COVID-19: An update since our last note

Living and adapting to a fluid environment seems to be the new normal. We bring you a weekly summary of some of the key changes over the past week.

Key market indicators (weekly movement)

FTSE/JSE All Share TR ZAR Level: 46 240.35 ▲ 6.5%	FTSE/JSE Ind/Financials TR ZAR Level: 24 244.36 ▲8.8%	FTSE/JSE SA Industrials TR ZAR Level: 70 494.86 ▲5.5%	FTSE/JSE Fin&Ind TR ZAR Level: 63 628.08 ▲6.9%
FTSE/JSE All Bond TR ZAR Level: 632.897 ▲ 0.6%	S&P 500 TR USD Level: 2 663.68 ▲ 1.4%	DJ Industrial Ave TR USD Level: 22 679.99 ▲ 1.6%	FTSE 100 TR GBP Level: 5 582.39 ▲ 0.3%
Hang Seng HSI TR HKD Level: 23 749.12 ▲ 2.5%	USDZAR Level: 18.6642 ▼ 4.1%	GBPZAR Level: 22.8369 ▼ 2.5%	EURZAR Level: 20.1464 ▼ 1.6%

Data as at 6 April 2020. Measurement from Monday 30 March to Monday 6 April 2020. Percentage returns is weekly change. Source: Bloomberg.

COVID-19 statistics for South Africa

58 098 tests	1 686 positive cases	45 recoveries	12 deaths

Data as at 7 April 2020, 11h00. Source: https://sacoronavirus.co.za/

COVID-19: downgrade contagion?

On Friday, 3 April, South Africa suffered yet another downgrade, this time from ratings agency Fitch. Fitch downgraded South Africa's sovereign credit rating to BB from BB+, maintaining a negative outlook. The move is widely seen as being less significant than the earlier Moody's downgrade, since South Africa already had a non-investment grade rating from Fitch. It is expected that S&P will also follow suit and lower South Africa's credit rating at its next review (currently scheduled for May 2020). South Africa's debt burden remains one of the main sources of concern for ratings agencies.

South Africa is not alone in being downgraded

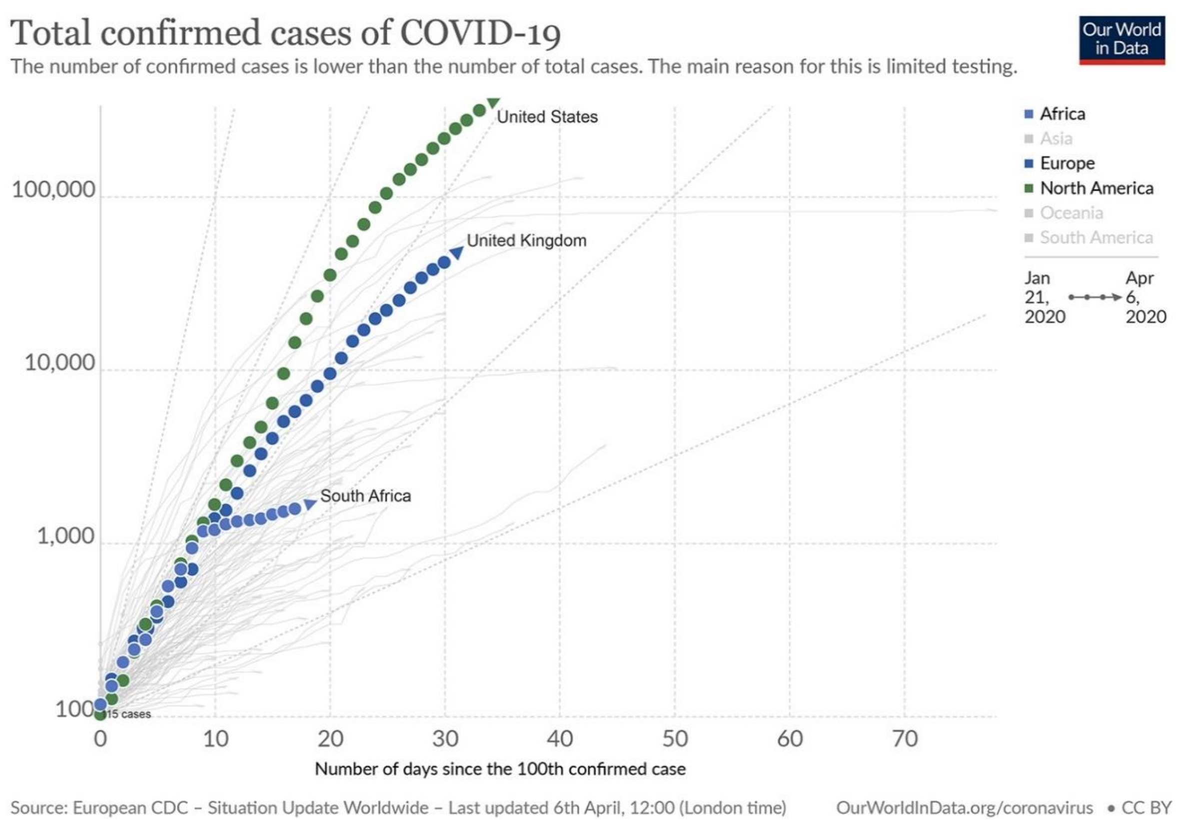
Recently *The Financial Times* (paywall) reported that the major ratings agencies had been highly active, issuing downgrades at a rate approaching that seen during the Great Financial Crisis (GFC). Ratings agencies are downgrading both corporates and countries. They are citing the disruptive impact of COVID-19 on corporate revenue streams, and escalating costs associated with fighting the outbreak and impact of containment strategies on government debt burdens. Recently, Fitch downgraded the UK to Aa- with a negative outlook (still investment grade), and downgraded other countries like Guatemala, Angola and Lebanon, while adjusting the outlook to negative for still others, like Belgium and Mauritius.

Could anti-COVID measures be broadening our tax base?

A recent media article highlighted that many of the economic measures government is putting in place to lessen the economic impact of COVID-19, require businesses to be formally registered to access these benefits. This may be aimed at formalising the economy, and potentially broadening the tax net in the process. This, together with more disciplined tax collection minimising tax avoidance by SARS, could potentially help slow South Africa's ballooning income deficit. We have previously pointed out that rebuilding key institutions like SARS is a necessary step in undoing some of the damage inflicted as a result of state capture. Sustained economic growth is however still required for the country to materially improve its economic outlook.

More testing might equate to more confirmed infections in the weeks ahead

The USA held the largest share of confirmed COVID-19 infections (337 933 of 1 288 372 global infections) as at 6 April (source: Johns Hopkins). Global deaths are now in excess of 70 000. With testing being rolled out more widely in South Africa, including through mobile testing units, we may expect an uptick in reported numbers. Rather than viewing this as a set-back in the fight against the virus - more extensive testing ultimately helps to enable better containment practices - it lowers the growth curve in the long run. The impact of government's containment initiatives to date is clearly visible below (this graph is an update of the one provided last week).



Source: OurWorldInData.org/coronavirus. Data as at 6 April 2020.

Ensuring the stability of the banking sector during the crisis

The Prudential Authority of the South African Reserve Bank (SARB) has issued a guidance note asking South African banks to not pay ordinary dividends and bonuses for senior executives or material risk takers in 2020. The recommendation is aimed at ensuring banks conserve capital and continue to comply with prescribed prudential requirements in light of the additional stress the COVID-19 outbreak is expected to cause due to increasing bad debts and reduced revenue. The Prudential Authority has been actively working to ensure the stability of the banking sector and the functioning of financial markets during the outbreak.

Always remain vigilant to cyber fraud

Unfortunately, cyber criminals will use any opportunity to their advantage. PSG, like many other financial services providers, have noted an uptick in cybercrime attempts since the beginning of the outbreak. Always take care to follow good cyber security practices. For a brief refresher, click here.

The official government site for COVID-19 news is: https://sacoronavirus.co.za/ and our previous communication on the topic can be found: https://www.psg.co.za/support/faq/general/covid-19