Market Update Thursday, 31 October 2019

Global Markets

Asian shares jumped on Thursday to a three-month high and the dollar fell broadly after the Federal Reserve cut interest rates as expected and U.S. Treasury yields declined. MSCI's broadest index of Asia-Pacific shares outside Japan was up 0.68% to the highest since July 30. Hong Kong shares rose 1.16%, while Japan's Nikkei stock index rose 0.2%.

U.S. Treasury yields slipped in Asia after the rate cut, but Fed Chairman Jerome Powell signalled additional trims are unlikely because there are several areas of strength in the U.S. economy. The yen held onto gains versus the dollar after the Bank of Japan keep its ultra-easy monetary policy in place as expected and changed its forward guidance to more clearly signal the future chance of a rate cut. Debate at the Fed and the BOJ highlights the struggle that many central banks are facing.

The U.S.-China trade war and Britain's divorce from the European Union have increased uncertainty, but central banks are somewhat reluctant to ease policy aggressively because interest rates are already very low in many major economies. "The biggest thing that stands out is stocks look stronger after the Fed," said Tsutomu Soma, general manager of fixed income business solutions at SBI Securities in Tokyo. "Risks like U.S.-China or Brexit haven't been resolved completely, but the markets are starting to look beyond these risks."

U.S. stock futures edged 0.01% higher on Thursday in Asia after the S&P 500 rose 0.33% to close at a record high on Wednesday for the second time in three trading sessions. A positive mood on Wall Street carried over to Asian equities, except for Australian shares, which fell 0.51% after weak earnings from Australia and New Zealand Banking Group.

The Fed lowered its policy rate to 1.50%-1.75%, but dropped a previous reference in its statement to "act as appropriate" to sustain the economic expansion. In his news conference, Powell listed several reasons why he feels the economy is doing well, such as robust consumer spending, strengthening home sales, and healthy asset prices.

The yield on benchmark 10-year Treasury notes fell to 1.7785% in Asia on Thursday, while the two-year yield eased slightly to 1.6216%. The dollar index against a basket of six major currencies fell 0.34% to 97.318, extending declines from Wednesday.

News that Chile will not host the Asia-Pacific Economic Cooperation (APEC) summit in mid-November was one reason the dollar was dented - as the market has been expecting the United

States and China to sign a partial trade deal there. But despite the setback in Chile, Chinese officials voiced optimism that Beijing and Washington can find a way to clinch the so-called Phase One trade deal next month.

The greenback fell to 7.0420 yuan in onshore trade, the lowest since Aug. 19. The yen rose 0.2% to 108.67 per dollar, holding onto gains after the BOJ left policy unchanged as expected. Traders will focus on BOJ Governor Haruhiko Kuroda's press conference later on Thursday to gauge how he assesses the risks posed by the U.S.-China trade war and Brexit.

Optimism that Washington and Beijing will sign a preliminary agreement to call a truce to their trade war was a factor behind the Fed's decision to signal that further rate cuts are on hold, highlighting the importance of trade talks to global monetary policy.

In the energy market, oil futures erased losses and rose in Asia on Thursday after as a massive build-up in U.S. crude stock piles triggered a decline in futures on Wednesday. U.S. crude erased losses and rose 0.22% to $55.18 a barrel. Brent crude rose 0.45% to $60.88 per barrel.

Domestic Markets

South Africa's rand suffered its steepest fall in more than a year on Wednesday after Finance Minister Tito Mboweni forecast wider budget deficits and a sharp increase in debt during his medium-term budget policy statement. The rand was down more than 2.4% at 14.9810 against the U.S. dollar by 1533 GMT, partially recovering from an earlier 3% drop from Tuesday's close.

The Treasury said the budget deficit was likely to reach 5.9% of gross domestic product this fiscal year, far above a previous estimate of 4.5%. The projected deficit would be the highest since 2009/10, raising investor concerns about South Africa's only remaining investment-grade credit rating, which will be reviewed by Moody's on Friday.

"From a ratings agency point of view the debt is unsustainable," said Cristian Maggio, head of emerging markets strategy at TD Securities. "There is no way that South Africa can escape a downgrade. It may not happen immediately, it may take some time because ratings agencies follow certain procedures, but it will happen," he said.

Africa's most industrialised economy is battling to kick-start economic growth and investor sentiment is fragile after a string of massive bailouts for ailing state firms like power utility Eskom.

South African government bonds dropped sharply, with the yield on benchmark 2026 paper up 23.5 basis points to 8.435%.

Local stocks rebounded in the late afternoon as rand hedges gained because of the weaker domestic currency. The Johannesburg Stock Exchange's Top-40 Index closed up 0.31% at 49,629.32 points, while the broader All-Share Index was up 0.29% to 55,872.60 points.

Gold miners Sibanye-Stillwater and Gold Fields climbed 8.1% and 6.6% respectively, helped by a stronger gold price as well as the weaker rand.

Investors were also gearing up for a policy decision by the U.S Federal Reserve later in the day that could see a third cut in interest rates this year. "The market is already factoring in a 25 basis point cut," GT247 trader Paul Chakaduka said.

Source: Thomson Reuters

Market Overview

MARKET INDICATORS (Thomson Reuters)		Thursday, 31 October 2019			
Money Market TB's		**Last close**	**Difference**	**Prev close**	**Current Spot**
3 months					6.81
6 months					7.07
9 months					7.28
12 months					7.39
Nominal Bonds		**Last close**	**Difference**	**Prev close**	**Current Spot**
GC20 (BMK: R207)		7.37	-0.005	7.38	7.37
GC21 (BMK: R2023)		7.57	0.005	7.57	7.57
GC22 (BMK: R2023)		8.01	0.005	8.01	8.05
GC23 (BMK: R2023)		8.49	0.005	8.49	8.53
GC24 (BMK: R186)		9.14	0.255	8.88	9.19
GC25 (BMK: R186)		8.75	-0.720	9.47	8.79
GC27 (BMK: R186)		8.95	-0.870	9.82	8.99
GC30 (BMK: R2030)		10.37	0.245	10.13	10.42
GC32 (BMK: R213)		10.72	0.275	10.45	10.75
GC35 (BMK: R209)		10.42	0.005	10.42	10.42
GC37 (BMK: R2037)		10.53	0.005	10.53	10.53
GC40 (BMK: R214)		10.94	0.000	10.94	10.96
GC43 (BMK: R2044)		10.96	0.000	10.96	11.01
GC45 (BMK: R2044)		11.33	0.000	11.33	11.33
GC50 (BMK: R2048)		11.57	0.000	11.57	11.62
Inflation-Linked Bonds		**Last close**	**Difference**	**Prev close**	**Current Spot**
GI22 (BMK: NCPI)		4.40	0.000	4.40	4.40
GI25 (BMK: NCPI)		4.65	0.000	4.65	4.60
GI29 (BMK: NCPI)		5.61	0.000	5.61	5.51
GI33 (BMK: NCPI)		6.21	0.000	6.21	6.11
GI36 (BMK: NCPI)		6.55	0.000	6.55	6.40
Commodities		**Last close**	**Change**	**Prev close**	**Current Spot**
Gold		1,495	0.52%	1,487	1,499
Platinum		926	0.61%	920	927
Brent Crude		60.6	-1.59%	61.6	61.0
Main Indices		**Last close**	**Change**	**Prev close**	**Current Spot**
NSX Overall Index		1,310	-1.43%	1,329	1,312
JSE All Share		55,873	0.28%	55,717	56,379
SP500		3,047	0.33%	3,037	3,047
FTSE 100		7,331	0.34%	7,306	7,331
Hangseng		26,668	-0.44%	26,787	26,866
DAX		12,910	-0.23%	12,940	12,910
JSE Sectors		**Last close**	**Change**	**Prev close**	**Current Spot**
Financials		15,836	-2.01%	16,161	16,025
Resources		46,028	1.11%	45,525	46,372
Industrials		68,802	0.92%	68,175	69,516
Forex		**Last close**	**Change**	**Prev close**	**Current Spot**
N$/US dollar		14.98	2.74%	14.58	15.03
N$/Pound		19.33	3.03%	18.76	19.44
N$/Euro		16.70	3.10%	16.20	16.77
US dollar/ Euro		1.115	0.34%	1.111	1.116
		Namibia		**RSA**	
Economic data		**Latest**	**Previous**	**Latest**	**Previous**
Inflation		3.3	3.7	4.1	4.3
Prime Rate		10.25	10.50	10.00	10.25
Central Bank Rate		6.50	6.75	6.50	6.75

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

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.

Source: Thomson Reuters

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