Market Update — Tuesday, 31 March 2020

Global Markets

Asian shares managed a tentative rally on Tuesday as factory data from China held out the hope of a rebound in activity even as other countries across the globe all but shut down. China's official manufacturing purchasing managers' index (PMI) bounced to 52.0 in March, up from a record-low 35.7 in February and topping forecasts of 45.0. Analysts cautioned the index could overstate the true improvement as it measures the net balance of firms reporting an expansion or contraction in activity. If a company merely resumed working after a forced stoppage, it would read as an expansion without saying much about the overall level of activity.

Still, the headline number was a relief and helped MSCI's broadest index of Asia-Pacific shares outside Japan rise 1.1%. Japan's Nikkei firmed 1.0% after a jittery start, while South Korea added 2%. E-Mini futures for the S&P 500 added another 0.6%, supported by talk of book-keeping demand. "It's month-end rebalancing, whereby balanced funds now underweight equities versus fixed income given this month's valuation destruction, need to buy stocks to get back into balance," analysts at NAB said. Healthcare had led Wall Street higher, with the Dow ending Monday up 3.19%, while the S&P 500 gained 3.35% and the Nasdaq 3.62%

News on the coronavirus remained grim but radical stimulus steps by governments and central banks have at least provided some comfort to economies. Infections in hard-hit Italy slowed a little, but the government still extended its lockdown to mid-April. California reported a steep rise in people being hospitalised, while Washington state told people to stay at home. Trade ministers from the Group of 20 major economies agreed on Monday to keep their markets open and ensure the flow of vital medical supplies.

Portfolio management also played a part in the forex market where many fund managers found themselves over-hedged on their U.S. equity holdings given the sharp fall in values seen this month, leading them to buy back dollars. That saw the euro ease back to $1.1020, from a top of $1.143 on Monday, while the dollar index bounced to 99.330, from a trough of 98.330. Month-end demand for dollars from Japanese funds saw the dollar inch up to 108.45 yen, though it remained some way from last week's peak at 111.71.

Oil prices plunged to the lowest in almost 18 years on Monday as lockdowns for the virus squeezed demand even as Saudi Arabia and Russia vied to pump more product. In a new twist, U.S. President Donald Trump and Russian President Vladimir Putin agreed during a phone call on Monday to have their top energy officials meet to discuss slumping prices. “However, the reality is that the level damage to demand is likely to overwhelm any production cut agreement between major producers," wrote analysts at ANZ in a note. "The lockdown of cities around the world and the shutdown of the aviation industry will cause a fall in demand the industry has never seen before."

Prices did at least try and steady early Tuesday, with U.S. crude up 56 cents to $20.64. Brent crude futures gained 19 cents to $22.95 a barrel. In the gold market all the talk has been of a rush of demand for the physical product amid shortages in coins and small bars. Flows into gold-backed ETFs have ballooned by $13 billion so far this year, the most since 2004. The metal was holding at $1,615 an ounce, well up from a low of $1,450 touched early in the month.

Source: Thomson Reuters

Domestic Markets

South Africa's rand hit an all-time low on Monday after ratings firm Moody's removed the country's last investment grade credit rating and downgraded it to "junk" status - although the selloff did not deepen as some expected. Like many emerging markets, South Africa's assets have been hammered in the past two weeks as the spread of the coronavirus and an oil price rout sparked a broad market selloff that engulfed many riskier assets.

Compared with the start of February, the rand is now 20% weaker against the dollar, investors have dumped close to 50 billion rand of domestic bonds, and the market capitalisation of the stock exchange has slumped by 4.5 trillion rand. On Friday, Moody's downgraded the rating one notch to Ba1 from Baa3 and maintained a negative outlook. S&P Global and Fitch downgraded Africa's most industrialised economy to sub-investment grade in 2017. On Monday the rand hit an all-time low of 18.0800 per dollar in Asian trading. But as of 1500 GMT it was 1.63% weaker on the day at 17.9460 per dollar, pulling back some way as traders digested the downgrade.

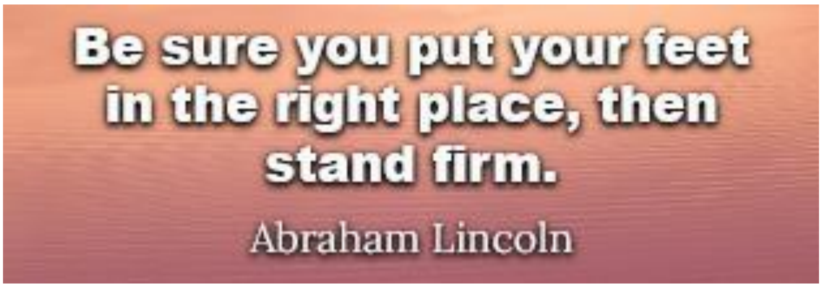
Bonds, meanwhile, recovered some ground, with the yield on 10-year government paper due in 2030 dropping 3.5 basis points to 11.61%, well shy of last week's peak of 13.25%. One key factor softening the selloff was the central bank's decision to launch a "quantitative easing" style bond-buying programme and to ease repo terms for commercial banks, supporting demand and limiting the spike in the yield curve. Another was the coronavirus-linked selloff that South Africa had already seen in the weeks preceding the downgrade. South African bonds have joined a growing list of high yielding debt at a time when developing economies are slashing interest rates amid a slowdown that is set to drag the global economy into a deeper downturn than that seen in the financial crisis a decade ago.

"I would be cautious of turning overly bearish on the rand given the risk of a downgrade was baked into the local currency," said Kieran Siney of ETM Analytics. The Moody's downgrade will see South Africa kicked out of the benchmark World Government Bond Index (WGBI) of local-currency debt at the end of April, triggering up to $12 billion of forced selling, treasury and analysts estimate. But some analysts expect a slower outflow, with hot money chasing high yields likely to pick up a chunk of the excess supply. "Unwinding will follow different rules for different asset managers and there may not be a rush into selling," said Cristian Maggio of TDM Securities, adding valuations globally had cheapened due to the coronavirus. "So while some investors may be selling, others will be buying. Therefore, we may see limited, if anything, moves in the bond space."

Another factor likely to shield bonds from a deep and prolonged selloff is the relatively high rate of return, or yield on South African debt compared to similarly rated peers. "You can buy a 10-year SA bond and earn real yield of 4.7% compared to a 10-year Brazilian bond that only pays 2.6%. Brazil has been sub-investment since 2016," said Eugene Visagie, portfolio manager at Morningstar Investment Management SA. Visagie said falling out of WGBI meant South Africa could enter sub-investment grade indices, such as the Global High Yield Index, where it would have a higher weighting. He added that the recent jump in bond yields to around 12% had pushed up the real yield to around 7.5%, making government bonds "an excellent investment opportunity".

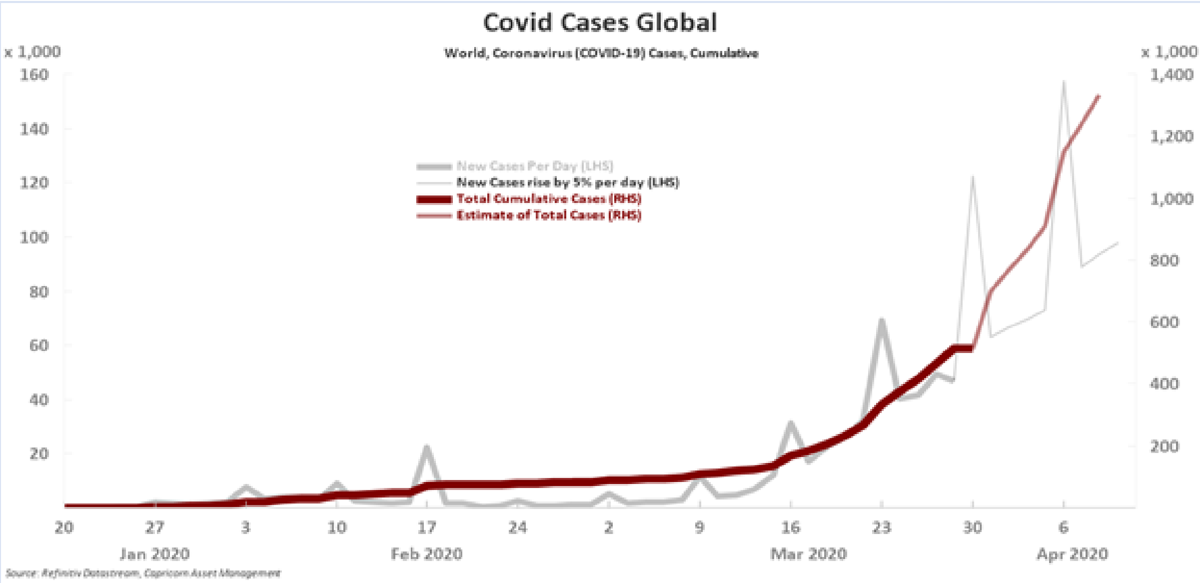
Overall, stock markets closed higher, with the Johannesburg Stock Exchange's Top-40 index rising 1.49% to 39,757 points and the broader all-share index up 1.09% to 43,414 points. Ryan Woods, trader at Independent Securities, said the blue-chip index was pulled upwards by stocks that tend to benefit from a weaker rand, like miners that export their product or firms with an overseas presence and therefore a rand hedge in place. But others took a hit, such as banks and retailers. Lender Absa fell 12%, leading the blue-chip index lower, followed by rival Nedbank, down 8%, and insurer Old Mutual, down 7.4%.

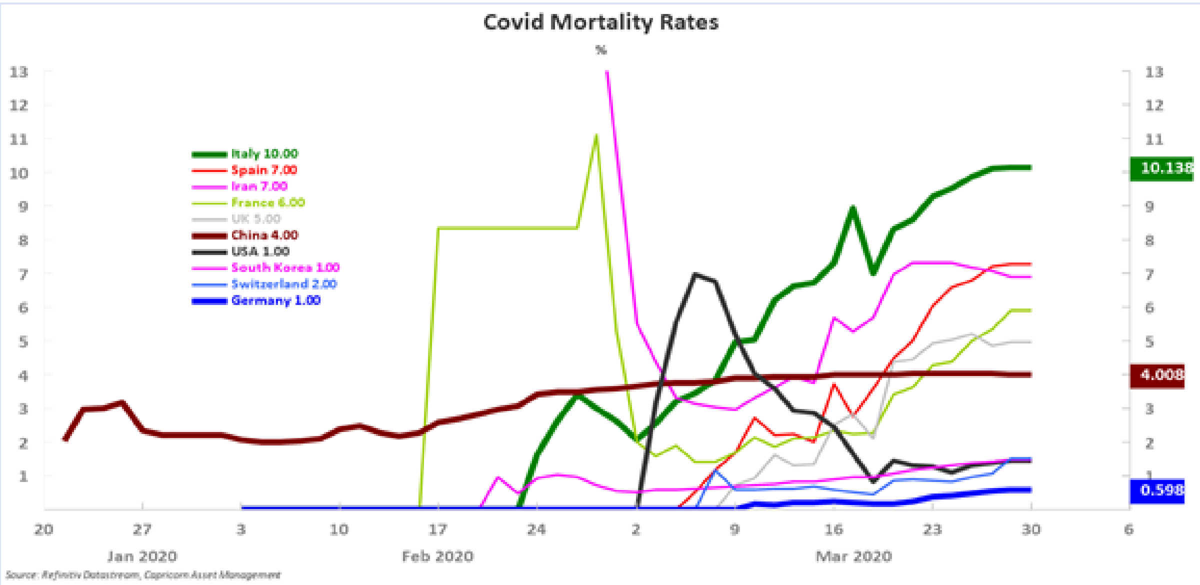
Source: Thomson Reuters



Corona Tracker

GLOBAL CASES SOURCE - REUTERS			30 Mar	16:17
	Confirmed Cases	New Cases	Total Deaths	Total Recovered
GLOBAL	777,026	56,966	37,561	159,462





Market Overview

MARKET INDICATORS (Thomson Reuters)				Tuesday, 31 March 2020	
Money Market TB's		**Last close**	**Difference**	**Prev close**	**Current Spot**
3 months	↓	6.15	-0.330	6.48	6.15
6 months	↓	6.60	-0.124	6.72	6.60
9 months	↓	6.63	-0.065	6.70	6.63
12 months	↓	6.72	-0.077	6.80	6.72
Nominal Bonds		**Last close**	**Difference**	**Prev close**	**Current Spot**
GC20 (BMK: R207)	↓	6.83	-0.008	6.84	6.83
GC21 (BMK: R208)	↑	6.51	0.075	6.43	6.54
GC22 (BMK: R2023)	↑	7.69	0.120	7.57	7.68
GC23 (BMK: R2023)	↑	8.55	0.120	8.43	8.54
GC24 (BMK: R186)	↓	10.73	-0.015	10.74	10.70
GC25 (BMK: R186)	↓	10.91	-0.015	10.92	10.88
GC27 (BMK: R186)	↓	11.48	-0.015	11.49	11.45
GC30 (BMK: R2030)	↓	12.09	-0.055	12.15	12.10
GC32 (BMK: R213)	↓	12.89	-0.040	12.93	12.88
GC35 (BMK: R209)	↑	13.22	0.015	13.20	13.19
GC37 (BMK: R2037)	↑	13.39	0.020	13.37	13.37
GC40 (BMK: R214)	↑	13.53	0.045	13.48	13.49
GC43 (BMK: R2044)	↑	13.94	0.035	13.90	13.90
GC45 (BMK: R2044)	↑	14.08	0.035	14.04	14.04
GC50 (BMK: R2048)	↑	14.37	0.025	14.34	14.33
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	↑	1,622	0.27%	1,618	1,613
Platinum	↓	723	-2.46%	741	725
Brent Crude	↓	22.8	-8.70%	24.9	23.0
Main Indices		**Last close**	**Change**	**Prev close**	**Current Spot**
NSX Overall Index	↓	864	-0.72%	870	864
JSE All Share	↑	43,414	1.09%	42,947	43,414
SP500	↑	2,627	3.35%	2,541	2,627
FTSE 100	↑	5,564	0.97%	5,510	5,564
Hangseng	↓	23,175	-1.32%	23,484	23,428
DAX	↑	9,816	1.90%	9,633	9,816
JSE Sectors		**Last close**	**Change**	**Prev close**	**Current Spot**
Financials	↓	8,764	-2.93%	9,028	8,764
Resources	↑	36,309	3.16%	35,197	36,309
Industrials	↑	63,232	1.49%	62,302	63,232
Forex		**Last close**	**Change**	**Prev close**	**Current Spot**
N$/US dollar	↑	17.92	1.69%	17.63	17.94
N$/Pound	↑	22.25	1.36%	21.95	22.12
N$/Euro	↑	19.80	0.85%	19.63	19.76
US dollar/ Euro	↓	1.105	-0.84%	1.114	1.102
		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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