Market Update Thursday, 29 October 2020

South African shares spooked by lacklustre budget & global sell off

The Johannesburg Stock Exchange witnessed a bloodbath on Wednesday as investors feared a repeat of the mayhem in March as Finance Minister Tito Mboweni's lacklustre budget coincided with a global meltdown of stock markets.

The benchmark all share index tanked 3.28%, its biggest single day slump since the market crash of March and pushing it down to levels seen in June.

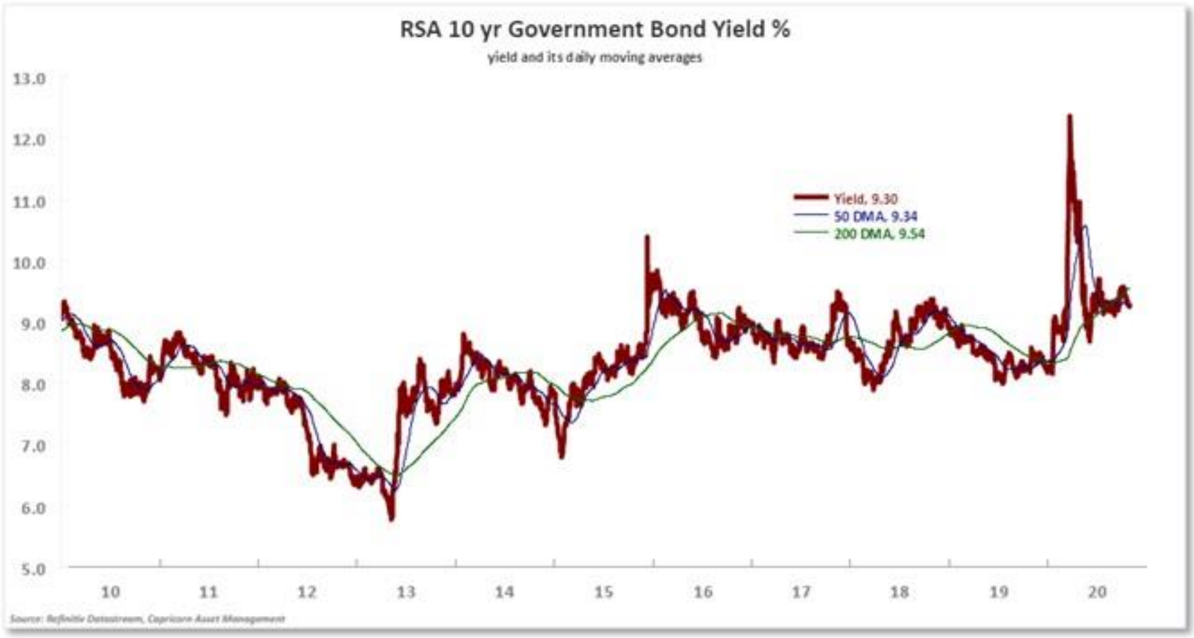
The finance minister presented a mid-term budget on Wednesday pledging to freeze public wage bill for three years to avert a looming debt crisis and allocating a 10.5 billion rand ($649.66 million) bailout of state-owned beleaguered airline South African Airways (SAA).

Analysts and traders said a massive aid to SAA and no clear roadmap on how the country will avert a fiscal deficit catastrophe pulled down an already bruised market. "SA interim budget today is another scandal that we've just become numb to," Russell Lamberti, founder of ETM Macro Advisors, an analysis and strategy advisory firm, said on Twitter.

The bluechip top 40 companies' index plunged by 3.29%, pulled down by a broad-based rout which saw the bank and mining indices and sink by 4.5% each.

The budget came at a day when a barrage of negative news was already sending shock waves globally signalling that a lockdown in Germany and France could mean economic recovery is nowhere in sight. "Germany is the gold standard. If Germany is going into lockdown, means Europe is gone," said Greg Davies, Head of Wealth, Cratos Capital, a boutique investment firm. Investors are selling off fearing another March crash is coming as the South African economy continues to struggle just like it was in March when the first wave of coronavirus was unfolding, he added.

South Africa's rand slipped to a one-week low and bonds also weakened on Wednesday. At 1500 GMT, the rand was 0.85% weaker at 16.3450 per dollar, having sunk to a fresh one-week low of 16.4775 soon after the budget speech. Bonds also reacted negatively to the speech, with the yield on the benchmark 2030 paper rising 7 basis points to 9.32%.



The South African government pledged to freeze public sector wages for the next three years to contain a yawning budget deficit but forecast that debt would peak at a higher level in a mid-term budget unveiled on Wednesday.

Africa's most industrialised economy was already in recession before the COVID-19 pandemic struck, and one of the world's strictest lockdowns has exacerbated its woes.

The wage-freeze plan raises the risk of strikes by the country's 1.3 million civil servants and follows a pledge in February by Finance Minister Tito Mboweni to curb a rising wage bill.

Addressing parliament on Wednesday, Mboweni said the country had to take action to avoid a sovereign debt crisis. "Our compass points towards fiscal sustainability and we must all face the same way," he said.

The consolidated budget deficit is now forecast at 15.7% of gross domestic product (GDP) for the fiscal year ending in March 2021, more than twice last fiscal year's 6.4% shortfall and the widest gap in the post-apartheid era. The economy is seen contracting 7.8% in 2020, while gross debt will peak at more than 95% of GDP in 2025/26, a higher level than aimed for in an emergency coronavirus budget in June.

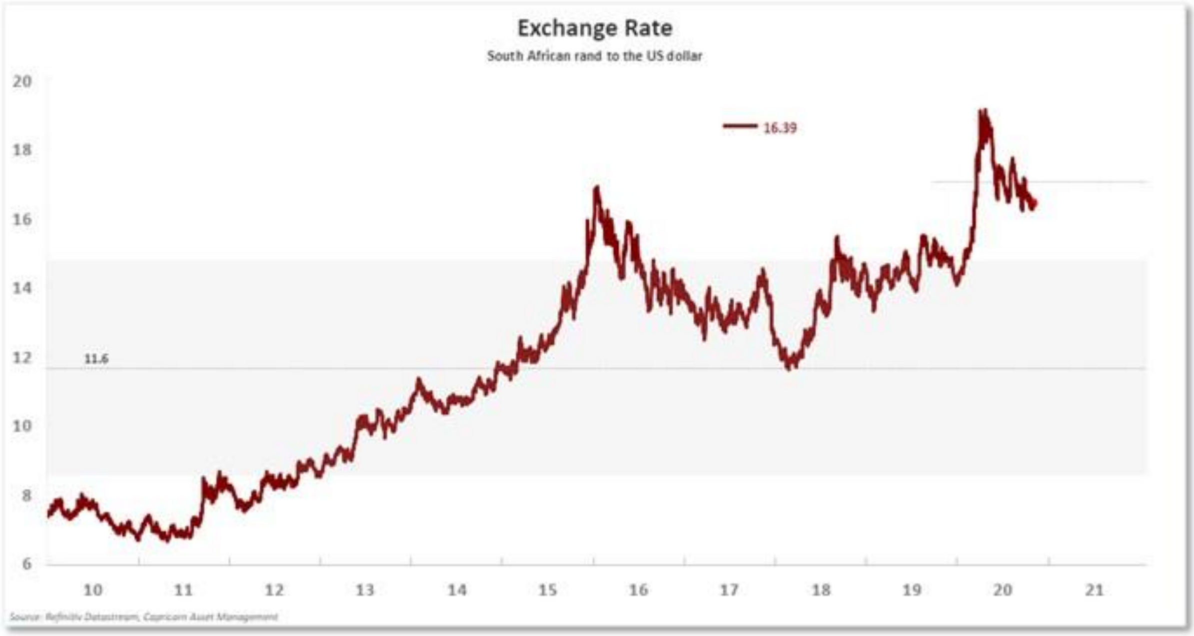
To narrow the deficit, the Treasury is seeking nearly 311 billion rand ($19 billion) in wage bill reductions by 2023/24. It is pinning its economic recovery hopes on more spending on infrastructure investment, the cornerstone of President Cyril Ramaphosa's growth plan.

Freezing civil servants' salaries will put the governing African National Congress on a collision course with its labour union allies. Public sector unions have already taken the government to court, challenging its failure to pay wage increases in April as agreed in a 2018 wage deal.

Mugwena Maluleke, general secretary of teachers' union SADTU, told Reuters that freezing civil servants' pay was "not implementable". "This is a neo-liberal onslaught on the workers ... who are basically on a daily basis dealing with this virus in order to serve our people."

Razia Khan, chief Africa economist at Standard Chartered, said the key takeaway for financial markets was that South Africa's growing public debt was still a problem. "There is little certainty – just yet – that positive outcomes for fiscal consolidation plans can be achieved," she added.

The mid-term budget allocated 10.5 billion rand to ailing national airline South African Airways to implement a restructuring plan approved by creditors in July. The government also said it would make it easier for companies that are tax resident in South Africa to invest in the country via foreign entities.



Global Markets

Asian stock markets fell on Thursday but not as sharply as Wall Street's rout overnight, while oil bounced off lows and U.S. futures jumped, as Asia's brighter economic outlook offset investor worries about fresh COVID-19 lockdowns in Europe.

MSCI's broadest index of Asia-Pacific shares outside Japan fell 1%. Japan's Nikkei fell 0.8% and drops in Hong Kong, Sydney, Shanghai and Seoul were smaller than 1.5%. That is heavy but much less than the S&P 500 index's 3.5% drop or the 4.2% fall by Germany's DAX which led European shares to their lowest level since late May. S&P 500 futures and Dow futures rebounded 1%, which traders attributed to heightened volatility and to the less gloomy mood around Asia as China's economy builds up steam.

"Asia is not really partaking in this second or third wave story because it's got its COVID largely under control," said Rob Carnell, chief economist in Asia at Dutch bank ING. "As a result, domestic economies look reasonable. Exports will remain soft...but domestically they are still doing OK and doing a lot better relative to (Europe and the U.S.)."

Oil rose from a four-month low overnight and the risk-sensitive Australian and New Zealand dollars rose about a quarter of a percent. Still, both currencies are, for now, headed for a weekly loss against the dollar and so is the euro, as worries about the new lockdowns seemed to catch investors by surprise.

In France, people will be required to stay in their homes from Friday, except to buy essential goods, seek medical attention or exercise. Germany will shut bars, restaurants and theatres from Nov. 2-30. "Until yesterday the market was travelling with the hope the improvement of health care services in dealing with the pandemic would prevent the introduction of severe lockdowns," National Australia Bank FX strategist Rodrigo Catril said in a note. "At least in Europe, this dynamic has now changed ... the question now is whether U.S. states will follow."

Central bank meetings and economic data are the main focus later on Thursday, with gathering uncertainty about the U.S. Nov. 3 election also keeping investors on edge.

The Bank of Japan is set to maintain its massive stimulus programme and vow to take further action if the virus' economic fallout threatens a return to deflation. Investors expect the European Central Bank to hold off on new measures and instead hint at action in December, which is likely to keep a lid on the euro. The common currency hit a 10-day low on the dollar and a hundred-day low on the yen overnight, before recovering slightly. It last bought $1.1751.

German unemployment and inflation data, European confidence surveys and advance U.S. GDP figures will also be closely watched - with the U.S. figure likely to show record growth, but still leave the economy behind where it began 2020. "Any disappointment in these numbers may have a magnified market impact, given the current weakness," said CMC Markets' Sydney-based strategist, Michael McCarthy.

Investors are also increasingly wary of a contested U.S. election result that could unleash a wave of risk-asset selling. Wall Street's "fear gauge," the Cboe Volatility Index surged on Wednesday to its highest level since June and a jump in implied currency volatility indicates that a wild ride is expected. One-week yuan implied volatility hit a five-year high on Thursday.

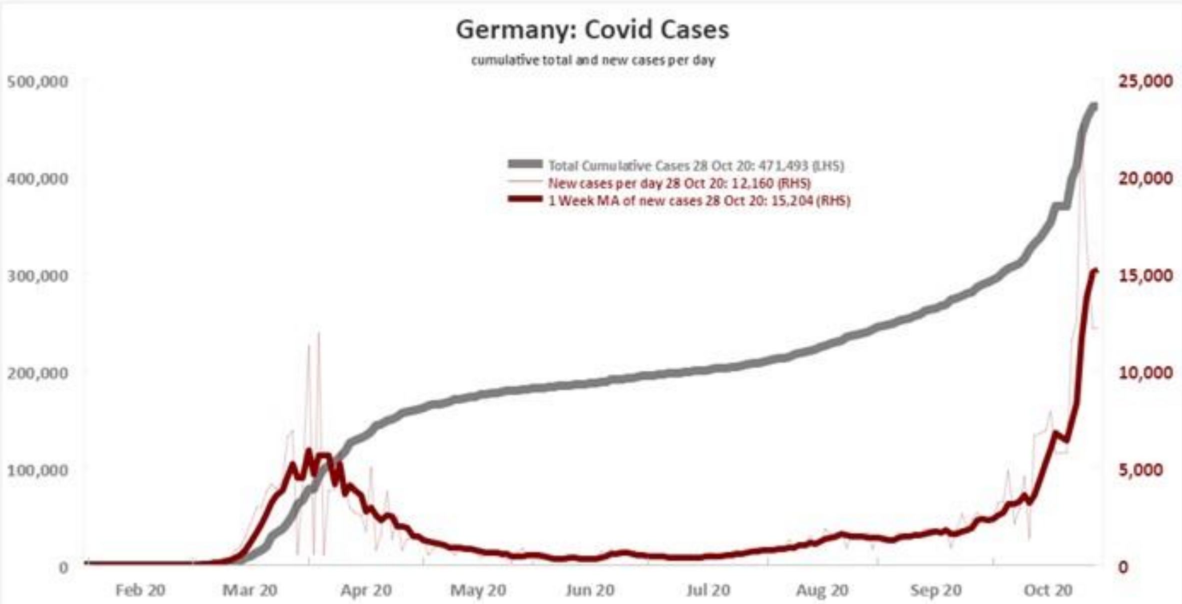
The U.S. bond market, however, was somnolent as investors looked past polling day and figured huge government borrowing for coronavirus relief spending will happen no matter who wins. Benchmark U.S. 10-year yields rose overnight and added about a basis point on Thursday to 0.7894%.

"Looking ahead, heightened volatility in the run-up to the election and even, potentially, following the election will eventually subside," said Seema Shah, chief strategist at Principal Global Investors. "Markets will soon reassert a trajectory determined by fundamentals, rather than election news flow."

Source: Thomson Reuters

Corona Tracker

GLOBAL CASES SOURCE - REUTERS			29-Oct-2020	5:31
	Confirmed Cases	New Cases	Total Deaths	Total Recovered
GLOBAL	44,197,364	237,064	1,169,580	30,131,346



Source: Refinitiv Datastream, Capricorn Asset Management

> If you can keep your wits about you while all others are losing theirs, and blaming you. The world will be yours and everything in it, what's more, you'll be a man, my son.
>
> **Rudyard Kipling**

Market Overview

MARKET INDICATORS (Thomson Reuters)					29 October 2020
Money Market TB Rates %		**Last close**	**Difference**	**Prev close**	**Current Spot**
3 months	⇒	3.85	0.000	3.85	3.85
6 months	⇑	3.92	0.017	3.90	3.92
9 months	⇑	3.90	0.008	3.89	3.90
12 months	⇑	3.85	0.025	3.82	3.85
Nominal Bond Yields %		**Last close**	**Difference**	**Prev close**	**Current Spot**
GC21 (Coupon 7.75%, BMK R208)	⇓	3.95	-0.095	4.05	3.95
GC22 (Coupon 8.75%, BMK R2023)	⇓	4.95	-0.065	5.02	4.95
GC23 (Coupon 8.85%, BMK R2023)	⇓	4.85	-0.065	4.92	4.85
GC24 (Coupon 10.50%, BMK R186)	⇑	7.52	0.050	7.47	7.49
GC25 (Coupon 8.50%, BMK R186)	⇑	7.53	0.050	7.48	7.50
GC26 (Coupon 8.50%, BMK R186)	⇑	7.53	0.050	7.48	7.50
GC27 (Coupon 8.00%, BMK R186)	⇑	7.82	0.050	7.77	7.79
GC30 (Coupon 8.00%, BMK R2030)	⇑	9.63	0.080	9.55	9.59
GC32 (Coupon 9.00%, BMK R213)	⇑	10.74	0.060	10.68	10.74
GC35 (Coupon 9.50%, BMK R209)	⇑	11.80	0.075	11.72	11.77
GC37 (Coupon 9.50%, BMK R2037)	⇑	12.54	0.075	12.46	12.51
GC40 (Coupon 9.80%, BMK R214)	⇑	13.22	0.105	13.11	13.19
GC43 (Coupon 10.00%, BMK R2044)	⇑	13.73	0.105	13.62	13.71
GC45 (Coupon 9.85%, BMK R2044)	⇑	14.01	0.105	13.90	13.99
GC50 (Coupon 10.25%, BMK: R2048)	⇑	14.08	0.090	13.99	14.05
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	4.25
GI29 (Coupon 4.50%, BMK NCPI)	⇒	4.38	0.000	4.38	4.38
GI33 (Coupon 4.50%, BMK NCPI)	⇒	6.76	0.000	6.76	6.76
GI36 (Coupon 4.80%, BMK NCPI)	⇒	7.02	0.000	7.02	7.02
Commodities		**Last close**	**Change**	**Prev close**	**Current Spot**
Gold	⇓	1,877	-1.56%	1,907	1,883
Platinum	⇓	867	-1.28%	879	871
Brent Crude	⇓	39.1	-5.05%	41.2	39.2
Main Indices		**Last close**	**Change**	**Prev close**	**Current Spot**
NSX Overall Index	⇓	1,044	-4.10%	1,088	1,044
JSE All Share	⇓	52,308	-3.28%	54,079	52,308
SP500	⇓	3,271	-3.53%	3,391	3,271
FTSE 100	⇓	5,583	-2.55%	5,729	5,583
Hangseng	⇓	24,709	-0.32%	24,787	24,544
DAX	⇓	11,561	-4.17%	12,064	11,561
JSE Sectors		**Last close**	**Change**	**Prev close**	**Current Spot**
Financials	⇓	10,026	-4.54%	10,503	10,026
Resources	⇓	48,131	-4.51%	50,406	48,131
Industrials	⇓	72,862	-1.98%	74,334	72,862
Forex		**Last close**	**Change**	**Prev close**	**Current Spot**
N$/US dollar	⇑	16.38	1.14%	16.20	16.34
N$/Pound	⇑	21.25	0.58%	21.13	21.28
N$/Euro	⇑	19.22	0.60%	19.11	19.20
US dollar/ Euro	⇓	1.174	-0.43%	1.180	1.175
		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**	**Sep 20**	**Aug 20**
Inflation	⇒	2.4	2.4	3.0	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

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