Market Update — Thursday, 27 February 2020

Global Markets

Oil and Asian share markets extended losses on Thursday as the rapid global spread of the coronavirus kept investors on edge and seeking safety in gold and bonds. Rising fears of a pandemic, which U.S. health authorities have warned is likely, had already wiped more than $3.6 trillion from global stock markets by Wednesday's close. China accounts for about 96% of cases and has instituted dire containment methods that have paralysed global supply chains. But most new infections are now being reported elsewhere, with news on Thursday of a jump in cases in South Korea accompanied by a warning that the virus may be spreading in California. South Korea reported 334 new cases on Thursday, its largest daily rise since its first case was confirmed on Jan. 20. China reported 433 new infections.

MSCI's broadest index of Asia-Pacific shares outside Japan fell 0.5% and is down more than 4% for the week. Australia's S&P/ASX 200 dropped 1% by lunchtime and has lost 7% this week. Japan's Nikkei fell 1.7% to its lowest since October. The Hang Seng fell 1%. Gold climbed 0.7%. "The market was complacent until last week as central banks and governments were at the rescue," said Desh Peramunetilleke, head of microstrategy at Jefferies in Hong Kong. "The rising infection cases beyond Chinese shores has certainly raised the pandemic risk," he said. "The current earnings estimates do not yet factor in such risk and are therefore vulnerable to further downgrades."

A show of confidence from President Donald Trump, who sought to play down the risks to the United States at a White House press conference, offered little solace to traders focused on the virus' spread. U.S. stock futures fell as far as 1% as he spoke, while European stock futures fell 2% in Asian trade, suggesting a possible catch-up drop in stocks there. Fresh record-low yields on benchmark 10-year U.S. Treasuries overnight, and the morning's firm demand for dollars, yen and Swiss francs underscored the worried mood. The only bright spot, ironically, was China's stock market, which steadied in relief that domestically, at least, the outbreak appears to be under control.

The virus has driven an enormous flight of assets out of Asia as investors try to isolate themselves from both the outbreak itself and the cost of what has now been more than a month of paralysis in the world's second-biggest economy. New Zealand's government said on Thursday it might need to pump money into its economy, where China accounts for about a quarter of exports, should the fallout cause a global recession. Capital Economics now expects Chinese growth to contract this year.

"The economic risks from extended disruption are non-linear," Capital's chief Asia economist and its senior China economist, Mark Williams and Julian Evans-Pritchard, said in a note. "The longer it continues, the more likely it is that some firms won't be able to pay workers, and will have to either cut pay, lay people off or shut down altogether."

The latest wave of selling has already driven the China-sensitive Australian dollar to a new 11-year low and pushed U.S. oil to a one-year trough, where they mostly sat on Thursday. Last at 1.3088%, the yield on benchmark U.S. 10-year Treasuries is less than one basis point firmer than an all-time low hit overnight. U.S. crude made a fresh one-year low of $47.84 per barrel in Asian trade, while gold rose to $1,649.78 per ounce.

Source: Thomson Reuters

RSA Budget

South Africa will cut its public sector wage bill to contain a rising budget deficit, Finance Minister Tito Mboweni said on Wednesday, setting the stage for a showdown with trade unions who threatened protests if pay was touched. Mboweni's plan to cut roughly 160 billion rand ($10.5 billion) from the wage bill over the next three years came as his ministry forecast the budget deficit would hit 6.8% of GDP in the fiscal year beginning in April, the highest in 18 years.

The pay cut proposal boosted the rand, as traders bet it could help South Africa, the continent's most industrialised economy, escape a painful downgrade of its last investment-grade credit rating, from Moody's. Mboweni said in an annual budget speech to parliament that South Africa was determined to rein in the deficit within the three-year budget framework. He proposed no major tax increases and expressed hope Moody's would grant another reprieve at its next review, due in March.

"I don't think they will re-rate us. I am positive they may give us a bit of a 'klap' which we will absorb. But I don't think they will do anything untoward," Mboweni told a news conference, using an Afrikaans word for a slap. Fitch and S&P Global Ratings already assign the country's sovereign debt "junk" status, and losing its last investment-grade rating could trigger a sell-off of billions of rands of bonds, pushing up already high government borrowing costs.

Fitch said in a statement on Wednesday the budget highlighted the "severe deterioration" underway in South Africa's finances and that the planned cuts to the wage bill could be difficult to achieve given opposition from unions.

"The political scope for making substantial cuts in other areas, should wage savings not materialise, also appears limited," Fitch said, adding that the budget's reliance on wage cuts added further risks to South Africa's deficit and debt trajectories.

South Africa has struggled to emerge from a deep economic slump in the two years since Cyril Ramaphosa became president, promising sweeping reforms. Pressure has built for his government to take corrective action.

The finance ministry now expects economic growth this year of just 0.9%, less than a previous forecast of 1.2% and far below the level required to make a meaningful dent in unemployment and poverty. Roughly one-third of South Africans are out of work.

Gustavo Medeiros at Ashmore Group, an emerging markets investment manager, said cutting the wage bill had not been priced in, and would be taken positively by financial markets. "The public sector is way too bloated," he added.

The Moody’s blues

Wednesday budget should decide the fate of South Africa's solitary remaining investment grade credit rating, but with many in the country already resigned to its loss the bigger question might be how low it could go.

The fiscal plan envisages trimming a swollen deficit via a mix of spending cuts, setting the scene for a showdown that could further hobble an already ailing economy. A cut to junk by Moody's - following downgrades by S&P and Fitch in 2017 - would see the country ejected from FTSE's World Government Bond Index (WGBI), triggering up to $11 billion (168 billion rand) of selling by foreign investors, analysts estimate.

Moody's has already halved its 2020 growth forecast this month to 0.7% and the Treasury said on Wednesday its budget deficit is likely to reach 6.8% of GDP this fiscal year, the highest in 18 years. South Africa’s debt is already pushing 60% of annual economic output. In a pessimistic scenario of a long and painful recession it could reach as high as 95%, said Elina Ribakova, Deputy Chief Economist at Institute of International Finance.

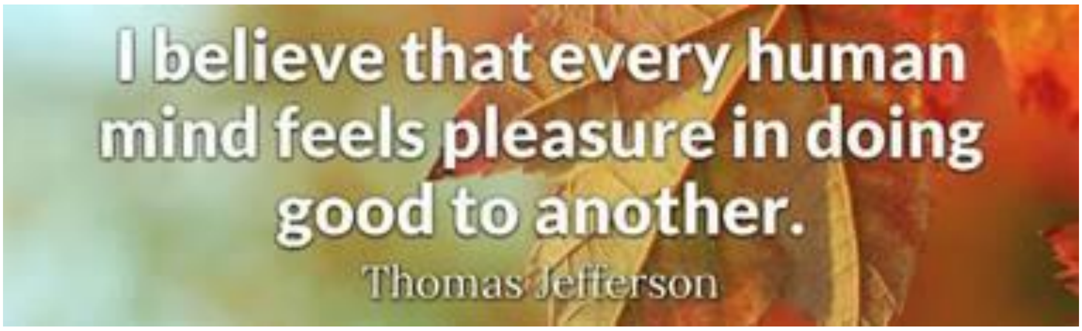
Moody's next reviews of the country's ratings are on March 27 and November 20. "I think we are likely to get the downgrade (from Moody's) this year," Ribakova added. "What is worrying me even more though is the reaction of the other rating agencies as they could downgrade further."

S&P and Fitch both already have 'negative' outlooks - effectively downgrade warnings - on their junk-grade BB+ local currency ratings, important in South Africa where roughly 90% of its debt is in rand.

Credit default swap (CDS) that bond holders buy to insure themselves already look to be pricing those cuts. There aren't specific swaps for local FX debt, but S&P's Capital IQ model shows the main CDS markets are treating South Africa as a BB-, a notch under S&P's BB lower foreign currency rating and two notches below Moody's investment grade score.

The premium investors demand to hold its dollar debt shows a similar picture at around 360 basis points - in line with 'B' rating-bracket countries like Pakistan, Jamaica and Mongolia, and far higher than other EM heavyweights Turkey and Brazil. "South Africa trades relatively wide (at elevated CDS levels) because people are expecting downgrades," said Peter Kisler a portfolio manager at North Asset Management. "The view is it is on a downward trajectory".

Source: Thomson Reuters



Market Overview

MARKET INDICATORS (Thomson Reuters)					Thursday, 27 February 2020
Money Market TB's		**Last close**	**Difference**	**Prev close**	**Current Spot**
3 months		7.06	-0.280	7.34	7.06
6 months		7.51	-0.090	7.60	7.51
9 months		7.58	-0.040	7.62	7.58
12 months		7.60	-0.060	7.66	7.60
Nominal Bonds		**Last close**	**Difference**	**Prev close**	**Current Spot**
GC20 (BMK: R207)		7.12	-0.027	7.15	7.11
GC21 (BMK: R2023)		7.13	-0.170	7.30	7.17
GC22 (BMK: R2023)		7.34	-0.120	7.46	7.26
GC23 (BMK: R2023)		7.79	-0.120	7.91	7.71
GC24 (BMK: R186)		8.35	-0.120	8.47	8.30
GC25 (BMK: R186)		8.31	-0.120	8.43	8.26
GC27 (BMK: R186)		8.75	-0.120	8.87	8.70
GC30 (BMK: R2030)		9.69	-0.115	9.80	9.61
GC32 (BMK: R213)		10.26	-0.115	10.38	10.18
GC35 (BMK: R209)		10.87	-0.110	10.98	10.77
GC37 (BMK: R2037)		11.00	-0.105	11.11	10.90
GC40 (BMK: R214)		11.30	-0.110	11.41	11.19
GC43 (BMK: R2044)		11.64	-0.085	11.73	11.52
GC45 (BMK: R2044)		11.88	-0.085	11.97	11.76
GC50 (BMK: R2048)		11.90	-0.110	12.01	11.79
Inflation-Linked Bonds		**Last close**	**Difference**	**Prev close**	**Current Spot**
GI22 (BMK: NCPI)		4.40	0.000	4.40	4.40
GI25 (BMK: NCPI)		4.60	0.000	4.60	4.60
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		1,640	0.27%	1,635	1,646
Platinum		911	-1.62%	926	919
Brent Crude		53.4	-2.77%	55.0	52.7
Main Indices		**Last close**	**Change**	**Prev close**	**Current Spot**
NSX Overall Index		1,237	2.48%	1,208	1,237
JSE All Share		55,047	0.43%	54,810	54,481
SP500		3,116	-0.38%	3,128	3,116
FTSE 100		7,042	0.35%	7,018	7,042
Hangseng		26,696	-0.73%	26,893	26,636
DAX		12,775	-0.12%	12,790	12,775
JSE Sectors		**Last close**	**Change**	**Prev close**	**Current Spot**
Financials		14,670	4.49%	14,039	14,405
Resources		46,056	-1.97%	46,982	45,903
Industrials		70,531	0.29%	70,330	69,579
Forex		**Last close**	**Change**	**Prev close**	**Current Spot**
N$/US dollar		15.15	-0.37%	15.21	15.24
N$/Pound		19.55	-1.15%	19.78	19.70
N$/Euro		16.48	-0.37%	16.54	16.63
US dollar/ Euro		1.088	0.00%	1.088	1.092
		Namibia		**RSA**	
Economic data		**Latest**	**Previous**	**Latest**	**Previous**
Inflation		2.1	2.6	4.0	3.6
Prime Rate		10.25	10.50	9.75	10.00
Central Bank Rate		6.25	6.50	6.25	6.50

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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