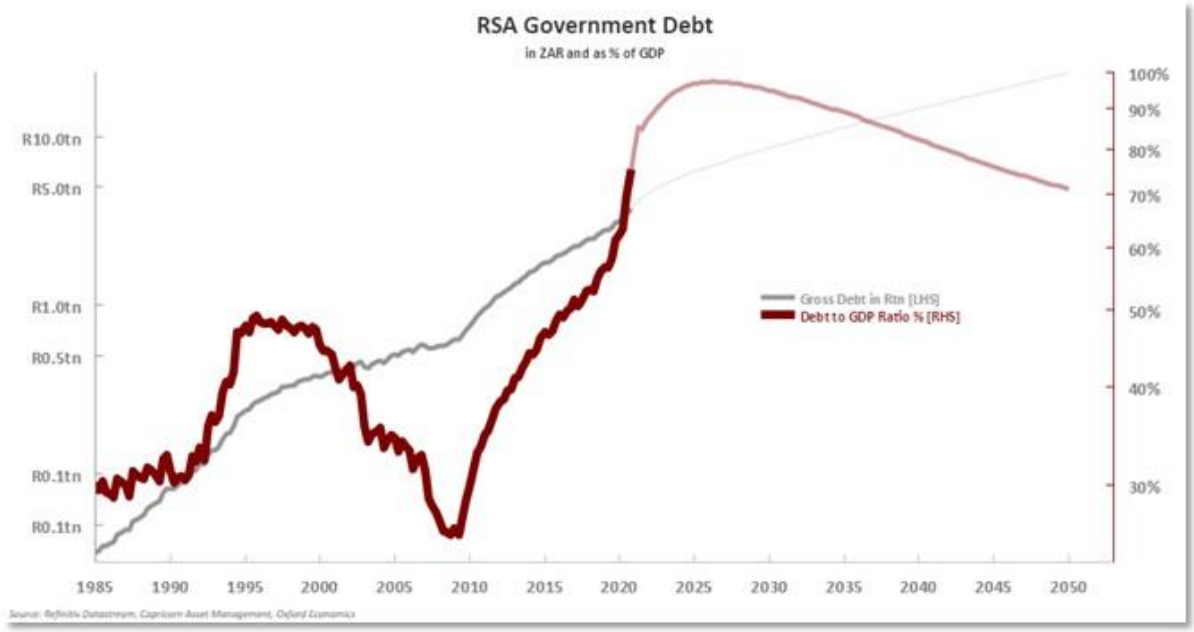
Market Update Thursday, 25 February 2021



RSA Budget

Tito Mboweni, the Minister of Finance (MoF) tabled a hopeful Budget, hitting all the right notes and the markets heaved a collective sigh of relief. Things are, at least, not worse than feared. However, the fiscal position remains precarious. Credit Rating agencies are unlikely to downgrade SA further, but will continue to issue warnings. The Budget does not change our view that the SARB's repo rate will remain flat for the year, the currency will move sideways to stronger and the yield curve will remain very steep, as funding pressures keep longer term rates high.

A key aspect for Namibia is the budgeted spending on the SACU pool is down by -27% in FY22 to R46bn from R63bn in FY21. The following year, FY23 it is down a further 27% to R33bn, before recovering to R58bn. If this plays out, it will put big pressure on the Namibian Budget. That is why we believe it is better to roll the Nov 21 Eurobond, because funding pressure from the domestic market may rise significantly if SACU revenue shrinks as envisaged in the SA Budget. The MoF mentions SACU revenue in his speech, saying that some "extra" payments will be made to soften the blow, but it will not make up for the short-fall.

The good:

- The deficit is lower than feared. As a % of GDP it is budgeted to fall from 14% last year to 9.3% this year, FY22. Over the next two years it is seen at 7.3% and 6.3%.
- This is largely due to a Revenue overrun in FY21 of about R100bn to bring total Revenue to R1.4tn (down 11% on the previous year). For instance, Personal Income Taxes, Corporate Income Tax and VAT collections at one stage were expected to be down 14%, 25% and 19%. These are now estimated at -9%, -11% and -10%, respectively.
- No tax hikes apart from the usual Fuel Levy and Sin Taxes. The latter adds to our above-consensus view on inflation for the year. A Corporate Tax rate cut is envisaged for next year to 27% from 28% - a "nod" to business. Tax brackets are adjusted to more-than-compensate for fiscal drag. The Total Budgeted Revenue for FY22 is R1.5tn (consolidated).
- Expenditure growth should largely be under control. The Total Budget Expenditure is R2tn in FY22, virtually flat compared to FY21. The Wage Bill (32% of Expenditure) is expected to grow by 2.1% and spending on Goods and Services (13.8% of the total) by 3.5%, both much lower than our expected inflation of 4.6% for the FY22.
- A strong bounce in nominal GDP growth of 8.8% is expected for FY22 from a contraction of -4.4% in FY21, the first such contraction in post-Apartheid SA. We feel its over-optimistic and should be closer to 7.5%. Nevertheless, still a sharp bounce, which, together with a "better SARS", should support Revenue growth. The latter is expected at 11.6% up for FY22.

The bad:

- The deficit and concomitant funding requirements remain huge. Over the five years to FY20, the funding requirement was, on average, R200bn p.a. Over the next five years, including covid hit FY21, the average is likely to be R460bn p.a. The Total Budgeted Deficit for FY22 is R500bn.
- Total Transfers and Subsidies that go to households which amounted to R440bn in FY21, driven by Covid relief, will be lowered to R360bn in FY22. This will be a drag on the disposable income of households, already facing rising unemployment as well as rising inflation.

The ugly:

- Problems in SOE's persist. Transfers and Subsidies to Public Enterprises amount to R38bn, which is 52% higher than last year. The so-called "Other payments for Financial Assets" amounts to R48bn. We suspect that this is where some to the financial support to SOE's are hiding.
- Governance in Departments, Provincial Governments and Municipalities is atrocious. Lack of financial reporting and qualified audit opinions are plentiful. In FY22 R150bn is budgeted for support to Municipalities alone.
- The debt trajectory is unlikely to be as positive as the MoF expects (see chart). We still expect it to turn closer to 100% of GDP. Very little emphasis in the Budget and in commentaries on it, is placed on the Interest Bill. In the five-year period in the run-

up to FY10, interest took up 9% of Revenue, on average. Since then, it rose fast and by FY24 will take up 20% of Revenue. This crowds out a lot of other spending, such as on social upliftment and fixed investment. Capital investments amounts to only about 6% of total Expenditure and includes the above mentioned “Other payments for Financial Assets.

Global Markets

Asian stocks jumped on Thursday after U.S. Federal Reserve Chair Jerome Powell reaffirmed interest rates would stay low for a long time, calming market fears that higher inflation might prompt the central bank to tighten the monetary spigot.

Powell's reassurance gave a fresh impetus to reflation trades and boosted risk asset prices while also driving U.S. bond yields back up to one-year highs. MSCI's ex-Japan Asia-Pacific shares index rose 1.0% while Japan's Nikkei gained 1.6%. Hong Kong's Hang Seng jumped 1.8% to pare more than half of its previous day's losses following the announcement of a stamp duty hike.

In a second day of testimony in Washington, Powell reiterated the Fed's promise to get the U.S. economy back to full employment and to not worry about inflation unless prices rose in a persistent and troubling way. "Powell said it will take three years for them to achieve its inflation target, essentially reaffirming the Fed will not raise interest rates until 2023," said Norihiro Fujito, chief investment strategist at Mitsubishi UFJ Morgan Stanley Securities. "A huge amount of cash investors have to put to work is flowing into the stock market, and that is more than offsetting any negative aspects of higher bond yields."

The prospects of a prolonged period of low interest rates came as investors expect a huge U.S. fiscal stimulus and a progress in COVID-19 vaccinations to shore up the economy, especially the sectors hit the hardest by the pandemic. The U.S. Food and Drug Administration said on Wednesday Johnson & Johnson's one-dose COVID-19 vaccine appeared safe and effective in trials, paving the way for its approval for emergency use as soon as this week. Johnson & Johnson rose 1.3% following the news.

On Wall Street, the Dow Jones average jumped 1.35% to a record high, outperforming 1.0% gains in tech-heavy Nasdaq, as investors rotated into cyclical shares out of flying-tech firms. In a possible sign of a fresh frenzy into old economy shares, GameStop rose 83.3% in extended trade, building on a gain of 103.9% on Wednesday.

U.S. bond prices stayed under pressure, boosting their yields to the highest level in a year. The 10-year U.S. Treasuries yield rose to 1.412%, having hit a high of 1.435% on Wednesday.

"I wouldn't say there is a panic in the bond market. But we have a coronavirus package worthy of $1.5, $1.7 or $1.9 trillion. And in addition, there will be infrastructure spending as well. Investors see few reasons to buy bonds aggressively now," said Takafumi Yamawaki, head of Japan rates research at J.P.Morgan.

A closely watched part of the U.S. yield curve measuring the gap between yields on two- and 10-year Treasury notes rose to 127.4 basis points, near its 2016 peak of 135.7 hit after Donald Trump's surprise election victory.

In the currency market, the safe-haven U.S. dollar languished near three-year lows versus riskier currencies as continued dovish signals from the Fed stoked reflation bets. The Australian dollar hit a three-year high of $0.7978, while the safe-have yen eased 0.2% to 106.04 per dollar. The euro stood little changed at $1.2159.

Elsewhere, copper price jumped 3% to its highest level in almost a decade. Crude oil climbed to fresh 13-month highs after U.S. government data showed a drop in crude output as a deep freeze disrupted production last week. U.S. crude rose 0.25% to $63.40 per barrel and Brent was at $67.33, up 0.43% on the day.

Domestic Markets

South Africa's rand strengthened on Wednesday afternoon, then fell back, as investors digested a budget meant to contain COVID-19 but avoid a debt spiral.

The budget made space for up to 19.3 billion rand ($1.3 billion) of spending on coronavirus vaccines and forecast a deficit of 14% of gross domestic product this fiscal year.

Analysts praised pledges to stabilise debt at a lower level than previously forecast and continue with efforts to rein in public sector salaries, but they said deficit projections were still worryingly large.

At 1538 GMT, the rand was 0.8% weaker at 14.6500 per U.S. dollar, after earlier trading as much as 1% stronger.

"South Africa's budget targets a primary deficit of 0.5% in 2023 ... the issue is that this is not the kind of deficit that stabilizes debt, given stubbornly weak growth and a steep yield curve," said Sergi Lanau, deputy chief economist at the Institute of International Finance. "They eventually need a primary surplus."

Local stocks reacted positively to the budget, with the Johannesburg Stock Exchange's Top-40 Index rising 0.4% to 60,747 points and the All-Share Index up 0.4% to 66,201 points.

Greg Davies, a trader at Cratos Capital, said banks and retailers - two sectors whose performance is closely tied to the country's economic fortunes - benefited from the fact that the situation was not as bad as some had predicted.

"There's cynical people out there saying there's no way this budget can balance and so on, but in the meantime we go on ... I think the boost in income from mining has probably given us another 18 months of breathing room," he said.

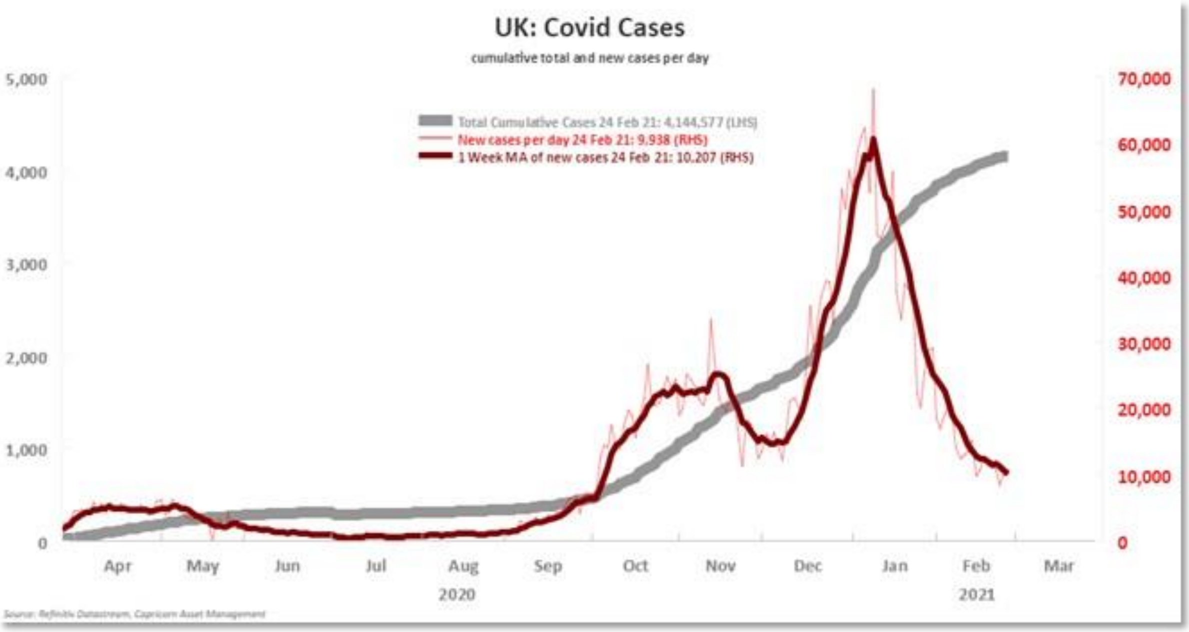
Government bonds traced a similar trajectory to the rand - surging immediately after the budget but later losing those gains.

Corona Tracker

GLOBAL CASES SOURCE - REUTERS			25-Feb-2021	5:52
	Confirmed Cases	New Cases	Total Deaths	Total Recovered
GLOBAL	112,331,000	175,567	2,593,526	74,351,951

The number of new cases is distorted by cut-off times.

Source: Thomson Reuters



Strength does not come from physical capacity. It comes from an indomitable will.

Mahatma Gandhi

Market Overview

MARKET INDICATORS (Thomson Reuters)					25 February 2021
Money Market TB Rates %		**Last close**	**Difference**	**Prev close**	**Current Spot**
3 months	⇨	4.16	0.000	4.16	4.16
6 months	⇩	4.53	-0.008	4.54	4.53
9 months	⇨	4.62	0.000	4.62	4.62
12 months	⇨	4.75	0.000	4.75	4.75
Nominal Bond Yields %		**Last close**	**Difference**	**Prev close**	**Current Spot**
GC21 (Coupon 7.75%, BMK R208)	⇨	4.38	0.000	4.38	4.15
GC22 (Coupon 8.75%, BMK R2023)	⇧	5.85	0.090	5.76	5.79
GC23 (Coupon 8.85%, BMK R2023)	⇧	5.75	0.090	5.66	5.69
GC24 (Coupon 10.50%, BMK R186)	⇧	7.48	0.060	7.42	7.41
GC25 (Coupon 8.50%, BMK R186)	⇧	7.49	0.060	7.43	7.42
GC26 (Coupon 8.50%, BMK R186)	⇧	7.49	0.060	7.43	7.42
GC27 (Coupon 8.00%, BMK R186)	⇧	7.78	0.060	7.72	7.71
GC30 (Coupon 8.00%, BMK R2030)	⇧	9.15	0.005	9.15	9.07
GC32 (Coupon 9.00%, BMK R213)	⇩	10.24	-0.025	10.27	10.16
GC35 (Coupon 9.50%, BMK R209)	⇩	11.12	-0.135	11.26	11.14
GC37 (Coupon 9.50%, BMK R2037)	⇧	11.84	0.020	11.82	11.70
GC40 (Coupon 9.80%, BMK R214)	⇩	12.59	-0.020	12.61	12.51
GC43 (Coupon 10.00%, BMK R2044)	⇩	12.82	-0.110	12.93	12.84
GC45 (Coupon 9.85%, BMK R2044)	⇩	13.10	-0.110	13.21	13.12
GC50 (Coupon 10.25%, BMK: R2048)	⇩	13.11	-0.125	13.24	13.13
Inflation-Linked Bond Yields %		**Last close**	**Difference**	**Prev close**	**Current Spot**
GI22 (Coupon 3.55%, BMK NCPI)	⇨	4.20	0.000	4.20	4.20
GI25 (Coupon 3.80%, BMK NCPI)	⇨	4.25	0.000	4.25	4.25
GI29 (Coupon 4.50%, BMK NCPI)	⇨	5.69	0.000	5.69	5.69
GI33 (Coupon 4.50%, BMK NCPI)	⇨	6.80	0.000	6.80	6.80
GI36 (Coupon 4.80%, BMK NCPI)	⇨	7.35	0.000	7.35	7.35
Commodities		**Last close**	**Change**	**Prev close**	**Current Spot**
Gold	⇩	1,804	-0.04%	1,805	1,800
Platinum	⇧	1,269	2.54%	1,237	1,261
Brent Crude	⇧	67.0	2.55%	65.4	67.4
Main Indices		**Last close**	**Change**	**Prev close**	**Current Spot**
NSX Overall Index	⇧	1,349	1.16%	1,333	1,349
JSE All Share	⇧	66,201	0.42%	65,922	66,201
SP500	⇧	3,925	1.14%	3,881	3,925
FTSE 100	⇧	6,659	0.50%	6,626	6,659
Hangseng	⇩	29,718	-2.99%	30,633	30,326
DAX	⇧	13,976	0.80%	13,865	13,976
JSE Sectors		**Last close**	**Change**	**Prev close**	**Current Spot**
Financials	⇧	12,355	0.99%	12,234	12,355
Resources	⇧	66,735	0.89%	66,149	66,735
Industrials	⇩	86,550	-0.10%	86,641	86,550
Forex		**Last close**	**Change**	**Prev close**	**Current Spot**
N$/US dollar	⇩	14.49	-0.28%	14.53	14.48
N$/Pound	⇩	20.49	-0.10%	20.51	20.51
N$/Euro	⇩	17.62	-0.18%	17.66	17.63
US dollar/ Euro	⇧	1.216	0.12%	1.215	1.218
		Namibia		**RSA**	
Interest Rates & Inflation		**Dec 20**	**Nov 20**	**Dec 20**	**Nov 20**
Central Bank Rate	⇨	3.75	3.75	3.50	3.50
Prime Rate	⇨	7.50	7.50	7.00	7.00
		Jan 21	**Dec 20**	**Jan 21**	**Dec 20**
Inflation	⇧	2.7	2.4	3.2	3.1

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

Capricorn Asset Management

Bank Windhoek

For enquiries concerning the Daily Brief please contact us at

Daily.Brief@capricorn.com.na

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