International Fixed Income Update

" We don't have to be smarter than the rest, we have to be more disciplined than the rest "

- Warren Buffett

AFRASIA bank different

Wednesday, November 11, 2020

International Sovereign Debt Market

Country	U.S.	Germany	U.K.	Japan	Australia	South Africa
Central Bank Reference Rate*, (%)	0.25	-0.50	0.10	-0.10	0.10	3.50
2-yr Yield, (%)	0.18	-0.71	0.01	-0.13	0.11	#N/A Invalid Security
10-yr Yield, (%)	0.98	-0.49	0.40	0.04	0.99	8.84
Inflation Rate, (%)	1.40	-0.20	0.50	0.00	0.70	3.00
GDP Growth Rate, (%)	33.10	-4.10	-19.80	-28.10	-6.30	-52.32
Unemployment Rate, (%)	6.90	6.00	4.80	3.00	6.90	23.30

Source: Bloomberg

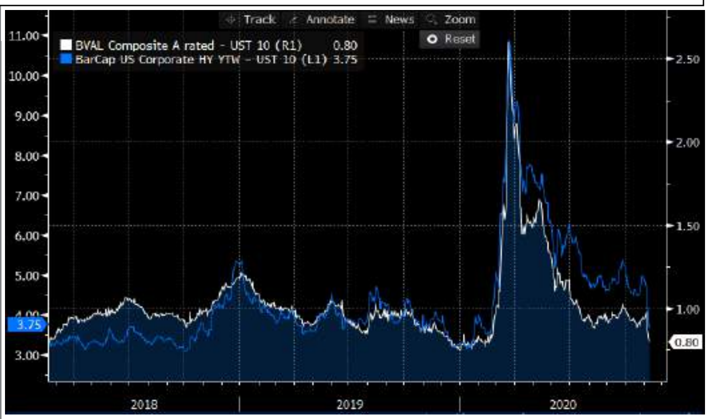
* Rates used for Central Bank Policy may differ by definition: (Deposit Facility Rate for EU or Upper Bound of Fed Funds Target Rate for US)

Covid Update: As at today, the number of cases has exceeded 50 million worldwide, with the number of deaths nearing 1.3 million. The beginning of November saw the largest number of daily new cases (more than 600k) and daily deaths (9,000) with the USA keeping the lead. The US President-elect has therefore committed to make it a priority to contain the virus. The UK and other parts of Europe have gone into second lockdown as the contagion continues to escalate while the East Asian region seems to have controlled the virus - their respective economies are doing relatively better than the Western ones. Pfizer has announced that their vaccine is 90% effective – while this brings about some light at the end of the tunnel, there will be several issues around logistics and production, which could take months to distribute worldwide.

US Elections: Once again, pollsters were quite far from reality where the "Democratic Blue Sweep" did not happen. While Joe Biden has already been tagged as President-elect, Donald Trump is expected to put up a legal fight to contest this. Nevertheless, the main differences going forward would be the corporate tax hike, an expected bigger stimulus package to fight the effects of the pandemic, and a "greener" approach. While market gurus were expecting havoc in case of a contested election, it seems investors are instead finding comfort in the fact that the next administration will have its hands tied regarding the introduction of drastic policies, as evidenced by the rise of stock indices worldwide.

Market Update: The US Elections results, coupled with the news on an eventual vaccine, pushed the S&P500 to trade at all-time high, with corporate bonds following the trend to trade around all-time lows (see right chart below) as market participants continue to hunt for yield in a cash-rich environment. While US Treasury yields initially fell as the battle for the US Presidency was very tight, they later stabilized on expectations of higher inflation and were then pushed upwards on hopes of a vaccine. (see left chart below) Safe havens JPY and Gold reacted the same way as the market turned to a "risk-on" mode, but will this trend be sustained?

Major 10yr global sovereign yields. Source: Bloomberg



USD A-rated and HY Credit Spreads. Source: Bloomberg

" Market Sentiment on US Treasuries " - Technical v/s Fundamental

Evolution of the Generic 5yr US Treasury; Source: Bloomberg

We had reviewed our stance in September, and had forecast that the downward move in yields since end-2018 was nearing its end, maybe coinciding with the US elections. While the UST 5y is still trading in a 8-month range, we interpret the recent moves as yields trying to break the resistance around 0.50%. The catalyst could be when the President-elect confirms his agenda and implements game-changing reforms.

From an Elliot Wave perspective, we believe that US Treasuries are positioned for a correction after the big impulsive downward move of yields since end-2018. Thus, in line with most of the big investment banks, we see a bear steepener of the UST yield curve in the short term, with the 5yr picking up around 20bps until year end.

The latest comments from the Fed have been a continuity from the previous FOMC meeting, where sustained inflation and an improved labor market remain the key targets before considering rate hikes. However, market participants are already tapering their rate cut expectations through to 2021.

Contact Details

Money Market / Fixed Income Desk

Jean Francois Ulcoq-T: (+230) 403 7358 / M: 5251 8972
JF.Ulcoq@afrasiabank.com

Praveena Gangabissoon- (+230) 403 7362 / M: 5255 5852
Praveena.Dhunputh@afrasiabank.com

Satish Lutchmeenaraidoo - T (+230) 403 6944 / M: 5258 3369
Satish.Lutchmeenaraidoo@afrasiabank.com

Reetesh Ramgoolam- T (+230) 403 7395 / M: 5258 5637
Reetesh.Ramgoolam@afrasiabank.com

Head Of Treasury

Jen Ramanah: DL: (+230) 403 7356 M: (+230) 5253 8872
Jen.Ramanah@afrasiabank.com

Business Manager

Kabir Ramburn-DL: (+230) 403 7353 / M: 5253 1982
Kabir.Ramburn@afrasiabank.com

Senior Executive – Treasury & Markets

Parikshat G. Tulsidas:-T: (+230) 403 7392 / M: (+230) 5941 1407
Parikshat.Tulsidas@afrasiabank.com

Disclaimer: Please note that the information published is purely indicative. [illegible] Bank Ltd issues no invitation to anyone to rely on this bulletin and neither we nor our information providers shall be in no way whatsoever, liable for any errors or inaccuracies, regardless of cause, or the lack of timeliness, or for any delay or interruption in the transmission thereof to the user. The indicative rates and other market information are subject to changes at the bank's discretion. Whilst every effort is made to ensure the information is accurate, you should confirm the latest situation with the bank prior to making any decisions.