



The Daily Brief

Capricorn Asset Management

Market Update

Tuesday, 31 May 2022



Global Markets

Stocks wobbled and bonds fell in Asia, while the dollar rose on Tuesday after a hot inflation reading in Germany heightened nerves about the pace and scale of looming interest rate hikes. Rising energy prices added to worry about the persistence of consumer pain. Brent crude futures touched a two-month top of \$122.43 a barrel after the European Union vowed to slash imports of Russian oil by year's end.

U.S. treasuries slumped on return from Monday's U.S. holiday, sending the yield of the 10-year bond up nearly 10 basis points (bps) to 2.8405%. German bund yields rose 8.1 bps overnight after German consumer prices increased at their fastest pace in half a century, strengthening the case for an outsized European Central Bank interest rate hike in July. Eurozone inflation data is due later on Tuesday. Chinese Purchasing Managers' Index (PMI) figures showed another month of contraction in services and manufacturing activity, though at a reduced pace of decline.

In equities, S&P 500 futures gave up early gains to fall back to flat early in the Asian session, and Nasdaq 100 futures were up 0.4%. MSCI's broadest index of Asia-Pacific shares outside Japan snapped a two-day winning streak and dropped 0.2%. Japan's Nikkei slipped 0.1%.

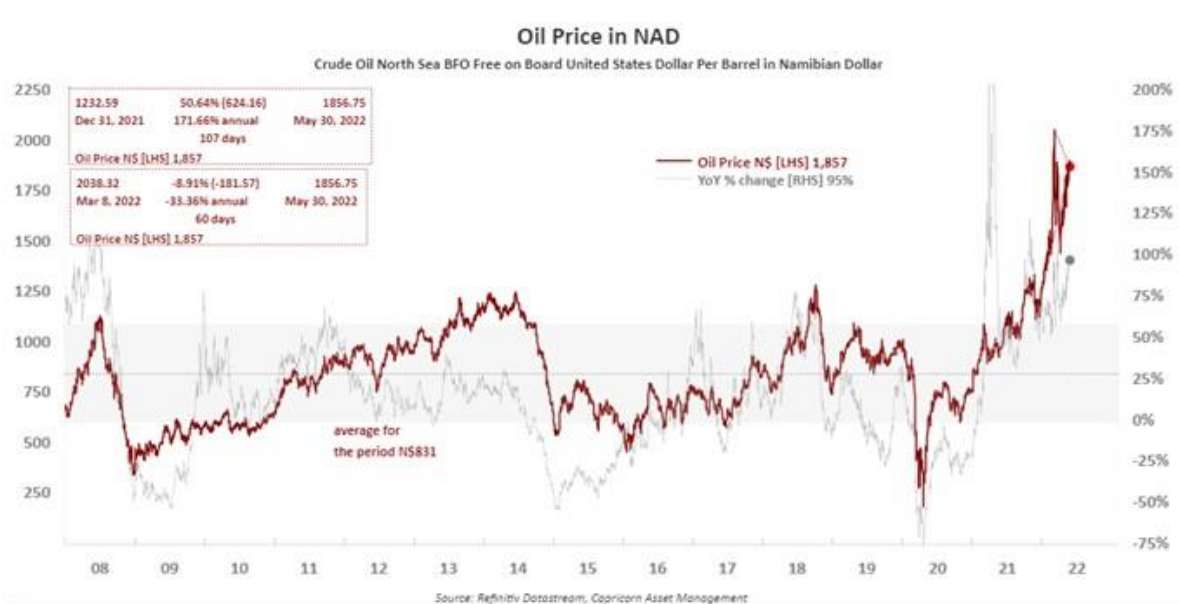
"The focus now is really on the U.S. economy and China," said Khoon Goh, head of Asia research at ANZ Bank in Singapore. "The two largest economies in the world are slowing, for different reasons, and it's not great for the global growth trajectory." Factory output in the third-largest economy, Japan, also dropped sharply in April as Chinese demand withered, data on Tuesday showed. May figures showed China's official PMI at 49.6, indicating a contraction in factory activity but at a slower pace than in April when the figure was 47.4.

Growth concerns have put the brakes on a two-week rally for exporters' currencies globally and have steadied the U.S. dollar as investors have again leaned towards safety. Hawkish remarks from U.S. Federal Reserve Governor Christopher Waller also wound back recent expectations that the Fed might pause for breath after hikes in June and July. "I am advocating 50 (basis point hikes) on the table every meeting until we see substantial reductions in inflation. Until we get that, I don't see the point of stopping," Waller said.

Fed Funds futures fell sharply, especially contracts for the early months of next year, as investors braced for relentless interest rate rises that would push the benchmark rate towards 3% by mid-2023. The dollar traded on Tuesday at \$1.0744 per euro, up 0.3%, and 128.16 yen, about 0.4% higher. The trade-sensitive Australian and New Zealand dollars fell, with the Aussie last down 0.2% at \$0.7180 and the kiwi down 0.4% at \$0.6530.

Oil prices rose after the European Union agreed to slash oil imports from Russia by the end of 2022. U.S. crude futures rose to \$117.70 a barrel. The stronger dollar pushed spot gold a fraction lower to \$1,848 an ounce. Bitcoin rallied hard overnight, jumping nearly 8% and topping \$32,000 for the first time in three weeks. It sat just below there at \$31,540 early in the Asian session.

Domestic Markets



South Africa's rand strengthened on Monday as the U.S. dollar weakened, ahead of a slew of local economic data in the coming days that could give clues on the health of the economy. At 1536 GMT, the rand traded at 15.4850 against the dollar, 0.74% firmer than its previous close.

"The rand gains as markets settle on the Fed's minutes indicating a steady rate hike cycle and little chance of recession," Investec economist Annabel Bishop said in a research note, referring to the U.S. Federal Reserve. Bishop also highlighted growing optimism for a Chinese economic recovery in the third quarter of the year due to the slowing down of the COVID-19 outbreak.

The dollar resumed its slide on Monday as risk appetite across markets tentatively strengthened, supported by encouraging economic data and bets that the Fed will tighten policy at a slower pace.

Local focus in the week will be on several economic indicators, including April credit and money supply data, unemployment numbers for the first quarter of 2022 and April trade balance numbers - all due on Tuesday.

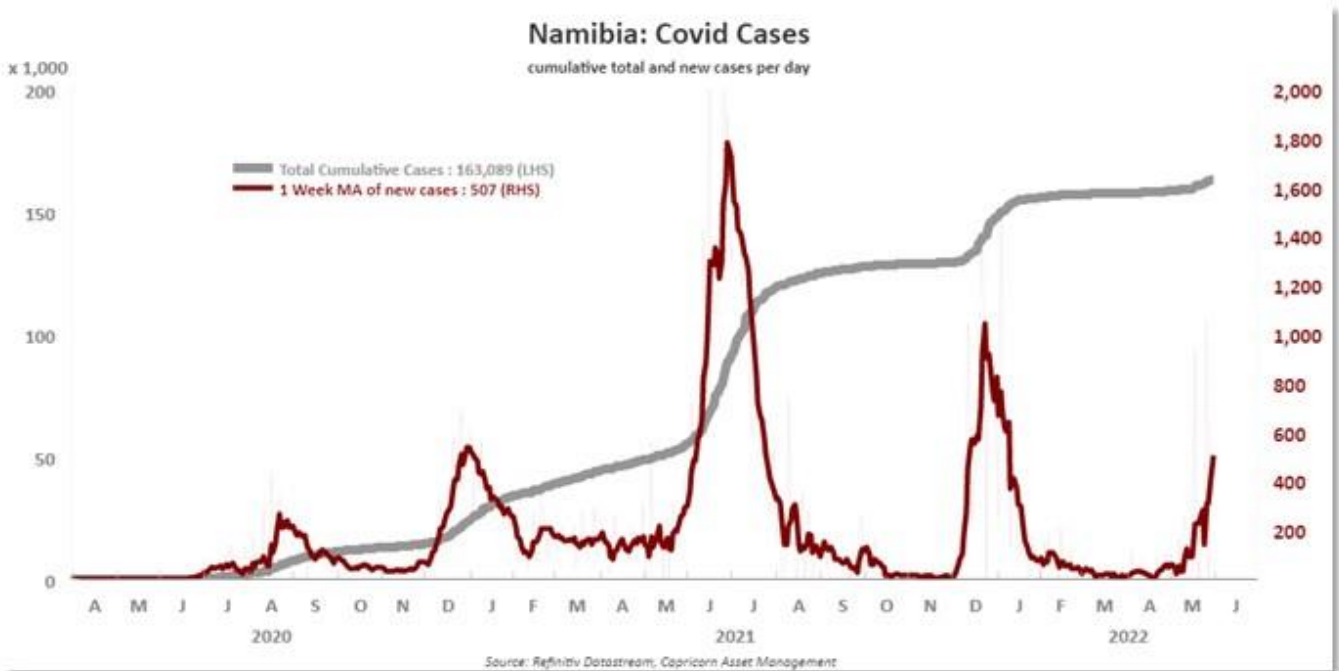
In the equities market, stocks rose alongside global equity markets, boosted by hopes that China's Beijing and Shanghai hubs are reopening from virus restrictions and a package of stimulus measures released by the Shanghai local government. China is South Africa's largest trading partner.

The Johannesburg All-Share index climbed 2.09% to 71,958 points while the Top-40 index closed 2.27% higher at 65,335 points. Among the gainers was shipping company Grindrod, up 7.24% to 8.30 rand, after it announced late last week that it had sold Grindrod Bank to African Bank.

The government's benchmark 2030 bond was stronger, with the yield down 5.5 basis points to 9.665%.

Corona Tracker

Name	Cases - cumulative total	Cases - newly reported in last 7 days	Deaths - cumulative total	Deaths - newly reported in last 7 days
Global	526,182,662	2,654,908	6,286,057	7,545



Source: Thomson Reuters Refinitiv

A first-rate soup is more creative than a second-rate painting.

Abraham Maslow

Market Overview

MARKET INDICATORS (Thomson Reuters Refinitiv)					31 May 2022	
Money Market TB Rates %			Last close	Difference	Prev close	Current Spot
3 months	→		5.29	0.000	5.29	5.29
6 months	→		5.73	0.000	5.73	5.73
9 months	→		6.58	0.000	6.58	6.58
12 months	↓		6.88	-0.017	6.89	6.88
Nominal Bond Yields %			Last close	Difference	Prev close	Current Spot
GC23 (Coupon 8.85%, BMK R2023)	↓		7.29	-0.050	7.34	7.30
GC24 (Coupon 10.50%, BMK R186)	↓		7.62	-0.105	7.73	7.63
GC25 (Coupon 8.50%, BMK R186)	↓		8.07	-0.105	8.18	8.08
GC26 (Coupon 8.50%, BMK R186)	↓		8.78	-0.105	8.89	8.79
GC27 (Coupon 8.00%, BMK R186)	↓		9.10	-0.105	9.21	9.11
GC30 (Coupon 8.00%, BMK R2030)	↓		10.96	-0.055	11.01	10.96
GC32 (Coupon 9.00%, BMK R213)	↓		12.18	-0.050	12.23	12.20
GC35 (Coupon 9.50%, BMK R209)	↓		12.88	-0.045	12.92	12.88
GC37 (Coupon 9.50%, BMK R2037)	↓		13.87	-0.035	13.91	13.87
GC40 (Coupon 9.80%, BMK R214)	↓		13.79	-0.035	13.83	13.80
GC43 (Coupon 10.00%, BMK R2044)	↓		14.10	-0.020	14.12	14.11
GC45 (Coupon 9.85%, BMK R2044)	↓		14.11	-0.020	14.13	14.12
GC48 (Coupon 10.00%, BMK R2048)	↓		14.52	-0.030	14.55	14.52
GC50 (Coupon 10.25%, BMK: R2048)	↓		14.26	-0.030	14.29	14.26
Inflation-Linked Bond Yields %			Last close	Difference	Prev close	Current Spot
GI22 (Coupon 3.55%, BMK NCPI)	→		4.00	0.000	4.00	4.00
GI25 (Coupon 3.80%, BMK NCPI)	→		3.94	0.000	3.94	3.94
GI27 (Coupon 4.00%, BMK NCPI)	→		4.99	0.000	4.99	4.99
GI29 (Coupon 4.50%, BMK NCPI)	→		5.33	0.000	5.33	5.33
GI33 (Coupon 4.50%, BMK NCPI)	→		7.24	0.000	7.24	7.24
GI36 (Coupon 4.80%, BMK NCPI)	→		7.70	0.000	7.70	7.70
Commodities			Last close	Change	Prev close	Current Spot
Gold	↑		1,856	0.19%	1,853	1,853
Platinum	↑		959	0.58%	954	961
Brent Crude	↑		121.7	1.88%	119.4	123.5
Main Indices			Last close	Change	Prev close	Current Spot
NSX Overall Index	↑		1,803	2.12%	1,766	1,803
JSE All Share	↑		71,958	2.09%	70,485	71,958
SP500	→		4,158	0.00%	4,158	4,158
FTSE 100	↑		7,600	0.19%	7,585	7,600
Hangseng	↑		21,124	2.06%	20,697	21,238
DAX	↑		14,576	0.79%	14,462	14,576
JSE Sectors			Last close	Change	Prev close	Current Spot
Financials	↑		16,810	3.41%	16,257	16,810
Resources	↑		78,038	1.42%	76,948	78,038
Industrials	↑		77,647	2.01%	76,115	77,647
Forex			Last close	Change	Prev close	Current Spot
N\$/US dollar	↓		15.49	-0.66%	15.59	15.50
N\$/Pound	↓		19.59	-0.39%	19.67	19.55
N\$/Euro	↓		16.69	-0.20%	16.72	16.66
US dollar/ Euro	↑		1.078	0.47%	1.073	1.075
			Namibia		RSA	
Interest Rates & Inflation			May 22	Apr 22	May 22	Apr 22
Central Bank Rate	↑		4.25	4.00	4.75	4.25
Prime Rate	↑		8.00	7.75	8.25	7.75
			Apr 22	Mar 22	Apr 22	Mar 22
Inflation	↑		5.6	4.5	5.9	5.9

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 the Overall Index, including dual listed

Source: Thomson Reuters Refinitiv

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.



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