Market Update Tuesday, 25 February 2020

Global Markets

Asian share markets found some stability on Tuesday after a wave of early selling petered out and Wall Street futures managed a solid bounce, allowing investors to take a breather from coronavirus fears. Some dealers cited a Wall Street Journal report on a possible vaccine as helping sentiment, though human tests of the drug are not due until the end of April and results not until July or August. Whatever the cause, E-Mini futures for the S&P 500 bounced 0.7% to pare some of the steep 3.35% loss the cash index suffered overnight. EUROSTOXX 50 futures also added 0.6%, and FTSE futures nudged up 0.3%.

South Korea's hard-hit market eked out a 0.6% rise and helped MSCI's broadest index of Asia-Pacific shares outside Japan fight back to flat. Japan's Nikkei was still down 3.4%, catching up to the global sell-off having been shut on Monday, while Shanghai blue chips eased 1.6%.

European and U.S. stocks had suffered their biggest loses since mid-2016 amid fears the coronavirus was morphing into a pandemic that could cripple global supply chains and wreak far greater economic damage than first thought. The risks were such that bond markets were wagering central banks would have to ride to the rescue with new stimulus.

Futures for the Federal Reserve funds rate have surged in the last few days to price in a 50-50 chance of a quarter-point rate cut as early as April. In all, they imply more than 50 basis points of reductions by year end. Central banks across Asia have already been easing policy, while governments have promised large injections of fiscal stimulus, something western countries might also have to consider.

The Dow had ended Monday down 3.55%, while the S&P 500 lost 3.35% and the Nasdaq 3.71%. Wall Street's fear gauge, the CBOE Volatility Index jumped to its highest close since early 2019. Underlining the economic impact of the virus was a 3.5% drop in Apple Inc. as data showed sales of smartphones in China tumbled by more than a third in January.

Bonds Bet On Rate Cuts

The coronavirus death toll climbed to seven in Italy on Monday and several Middle East countries were dealing with their first infections, feeding worries it could turn into a pandemic. "If travel restrictions and supply chain disruptions spread, the impact on global growth could be more widespread and longer lasting," said Jonas Glotermann at Capital Economics. "While we still think that it would take a significant deterioration in the outlook for the U.S. economy for policymakers to cut rates, they may feel compelled to do so if the virus spreads and leads to continued falls in the stock market and inversion of the Treasury yield curve."

The rush to bonds left yields on 10-year Treasury notes at 1.39%, down almost 20 basis points in just three sessions and paying less than overnight rates. Yields were now rapidly approaching the all-time low of 1.321% hit in July 2016. The sharp drop, combined with the simple fact the Fed had far more room to cut rates than its peers, kept the U.S. dollar restrained after a run of strong gains.

The euro edged up a little from recent three-year lows to reach $1.0862 while the dollar was back at 110.83 yen and away from a 10-month top of 112.21. Against a basket of currencies, the dollar dipped a fraction to 99.239.

Gold ran into profit-taking after hitting a seven-year peak overnight, and was last at $1,655.34 an ounce. Oil steadied after shedding nearly 4% on Monday. U.S. crude was up 11 cents at $51.54, while Brent crude firmed 19 cents to $56.49.

Source: Thomson Reuters

Domestic Markets

South Africa's rand tumbled more than 1% while stocks plunged to a two-month low as a sharp rise coronavirus cases overseas combined with concerns about the upcoming budget speech knocked down local assets.

Bonds, however, held firm with investors treading cautiously and happy to hold the country's high-yielding debt. "Bonds can be seen as a bit of a safe-haven, in the rand market specifically. And with the currency and equities being knocked there's probably been some temporary allocation into bonds," said bonds trader at RMB Michelle Wohlberg. Local bonds trade at a favourable differential, or carry trade, to those of developed countries offering zero or negative yields, largely due to low inflation and high lending rates.

The currency, down around 9% since January, has not been able to escape the cocktail of weak economic growth and heightened risk aversion stoked by the increasing number of coronavirus cases outside China. Italy, South Korea and Iran reported sharp increases in coronavirus cases over the weekend, giving global markets a scare. Bianca Botes, an analyst at Peregrine Treasury, said the toll on global growth of the virus outbreak was likely to be larger than initial forecasts, pushing investors out of emerging markets even as they were still on the hunt for yields. "The carry trade will always be important. People will always be seeking yield. The question is how much of that is coming into South Africa. If it wasn't for the carry trade supporting the rand, it could have been trading around 15.50 by now," Botes said. At 1530 GMT the rand was 1.02% weaker at 15.1650 per dollar.

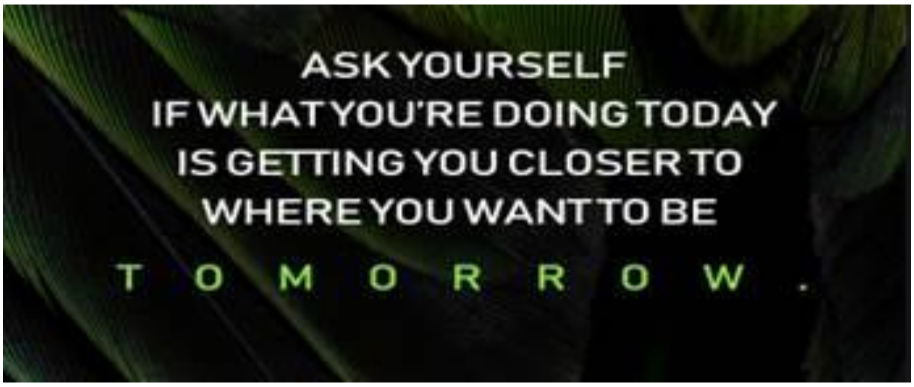
The selloff in equities, with the Top-40 index down 4.5% to 49,267 points and the All-Share sliding 4.3% to 54,880 points, was led by miners, consumer goods firms and telecoms. Miners Amplats, AngloGold Ashanti and Impala Platinum all fell more than 8% as the virus-related risk-off mood paired with a pullback in global platinum and palladium prices.

Retailers also suffered, with clothes seller Foschini shedding 7.5%, while consumer goods firms Tiger Brands and Woolworths tumbled more than 4%, worsened by the negative growth outlook.

A Reuters poll this month forecast 2020 GDP growth of 0.8%, while a survey last week suggested the Treasury will raise taxes in the Feb. 26 budget to increase revenues and ward off a ratings downgrade to junk status by Moody's. "Depending what the finance minister says on Wednesday, anything like increases in company taxes or VAT, would hit the retailers hard," said analyst at Unum

Capital Lester Davids, warning that bargain-hunting at the moment was too risky. "Retailers aren't a screaming buy and the P.E's are still very elevated. You'd need some special skills to catch this falling knife."

Source: Thomson Reuters



Market Overview

MARKET INDICATORS				25 February 2020
Money Market TB's	**Last Close**	**Change**	**Prev Close**	**Current Spot**
3 months	7.454	-0.166	7.620	7.454
6 months	7.584	-0.066	7.65	7.584
9 months	7.665	-0.094	7.759	7.665
12 months	7.598	-0.104	7.702	7.598
Nominal Bonds	**Last Close**	**Change**	**Prev Close**	**Current Spot**
GC20 (BMK: R207)	7.251	0.112	7.139	7.236
GC21 (BMK: R2023)	7.340	-0.023	7.363	7.336
GC22 (BMK: R2023)	7.484	0.057	7.427	7.481
GC23 (BMK: R2023)	7.623	-0.005	7.628	7.614
GC24 (BMK: R186)	8.476	0.000	8.476	8.476
GC25 (BMK: R186)	8.521	0.000	8.521	8.522
GC27 (BMK: R186)	8.890	-0.005	8.895	8.885
GC30 (BMK: R2030)	9.759	0.059	9.700	9.753
GC32 (BMK: R213)	10.556	0.200	10.356	10.556
GC35 (BMK: R209)	11.034	0.079	10.955	11.029
GC37 (BMK: R2037)	11.216	0.057	11.159	11.213
GC40 (BMK: R214)	11.683	0.269	11.414	11.684
GC43 (BMK: R2044)	11.858	0.153	11.705	11.849
GC45 (BMK: R2044)	11.934	0.157	11.777	11.943
GC50 (BMK: R2048)	11.999	-0.005	12.004	11.995
Inflation-Linked Bonds	**Last Close**	**Change**	**Prev Close**	**Current Spot**
GI22 (BMK: NCPI)	4.388	0.000	4.388	4.388
GI25 (BMK: NCPI)	4.601	0.000	4.601	4.602
GI29 (BMK: NCPI)	5.781	0.000	5.781	5.781
GI33 (BMK: NCPI)	6.400	0.000	6.400	6.401
GI36 (BMK: NCPI)	6.605	0.000	6.605	6.605
Commodities	**Last Close**	**Change**	**Prev Close**	**Current Spot**
Gold	1,659.38	0.97%	1,643.41	1,653.61
Platinum	966.48	-0.91%	975.40	967.10
Brent Crude	56.30	-3.76%	58.50	56.35
Main Indices	**Last Close**	**Change**	**Prev Close**	**Current Spot**
NSX Overall Index	548.50	-4.57%	574.78	548.50
JSE All Share	55,075.35	0.35%	54,881.56	55,075.35
S&P 500	3,225.89	-3.35%	3,337.75	3,225.89
FTSE 100	7,142.72	-0.20%	7,156.83	7,142.72
Hangseng	26,893.23	0.27%	26,820.88	26,893.23
DAX	13,008.14	-0.21%	13,035.24	13,008.14
JSE Sectors	**Last Close**	**Change**	**Prev Close**	**Current Spot**
Financials	14,191.97	-3.82%	14,756.27	14,082.02
Resources	47,109.50	-5.60%	49,906.27	47,455.66
Industrials	69,886.83	-3.85%	72,688.83	70,311.92
Forex	**Last Close**	**Change**	**Prev Close**	**Current Spot**
N$/US Dollar	15.15	0.93%	15.01	15.16
N$/Pound	19.59	0.72%	19.45	19.66
N$/Euro	16.45	1.04%	16.28	16.46
US Dollar/ Euro	1.09	0.93%	1.08	1.09
	Namibia		**RSA**	
Economic data	**Latest**	**Previous**	**Latest**	**Previous**
Inflation	2.05	2.59	4.50	4.00
Prime Rate	10.00	10.25	9.75	10.00
Central Bank Rate	6.25	6.50	6.25	6.50

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

Disclaimer