Market Update Monday, 30 March 2020

Global Markets

Asian shares slid on Monday and oil prices took another tumble as fears mounted that the global shutdown for the coronavirus could last for months, doing untold harm to economies despite central banks' best efforts.

"We continue to mark down 1H20 global GDP forecasts as our assessment of both the global pandemic's reach and the damage related to necessary containment policies has increased," said JPMorgan economist Bruce Kasman. They now predict global GDP could fall at a 10.5% annualised rate in the first half of the year. There was much uncertainty about whether funds would have to buy or sell for month- and quarter-end to meet their benchmarks, many of which would have been thrown out of whack by the wild market swings seen over March.

E-Mini futures for the S&P 500 skidded 1.2% right from the bell, and Japan's Nikkei 3.7%. EUROSTOXXX 50 futures fell 0.6% and FTSE futures 1.3%. MSCI's broadest index of Asia-Pacific shares outside Japan lost 1.1% while Shanghai blue chips shed 1.4%.

Central banks have mounted an all-out effort to bolster activity with rate cuts and massive asset-buying campaigns, which have at least eased liquidity strains in markets. China on Monday became the latest to add stimulus with a cut of 20 basis points in a key repo rate. Singapore also eased as the city-state's bellwether economy braced for a deep recession, while New Zealand's central bank said it would take corporate debt as collateral for loans. Rodrigo Catril, a senior FX strategist at NAB, said the main question for markets was whether all the stimulus would be enough to help the global economy withstand the shock. "To answer this question, one needs to know the magnitude of the containment measures and for how long they will be implemented," he added. "This is the big unknown and it suggests markets are likely to remain volatile until this uncertainty is resolved."

It was not encouraging, then, that British authorities were warning lockdown measures could last months. U.S. President Donald Trump on Sunday extended guidelines for social restrictions to April 30, despite earlier talking about reopening the economy for Easter. Japan on Monday expanded its entry ban to include citizens travelling from the United States, China, South Korea and most of Europe.

Bond investors looked to be bracing for a long haul with yields at the very short end of the Treasury curve turning negative and those on 10-year notes dropping a steep 26 basis points last week to last stand at 0.65. That drop has combined with efforts by the Federal Reserve to pump more U.S. dollars into markets, and dragged the currency off recent highs.

Indeed, the dollar suffered its biggest weekly decline in more than a decade last week. Against the yen, the dollar was pinned at 107.27, well off the recent high at 111.71. The euro edged back to $1.1096, after rallying more than 4% last week. "Ultimately, we expect the USD will soon reassert itself as one of the strongest currencies," argued analysts at CBA, noting the dollar's role as the world's reserve currency made it a countercyclical hedge for investors. "This means the dollar can rise because of the deteriorating global economic outlook, irrespective of the high likelihood the U.S. is also in recession."

The dollar's retreat had provided a fillip for gold, but fresh selling emerged on Monday as investors were forced to liquidate profitable positions to cover losses elsewhere. The metal was last off 0.5% at $1,609.42 an ounce. Oil prices were again under water as Saudi Arabia and Russia show no signs of backing down in their price war. Brent crude futures lost $1.56 to $23.37 a barrel, while U.S. crude fell $1.12 to $20.39.

Source: Thomson Reuters

Domestic Markets

South Africa's rand weakened more than 1% on Friday and stocks fell as the country reported its first two deaths from the coronavirus and a sharp jump in new infections just as a three-week national lockdown commenced to try to curb the outbreak.

At 1500 GMT the rand had weakened 1.61% to 17.5920 per dollar. South Africans struggled to adapt to new confinement rules on Friday, with many city streets no less crowded than normal as a strict lockdown regime took effect. Meanwhile, the country recorded its first coronavirus deaths.

Market focus was also on a credit review due on Friday from Moody's, the last of the top three agencies to rate South Africa's debt at investment level. That is likely to add to downward pressure, traders said. A Reuters poll of economists predicted on Friday that Moody's will cut South Africa's sovereign credit rating as a recession deepened by the impact of coronavirus frustrates economic reform efforts aimed at reducing government debt.

"It's D-Day for South Africa, as not only is it the first day of lockdown, but Moody's is also scheduled to announce the result of its highly anticipated credit-rating review that could see South Africa downgraded to junk status," said Bianca Botes, treasury partner at Peregrine Treasury Solutions.

Bonds weakened after a rally in the previous session. The yield on the benchmark paper due in 2026 was up 15.5 basis points to 10.490%.

On the bourse, the Johannesburg Stock Exchange's Top-40 index fell 4.7% to 39,172 points and the All-Share index weakened 4.7% to 42,947 points, led lower by financials which fell 11.7%. Stocks faltered after a three-day rally as concerns around the spread of the coronavirus pandemic resurfaced. Among the fallers, Absa Group dropped 10.8% to 71.99 rand and FirstRand weakened 10.6% to 38.64 rand.

Source: Thomson Reuters

Credit rating cut

Moody's downgraded South Africa's sovereign credit rating to "junk" status on Friday, heaping more pain on an economy already in recession and now staring down the barrel of a steep contraction over the global coronavirus pandemic. The ratings firm downgraded the rating one notch to 'Ba1' from 'Baa3' and maintained a negative outlook, meaning another downgrade could follow if the economy performs worse or government debt rises faster than expected. South Africa's finance ministry said the downgrade would add to prevailing financial market stress.

Moody's said the main driver behind the downgrade was "the continuing deterioration in fiscal strength and structurally very weak growth". "The rapid spread of the coronavirus outbreak will exacerbate South Africa's economic and fiscal challenges and will complicate the emergence of effective policy responses," it added. Finance Minister Tito Mboweni said the government was not "trembling in our boots" and was committed to reforms to address weak growth and ailing state-owned companies. The majority of analysts polled by Reuters this week had predicted the downgrade.

The agency is the last of the big three agencies to downgrade Africa's most industrialised economy to sub-investment grade, after S&P Global and Fitch moved there in 2017. Moody's left South Africa on the brink of junk in November after it revised the outlook on its rating to negative following a bleak mid-term budget. An annual budget in February showed a worsening of the fiscal picture, and the country started a 21-day nationwide lockdown on Friday that will dent output as workers have been told to stay at home to prevent the spread of the coronavirus.

Having a lower credit rating typically increases a government's cost of borrowing by raising the premium that investors demand to hold its debt. The latest downgrade will see South Africa kicked out of the benchmark World Government Bond Index (WGBI) of local-currency debt, triggering up to $11 billion of forced selling, analysts estimate. However, one factor that could make the reaction more muted when markets open on Monday is that a rebalancing of the WGBI has been postponed until the end of April, potentially delaying some selling by funds tracking the index.

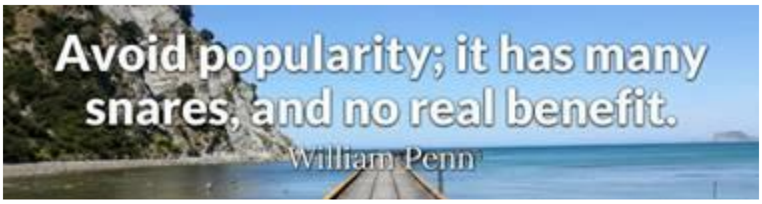
Another factor that could stem losses is that South African assets have sold off heavily this year. The rand is down around 20% against the U.S. dollar, and yields on the 2030 government bond are up well over 2 percentage points since the end of 2019.

Some analysts have argued that the downgrade to junk could prompt buying by removing a pillar of uncertainty that has clouded the outlook for local assets for some time. But Kevin Lings, chief economist at asset manager Stanlib, said that prospect was remote for now. "I'm not convinced that because you have eliminated this uncertainty foreigners will come in," he said. "Our market is now more beholden to the virus than the credit rating."

Source: Thomson Reuters

Corona Tracker

GLOBAL CASES SOURCE - WORLD HEALTH ORGANIZATION			As of 29-Mar-2020	
	Cases		Deaths	
	Confirmed	New	Confirmed	New
Total	634,835	63,159	29,957	3,464



Market Overview

MARKET INDICATORS (Thomson Reuters)					Monday, 30 March 2020
Money Market TB's		**Last close**	**Difference**	**Prev close**	**Current Spot**
3 months	↓	6.20	-0.263	6.46	6.20
6 months	↓	6.63	-0.056	6.69	6.63
9 months	↓	6.66	-0.015	6.67	6.66
12 months	↓	6.74	-0.026	6.76	6.74
Nominal Bonds		**Last close**	**Difference**	**Prev close**	**Current Spot**
GC20 (BMK: R207)	↓	6.84	-0.017	6.86	6.83
GC21 (BMK: R208)	→	6.43	0.000	6.43	6.59
GC22 (BMK: R2023)	↑	7.57	0.155	7.41	7.55
GC23 (BMK: R2023)	↑	8.43	0.155	8.28	8.42
GC24 (BMK: R186)	↑	10.74	0.155	10.59	10.73
GC25 (BMK: R186)	↑	10.92	0.155	10.77	10.91
GC27 (BMK: R186)	↑	11.49	0.155	11.34	11.48
GC30 (BMK: R2030)	↑	12.15	0.190	11.96	12.13
GC32 (BMK: R213)	↑	12.93	0.190	12.74	12.92
GC35 (BMK: R209)	↑	13.20	0.235	12.97	13.18
GC37 (BMK: R2037)	↑	13.37	0.245	13.13	13.36
GC40 (BMK: R214)	↑	13.48	0.195	13.29	13.46
GC43 (BMK: R2044)	↑	13.90	0.255	13.65	13.84
GC45 (BMK: R2044)	↑	14.04	0.255	13.79	13.98
GC50 (BMK: R2048)	↑	14.34	0.245	14.10	14.28
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	↓	1,618	-0.70%	1,629	1,613
Platinum	↑	741	0.76%	736	714
Brent Crude	↓	24.9	-5.35%	26.3	23.4
Main Indices		**Last close**	**Change**	**Prev close**	**Current Spot**
NSX Overall Index	↓	870	-5.01%	916	870
JSE All Share	↓	42,947	-4.66%	45,046	42,947
SP500	↓	2,541	-3.37%	2,630	2,541
FTSE 100	↓	5,510	-5.25%	5,816	5,510
Hangseng	↑	23,484	0.56%	23,352	23,181
DAX	↓	9,633	-3.68%	10,001	9,633
JSE Sectors		**Last close**	**Change**	**Prev close**	**Current Spot**
Financials	↓	9,028	-9.88%	10,018	9,028
Resources	↓	35,197	-3.59%	36,508	35,197
Industrials	↓	62,302	-3.59%	64,624	62,302
Forex		**Last close**	**Change**	**Prev close**	**Current Spot**
N$/US dollar	↑	17.63	1.80%	17.31	17.63
N$/Pound	↑	21.95	3.92%	21.13	21.83
N$/Euro	↑	19.63	2.84%	19.09	19.51
US dollar/ Euro	↑	1.114	1.02%	1.103	1.107
		Namibia		**RSA**	
Economic data		**Latest**	**Previous**	**Latest**	**Previous**
Inflation	↑	2.5	2.1	4.6	4.5
Prime Rate	↓	9.00	10.00	8.75	9.75
Central Bank Rate	↓	5.25	6.25	5.25	6.25

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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