresh vaccine hopes for a coronavirus vaccine, which boosted broader sentiment. MSCI's broadest index of Asia-Pacific shares outside Japan was up 0.18% and was trading just below a two-year high. Japan's Nikkei rose 1.5% while banking stocks led Australia's S&P/ASX 200 up 0.4%.

The upbeat sentiment in Asia on Tuesday follows reports that top U.S. and Chinese officials see progress in resolving concerns around the Phase 1 trade deal reached between the two countries in January. U.S. Trade Representative Robert Lighthizer and Treasury Secretary Steven Mnuchin spoke with Chinese Vice Premier Liu He, the U.S. Treasury said in a statement on Tuesday, during a "regularly scheduled call". China's commerce ministry said in a statement there had been "constructive dialogue", which followed the U.S. Treasury declaring that "both sides see progress".

"This is consistent with market expectations of the Phase 1 deal staying healthy and likely to hold even as U.S.-China tensions flare up along non-trade dimensions - technology, access to capital, geopolitics," Citigroup analysts said in a research note.

Bucking the regional rally, however, were Hong Kong and China markets, with the Hang Seng slipping 0.7% in the afternoon session while the Shanghai Composite gave up earlier gains to weaken 0.19%. Ord Minnett investment advisor John Milroy said equities market sentiment remained driven by elevated global liquidity levels.

"The strong rebound in markets continues to be driven by the large amounts of money governments and central banks keep throwing at the system," Milroy said. "There is no reason to expect markets to stop anytime soon even in the face of reduced global activity levels. Investors keep looking ahead with markets trading well above historical price to earnings levels."

Markets have also been supported by broader optimism about medical solutions to end the coronavirus pandemic. U.S. regulators on Sunday authorised the use of blood plasma from recovered COVID-19 patients as a treatment option, helping the S&P 500 1% higher to another record close overnight. Shares of AstraZeneca also rose on a Financial Times report that the U.S. government was considering fast-tracking its experimental vaccine.

That seemed to overshadow a rise in coronavirus cases in Europe and the first documented case of human re-infection with COVID-19, where a man in Hong Kong caught the virus again some four months after first being infected.

In currency markets, the dollar, which has been sensitive to sentiment in equity markets edged higher, defying pressure from a gain in stocks that often leads investors to sell dollars for riskier currencies. Investors now await a Thursday speech from Federal Reserve chairman Jerome Powell and expect he might address the future approach to inflation and allow it to run hotter than 2% to make up for years of undershooting. The dollar also found support from an overnight rise in yields. That kept the euro to \$1.18 and the Aussie at \$0.7172 in Asian trade.

In commodity markets, oil clung to overnight gains after storms disrupted U.S. production. Brent crude futures firmed in early Asian trade to \$45.26 a barrel and U.S. crude dipped to \$42.58 a barrel. The stronger dollar held gold to \$1,935.9 an ounce. A light data calendar in Asia has investors looking to Germany's IFO business survey due at 0800 and U.S. consumer confidence data at 1400 GMT.

Domestic Markets

South Africa's rand rallied on Monday, helped by a risk-on mood on global markets after U.S. regulators approved a treatment for COVID-19 patients. Markets latched onto the U.S. Food & Drug Administration's "emergency use authorisation" for the use of blood plasma from patients who have recovered from COVID-19 as a treatment for the disease.

That helped the rand gain roughly 1.1% to trade at 16.9500 against the dollar by 1516 GMT, continuing a recent pattern where the rand has moved mainly on shifts in global sentiment.

Annabel Bishop, an economist at Investec, said in a research note that the rand was being helped by a trend towards strength for emerging markets. "Q3 has been underlaid with U.S. dollar weakness on a departure from safe-haven assets, as markets continue to price in recovery for the global economy, with traders fearful of missing out on this play," she wrote.

After no major domestic data releases last week, local traders await consumer price index figures on Wednesday and the producer price index on Thursday. We expect CPI inflation to rise to 3.1%.

Also in focus is the Federal Reserve's annual Jackson Hole retreat, for clues on the outlook for U.S. monetary policy, a major determinant of risk appetite globally.

On the Johannesburg bourse, the Top-40 index rose 1.1% to 52,256 points, while the All-share index gained 1.2% to 56,625 points. Gains were partly driven by heavyweight Naspers which rose 1.2% to 3,068 rand after an increase in WeChat parent Tencent, in which Naspers holds a more than 30% stake through its subsidiary Prosus NV. "The biggest moves at the moment are the usual suspects, Naspers and Prosus, our two biggest companies. That's on the back of Tencent which went up about 4% in Hong Kong this morning," said Greg Davies, an equities trader at Cratos Capital.

In fixed income, the yield on the benchmark 2030 government bond rose 5 basis points to 9.315%.

ABSA

Shares in South African lender Absa rose more than 2% on Monday as investors looked past a plunge in profit to the prospect of a better second half. The lender, already in the midst of a turnaround drive when the coronavirus pandemic struck, said it was unlikely to pay a full-year dividend after first half profit fell by 93%. It had previously warned that bad loans would blow a hole in its performance and drag earnings down by up to 97%.



"Given our focus on preserving capital, we do not envisage declaring an ordinary dividend for 2020," it said in its results statement, adding that capital levels were expected to remain resilient. Headline earnings per share - the main profit measure in South Africa - stood at 67.7 cents (\$0.0396) in the six months to June 30, compared with 920 cents a year earlier.

The biggest drag was an almost 300% rise in its credit impairment charge - among the steepest flagged by South Africa's major lenders. But a hefty portion of this was a provision for potential future losses, with Absa choosing to take more pain upfront.

Jan Meintjes, portfolio manager at Denker Capital, an Absa investor, said that meant the bank's second-half profit decline could be closer to 30%, which he called a "good outcome". "The pre-provision profit was stronger than expected and a result of some good work done in the last 18 months," he added.

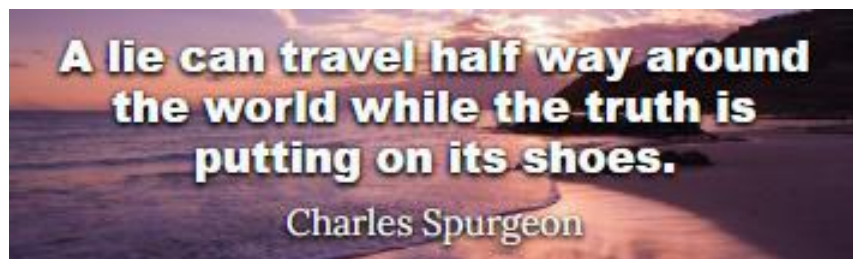
Since splitting from former parent Barclays in 2017, Absa has been on a drive to win back lost market share, including by lending more aggressively than was possible under the British lender.

The South African Reserve Bank asked lenders not to pay dividends during the health crisis, but rival Standard Bank has said it could pay a final dividend pending discussions with the central bank.

Source: Thomson Reuters

Corona Tracker

GLOBAL CASES SOURCE - REUTERS		25-Aug-2020		4:18
	Confirmed Cases	New Cases	Total Deaths	Total Recovered
GLOBAL	23,653,503	211,414	811,895	15,265,129



Market Overview

MARKET INDICATORS (Thomson Reuters)				25 August 2020	
Money Market TB's					
		Last close	Difference	Prev close	Current Spot
3 months	⇒	3.96	0.000	3.96	3.96
6 months	⇒	4.07	0.000	4.07	4.07
9 months	⇩	4.13	-0.017	4.14	4.13
12 months	⇩	4.15	-0.017	4.16	4.15
Nominal Bonds					
		Last close	Difference	Prev close	Current Spot
GC21 (BMK: R208)	⇩	4.05	-0.005	4.06	4.05
GC22 (BMK: R2023)	⇩	5.13	-0.010	5.14	5.14
GC23 (BMK: R2023)	⇩	5.10	-0.010	5.11	5.11
GC24 (BMK: R186)	⇩	7.70	0.030	7.67	7.70
GC25 (BMK: R186)	⇩	7.71	0.030	7.68	7.71
GC26 (BMK: R186)	⇩	7.75	0.030	7.72	7.75
GC27 (BMK: R186)	⇩	8.00	0.030	7.97	8.00
GC30 (BMK: R2030)	⇩	9.62	0.050	9.57	9.62
GC32 (BMK: R213)	⇩	10.42	0.045	10.37	10.42
GC35 (BMK: R209)	⇩	11.82	0.065	11.76	11.82
GC37 (BMK: R2037)	⇩	12.42	0.060	12.36	12.42
GC40 (BMK: R214)	⇩	13.02	0.075	12.94	13.02
GC43 (BMK: R2044)	⇩	13.35	0.080	13.27	13.34
GC45 (BMK: R2044)	⇩	13.90	0.080	13.82	13.89
GC50 (BMK: R2048)	⇩	13.98	0.065	13.91	13.98
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	⇩	1,932	-0.36%	1,939	1,930
Platinum	⇩	916	-0.29%	919	924
Brent Crude	⇩	45.1	1.76%	44.4	45.2
Main Indices					
		Last close	Change	Prev close	Current Spot
NSX Overall Index	⇩	1,113	1.22%	1,100	1,113
JSE All Share	⇩	56,625	1.21%	55,950	56,625
SP500	⇩	3,431	1.00%	3,397	3,431
FTSE 100	⇩	6,105	1.71%	6,002	6,105
Hangseng	⇩	25,552	1.74%	25,114	25,428
DAX	⇩	13,067	2.36%	12,765	13,067
JSE Sectors					
		Last close	Change	Prev close	Current Spot
Financials	⇩	10,458	2.29%	10,224	10,458
Resources	⇩	56,602	0.39%	56,381	56,602
Industrials	⇩	75,350	1.40%	74,312	75,350
Forex					
		Last close	Change	Prev close	Current Spot
N\$/US dollar	⇩	16.97	-1.37%	17.20	16.92
N\$/Pound	⇩	22.16	-1.55%	22.51	22.15
N\$/Euro	⇩	20.00	-1.44%	20.29	19.97
US dollar/ Euro	⇩	1.179	-0.07%	1.180	1.181
		Namibia		RSA	
Economic data		Latest	Previous	Latest	Previous
Inflation	⇒	2.1	2.1	2.2	2.1
Prime Rate	⇩	7.50	8.00	7.00	7.25
Central Bank Rate	⇩	3.75	4.00	3.50	3.75

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
- 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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