Market movements go wild, but at least the plumbing is working

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> Investors are fleeing from … all risk and putting their money in cash

Predictably, the extreme volatility and savage losses on global and local markets over the past week have prompted calls for markets simply to be shut down until calm returns. This is never a good idea, nor a fair one, as almost anyone in the market would argue. Prices are plunging because investors are fleeing from the heightened risk they see in the world and in the shares or bonds or derivatives in which they are invested. A shutdown prevents those who haven't already got out from selling, which is unfair but also ensures the sell-off will be even sharper when markets reopen.

"Volatility in and of itself is a natural market force and open market forces should prevail," says JSE CEO Leila Fourie. Or, as Ninety One CEO Hendrik du Toit puts it: "You can't suspend reality."

That reality has been rather terrifying over the past week or more. A global health crisis is alien territory for financial markets players: they don't know how to model it, how to value it, or when it might end. The result is that investors are fleeing from any and all risk and putting their money in cash, preferably in the world's reserve currency, dollars. As always, emerging markets are the first risk to run from, and vulnerable but highly tradeable SA is one of the hardest hit.

SA's equity market has lost R4-trillion of value for the year to date.

That's the savings of millions of South Africans in their pension funds or unit trusts. The volatility in the equity market has been extreme.

Then there's the bond market, where the swings have if anything been more extreme — and the macroeconomic impact potentially even more savage. A huge sell-off saw 10-year bond yields go from 8.5% last week to 11.8% this week. The JSE's bond market saw foreign outflows of more than R37bn in a single day as the international investors who hold almost 40% of our local bonds fled into their dollar safe havens. Price and yield are the inverse of each other, so the massive sell-off means the value of the bonds investors hold has crashed, and that the cost of government borrowing has spiked. That bodes ill for the public finances, given the government's soaring debt level. And higher bond yields could drive up the cost of longer-term borrowing across the economy — even if the South African Reserve Bank slashes short-term rates, as it did with a surprise 100-basis-point cut on Thursday. The more immediate concern was that the bond market was in free fall — prices moved massively on few trades, as there weren't enough buyers to mop up sales. In other words, liquidity in the market dried up, causing extreme volatility.

Market players were hoping for a strong statement from the Reserve Bank, especially after other central banks intervened this week to inject liquidity into their hyper-volatile markets. The Bank's ultra-bland statement didn't touch on that — which is why bonds crashed again in its wake — with the Bank coming out with a clear view only in response to repeated questions. It was only on Friday that the Bank announced “changes to [its] money market liquidity management strategy” to address the concerns.

Meanwhile, if the market moves were disorderly, at least the plumbing worked. SA’s market infrastructure has so far proved up to the task of handling unprecedented volumes of trade. Unlike the New York Stock Exchange, the JSE has circuit breakers on individual stocks, not on the whole market. Those breakers have been triggering up to 700 times a day in the past week, compared to 300 typically, Fourie says. All the trades have been settled on time and the infrastructure is working as it should.

But with the entire JSE and no doubt many of the market participants now working from home, SA’s electricity and mobile communications infrastructure will increasingly be a risk to the functioning of markets. Keeping markets open will depend on ensuring transparent pricing and equal access for all — even when they’re working from home.