Market Update Monday, 23 March 2020

Global Markets

Asian shares slid on Monday as more countries all but shut down in the fight against the coronavirus, threatening to overwhelm policymakers' frantic efforts to cushion what is clear to be a deep global recession.

In a taste of the pain to come, E-Mini futures for the S&P 500 dived 5% at the open to be limit down. MSCI's broadest index of Asia-Pacific shares outside Japan lost 2%, with South Korea badly hit. Japan's Nikkei added 0.8%, perhaps aided by expectations of more asset buying by the Bank of Japan, but the commodity-heavy Australian market shed 5%.

Oil was not far behind as mass bans on travel worldwide crushed demand for fuel. Airlines cancelled more flights as Australia and New Zealand advised against non-essential domestic travel, the United Arab Emirates (UAE) halted flights for two weeks and Singapore and Taiwan banned foreign transit passengers. Brent crude futures slid $1.68 to $25.30 a barrel, while U.S. crude shed $1.01 to $21.62. Analysts fear the collapse in oil and other commodity prices will set off a deflationary wave making it harder for monetary policy easing to gain traction as economies shut down.

Nearly one in three Americans were ordered to stay home on Sunday to slow the spread of the disease, while Italy banned internal travel as deaths there reached 5,476. U.S. President Donald Trump went on TV to approve disaster deceleration requests from New York and Washington, while St. Louis Federal Reserve President James Bullard warned unemployment could reach 30% unless more was done fiscally. U.S. stocks have already fallen more than 30% from their mid-February high and even the safest areas of the bond market experiencing liquidity stress as distressed funds are forced to sell good assets to cover positions gone bad.

"It would be a brave, or foolish, man to call the bottom in equities without a dramatic medical breakthrough," said Alan Ruskin, head of G10 FX strategy at Deutsche Bank. Also needed would be evidence that China could re-emerge from the virus without reigniting infections, and that other major economies had hit inflection points for infection rates, he added. "Even were social distancing to subside at the earliest plausible dates in Europe and the U.S., it will have done extraordinary damage to confidence in a host of key sectors," Ruskin said.

The mounting economic toll led to a major rally in sovereign bonds late last week, with efforts by central banks to restore liquidity in the market allowing for more two-way trade. Yields on the benchmark U.S. 10-year note were down at 0.80%, having dived all the way to 0.84% on Friday from a top of 1.28%. In New Zealand, the central bank announced its first outright purchase of government paper aiming to inject much-needed liquidity into the local market.

In currency markets, the first instinct on Monday was to dump those leveraged to global growth and commodity prices, sending the Australian dollar down 0.8% to $0.5749. The U.S. dollar started firm but took a step back after partisan battles in the U.S. Senate stopped a coronavirus response bill from advancing. The dollar eased 0.4% to 110.43 yen, while the euro recouped losses to be flat at $1.0692. Against a basket of currencies, the dollar was still a fraction firmer at 102.510. The dollar was a major gainer last week as investors fled to the liquidity of the world's reserve currency, while some funds, companies and countries sought more cash to cover their dollar borrowings.

"The ‘dash for cash’ will remain a key driver of currency markets this week," said Kim Mundy, a currency strategist at CBA. "We expect strong USD demand to continue to cause liquidity problems and keep volatility elevated. Direct intervention by central banks in currency markets to reduce market dysfunction is possible." The steady rise in the dollar undermined gold, which slipped 0.3% to $1,493.83 per ounce.

Domestic Markets

South African stocks recovered on Friday from a more than seven-year low hit the previous session after the central bank announced a raft of emergency liquidity measures to ease the strain on banks from the coronavirus outbreak.

South African assets have come under great pressure as the novel coronavirus has spread around the world and some local banks have struggled to access short-term funds. On Friday, the South African Reserve Bank (SARB) announced three changes aimed at the money market, which facilitates shorter-term borrowing by banks and the government, usually through instruments with durations ranging from overnight to 12 months.

Separately, the head of the Johannesburg Stock Exchange (JSE), which is Africa's biggest and one of the top 20 in the world by market capitalisation, told Reuters the bourse was considering shortening trading hours and banning forms of short-selling to ease the growing liquidity crunch.

Friday's measures follow a 100 basis point cut to the SARB's main lending rate on Thursday to help the flagging economy. The market welcomed the steps that pushed the banks' index 7.65% higher. "South Africa has the most sophisticated banking sector on the continent and these measures are aimed at ensuring that the system functions smoothly," Jacques Nel, an economist at NKC African Economics, said in a note.

The JSE's Top-40 index closed just over 6% higher at 36,302 points, while the broader all-share index climbed 6.08% to 40,272 points. A host of firms saw their shares rally by more than 10% or 30%. Resource stocks were among the big winners, with the index up 8.28% as precious metals rebounded as stimulus measures around the world curbed investors' appetite for cash.

In the currency market, the rand also firmed in response to the SARB's stimulus measures. At 1500 GMT, the rand was trading at 17.3410 per dollar, 0.65% firmer compared to its previous close. "The raft of policy measures from the SARB today to seek to alleviate liquidity pressures has not caused much strength, but there has not been a run on the domestic currency today either," said Investec chief economist Annabel Bishop. She added the changes to the money market liquidity management strategy of the central bank "benefited (South African) bonds somewhat". Bonds firmed, with the yield on the paper due in 2030 was down 5 basis points at 11.670%.

Source: Thomson Reuters

Market Overview

MARKET INDICATORS (Thomson Reuters)				Monday, 23 March 2020	
Money Market TB's		**Last close**	**Difference**	**Prev close**	**Current Spot**
3 months	↓	6.08	-1.064	7.14	6.08
6 months	↓	6.54	-0.673	7.21	6.54
9 months	↓	6.65	-0.532	7.18	6.65
12 months	↓	6.75	-0.468	7.21	6.75
Nominal Bonds		**Last close**	**Difference**	**Prev close**	**Current Spot**
GC20 (BMK: R207)	↓	6.93	-0.010	6.94	6.89
GC21 (BMK: R208)	→	6.97	0.000	6.97	6.97
GC22 (BMK: R2023)	↓	7.83	-0.110	7.94	7.83
GC23 (BMK: R2023)	↓	8.69	-0.110	8.80	8.69
GC24 (BMK: R186)	↓	10.70	-0.060	10.76	10.70
GC25 (BMK: R186)	↓	10.88	-0.060	10.94	10.88
GC27 (BMK: R186)	↓	11.45	-0.060	11.51	11.45
GC30 (BMK: R2030)	↓	12.17	-0.050	12.22	12.17
GC32 (BMK: R213)	↑	12.99	0.110	12.88	12.99
GC35 (BMK: R209)	↓	13.42	-0.060	13.48	13.42
GC37 (BMK: R2037)	↓	13.58	-0.070	13.65	13.58
GC40 (BMK: R214)	↑	13.85	0.100	13.75	13.85
GC43 (BMK: R2044)	↓	14.26	-0.070	14.33	14.26
GC45 (BMK: R2044)	↓	14.40	-0.070	14.47	14.40
GC50 (BMK: R2048)	↓	14.71	-0.080	14.79	14.71
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	↑	1,498	1.89%	1,470	1,493
Platinum	↑	611	4.18%	587	621
Brent Crude	↓	27.0	-5.23%	28.5	26.1
Main Indices		**Last close**	**Change**	**Prev close**	**Current Spot**
NSX Overall Index	↑	802	5.14%	763	802
JSE All Share	↑	40,272	6.08%	37,963	40,272
SP500	↓	2,305	-4.34%	2,409	2,305
FTSE 100	↑	5,191	0.76%	5,152	5,191
Hangseng	↑	22,805	5.05%	21,709	22,012
DAX	↑	8,929	3.70%	8,610	8,929
JSE Sectors		**Last close**	**Change**	**Prev close**	**Current Spot**
Financials	↑	9,191	6.25%	8,651	9,191
Resources	↑	29,994	7.94%	27,787	29,994
Industrials	↑	59,016	4.99%	56,210	59,016
Forex		**Last close**	**Change**	**Prev close**	**Current Spot**
N$/US dollar	↑	17.59	0.77%	17.45	17.60
N$/Pound	↑	20.47	2.15%	20.04	20.49
N$/Euro	↑	18.81	0.82%	18.66	18.85
US dollar/ Euro	↑	1.069	0.04%	1.069	1.071
		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

Capricorn Asset Management

Bank Windhoek

For enquiries concerning the Daily Brief please contact us at

Daily.Brief@capricorn.com.na