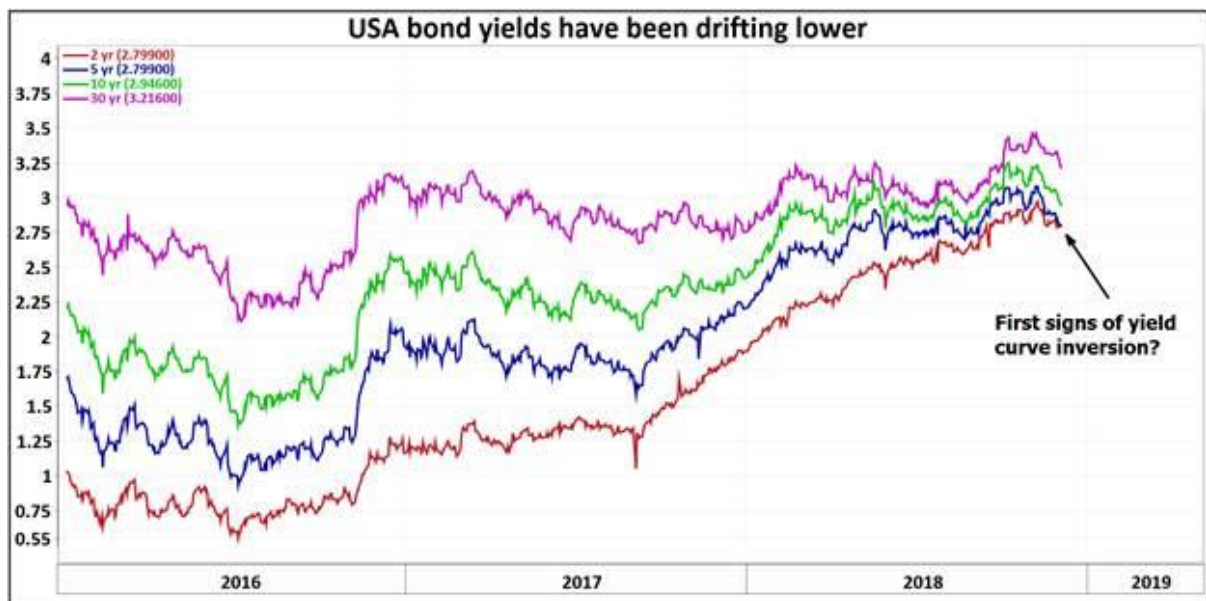




Economic Update

Tuesday, 04 December 2018

Is the USA bond market saying something?



The main factor that swung the SARB's decision to hike rates in SA was, in our view, the expectation of rising rates in the USA. The Fed has been hiking rates and their forward guidance was that they will continue to do so against the backdrop of a strongly growing economy experiencing full employment, which may lead to wage pressures and, hence, inflation.

However, is the bond market telling us something? Of late, yields have been ticking down, signaling that an economic slowdown is on the horizon. This interpretation is further strengthened by the dreaded "I" word now being bandied about namely inversion. This happens when long rates fall below short rates and is usually interpreted as a slowdown signal. Currently the 5 year bond yield is just about equal to the 2 year rate. The most watched is, however, the 10 yr 2 yr differential. Historically, when the 10 yr falls below the 2 yr, it was usually a harbinger of recession.

As can be seen from the graph, yields of different maturities have started to bunch together, increasing the chances of inversion. If this happens, the Fed is likely to stop hiking rates as it would then appear that they would not need to apply the brakes anymore.

This will considerably lessen the pressure on the SARB to hike and, by extension, the BoN. The economy really does not need another hit in the current near-recessionary conditions. The currency is behaving reasonably well and inflation does not seem to be a threat yet – here is to crossing fingers that the oil price, also, does not misbehave.

During the first half of next year, the dates to watch are the SARB meetings (in January, March and June), the Government Budget (scheduled for the 20th of February) and the national election (indications are it is scheduled for the 8th of May). We expect policy rates to stay flat through all of this as, amongst others, the credit ratings that will follow the Budget will be strongly influenced by the economic growth outlook.

This time of month it is useful to have a look at some asset class returns. The tables below are all measuring returns to the end of November 2018 and ranked by performance YTD (year to date).

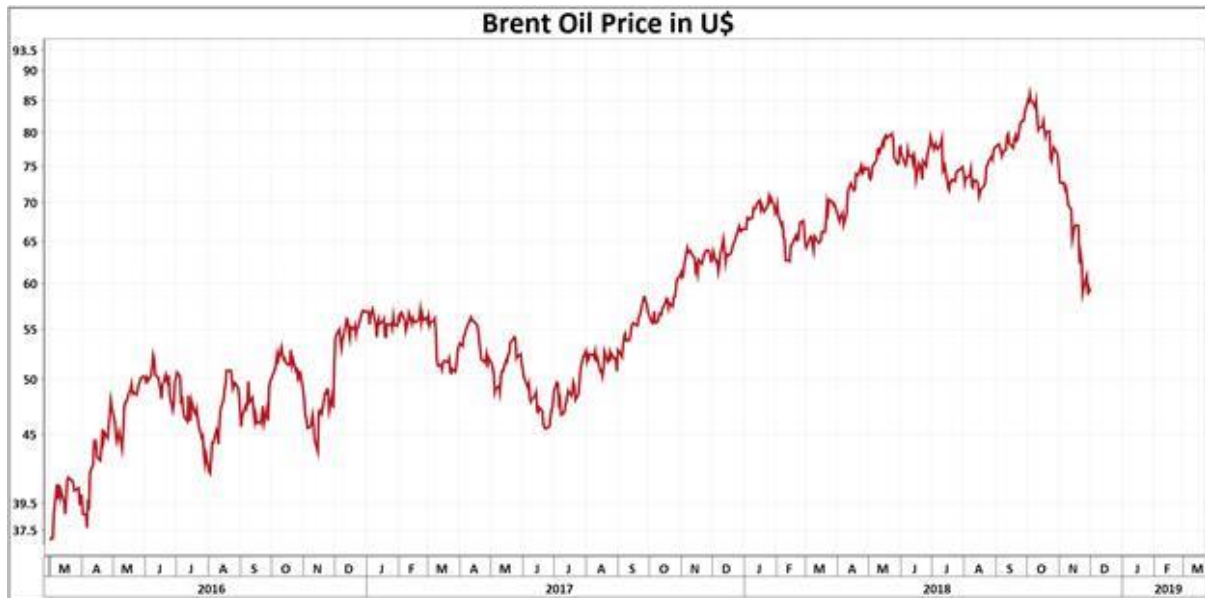
International in their Local Currency € \$ £ ¥	1 mth	3 mth	6 mth	YTD	12 Mth	2 years	3 Years	5 Years	7 Years	10 years	15 years
S&P 500 COMPOSITE	2.0%	-4.4%	3.0%	5.1%	6.3%	14.0%	12.0%	11.0%	14.0%	14.0%	8.8%
RUSSELL 1000 (EOD)	2.0%	-4.8%	2.5%	4.8%	5.9%	14.0%	11.9%	10.9%	14.3%	14.5%	9.0%
NIKKEI 225 STOCK AVERAGE	2.0%	-1.5%	1.7%	0.0%	0.3%	13.0%	6.2%	9.4%	17.0%	12.0%	7.2%
MSCI WORLD US	1.2%	-5.7%	-1.5%	-0.7%	0.7%	11.9%	9.1%	7.3%	10.9%	11.5%	7.7%
MSCI AUSTRALIA	-2.3%	-9.1%	-3.3%	-2.5%	-0.8%	6.6%	7.7%	5.6%	9.5%	8.9%	8.8%
MSCI CANADA	1.6%	-5.7%	-4.0%	-3.5%	-2.5%	3.5%	7.4%	5.9%	6.6%	7.8%	7.5%
FTSE 100	-1.6%	-5.3%	-7.2%	-5.4%	-0.7%	5.6%	7.4%	4.9%	7.5%	9.0%	7.1%
EURO STOXX 50	-0.7%	-6.2%	-6.2%	-6.3%	-8.0%	5.5%	0.2%	4.2%	8.5%	6.9%	5.2%
HANG SENG	6.2%	-4.3%	-11.0%	-8.3%	-5.9%	12.0%	10.0%	6.0%	9.7%	10.0%	9.0%
MSCI EAFE US	-0.1%	-7.2%	-7.9%	-9.0%	-7.5%	8.8%	4.6%	2.3%	6.9%	8.0%	6.1%
ISHARES MSCI EMRG.MKTS.IDX.FD.	4.9%	-4.8%	-9.5%	-12.0%	-8.9%	9.6%	8.7%	1.4%	2.4%	8.1%	8.0%
DAX 30 PERFORMANCE	-1.7%	-9.0%	-11.0%	-13.0%	-14.0%	2.9%	-0.4%	3.7%	9.2%	9.2%	7.6%
MSCI CHINA	7.2%	-6.5%	-16.6%	-13.3%	-11.6%	13.6%	10.3%	5.6%	8.6%	10.4%	11.5%
International in ZAR	1 mth	3 mth	6 mth	YTD	12 Mth	2 years	3 Years	5 Years	7 Years	10 years	15 years
S&P 500 COMPOSITE	-4.2%	-9.5%	13.0%	18.0%	8.0%	14.0%	11.0%	18.0%	24.0%	18.0%	15.0%
RUSSELL 1000 (EOD)	-4.2%	-9.9%	12.2%	17.3%	7.7%	13.3%	10.5%	18.0%	23.4%	18.3%	14.7%
MSCI WORLD US	-5.0%	-10.7%	7.9%	11.2%	2.3%	11.2%	7.7%	14.1%	19.8%	15.1%	13.5%
NIKKEI 225 STOCK AVERAGE	-4.8%	-9.0%	6.5%	11.0%	0.5%	12.0%	7.8%	14.0%	20.0%	14.0%	13.0%
HANG SENG	-0.1%	-9.2%	-2.3%	2.6%	-4.6%	11.0%	8.7%	13.0%	18.0%	14.0%	15.0%
MSCI AUSTRALIA	-5.5%	-13.1%	2.2%	2.0%	-3.0%	5.3%	6.6%	7.4%	12.6%	13.7%	14.6%
MSCI EAFE US	-6.2%	-12.2%	0.9%	2.0%	-6.0%	8.1%	3.3%	8.9%	15.4%	11.5%	11.7%
MSCI CANADA	-5.8%	-12.4%	2.6%	1.9%	-3.9%	3.5%	6.1%	7.7%	10.7%	10.6%	13.0%
FTSE 100	-7.7%	-12.0%	-2.6%	-0.1%	-4.8%	6.1%	0.3%	6.2%	13.0%	11.0%	11.0%
EURO STOXX 50	-6.8%	-14.0%	-0.4%	-1.1%	-11.0%	8.3%	1.3%	6.8%	14.0%	9.1%	10.0%
ISHARES MSCI EMRG.MKTS.IDX.FD.	-1.5%	-9.9%	-0.9%	-1.7%	-7.4%	9.0%	7.3%	7.9%	11.0%	12.0%	14.0%
DAX 30 PERFORMANCE	-7.7%	-16.0%	-5.2%	-8.0%	-17.0%	5.7%	0.7%	6.3%	15.0%	11.0%	13.0%
MSCI CHINA	0.7%	-13.3%	-16.2%	-9.2%	-15.0%	12.1%	5.8%	9.4%	15.8%	13.6%	18.8%

COMMODITIES In US	1 mth	3 mth	6 mth	YTD	12 Mth	2 years	3 Years	5 Years	7 Years	10 years	15 years
Bloomberg-Energy Index TR	-3.3%	-3.9%	-2.1%	7.4%	11.6%	5.9%	2.3%	-14.2%	-12.3%	-12.9%	-9.6%
Bloomberg-Commodity TR	-0.6%	-0.8%	-8.0%	-4.7%	-1.8%	-0.7%	1.6%	-7.3%	-7.4%	-3.5%	-1.5%
Bloomberg-Gold Sub Index TR	0.6%	1.7%	-6.3%	-7.2%	-4.7%	1.4%	3.9%	-1.0%	-5.6%	3.4%	7.0%
Bloomberg-Agricultur Sub Index TR	0.4%	0.5%	-13.2%	-8.6%	-10.0%	-10.9%	-6.3%	-9.2%	-7.3%	-2.1%	-2.0%
Bloomberg-WTI Crude Oil Sub Index TR	-22.0%	-25.9%	-21.3%	-10.9%	-6.1%	0.0%	-5.1%	-19.2%	-15.7%	-12.7%	-6.1%
Bloomberg-Petroleum Index TR	-20.7%	-23.9%	-21.9%	-11.0%	-5.5%	2.7%	-0.7%	-16.5%	-12.0%	-8.0%	-3.0%
Bloomberg-Industrial Metals Index TR	1.9%	-1.7%	-14.7%	-15.1%	-7.4%	2.1%	10.8%	-1.2%	-4.1%	1.1%	4.3%
Bloomberg-Copper Sub Index TR	4.4%	4.3%	-9.9%	-16.7%	-10.2%	1.2%	9.1%	-3.8%	-4.7%	3.7%	8.7%
Bloomberg-Softs Index TR	-3.5%	5.3%	-12.9%	-17.1%	-15.8%	-17.5%	-6.4%	-8.4%	-12.0%	-1.9%	-3.4%

COMMODITIES In ZAR	1 mth	3 mth	6 mth	YTD	12 Mth	2 years	3 Years	5 Years	7 Years	10 years	15 years
Bloomberg-Energy Index TR	-9.2%	-9.1%	7.2%	20.3%	13.5%	5.3%	0.9%	-8.7%	-5.3%	-10.1%	-4.8%
Bloomberg-Commodity TR	-6.6%	-6.2%	0.7%	6.8%	-0.2%	-1.2%	0.3%	-1.3%	0.0%	-0.4%	3.7%
Bloomberg-Gold Sub Index TR	-5.5%	-3.8%	2.6%	4.0%	-3.2%	0.8%	2.6%	5.3%	2.0%	6.8%	12.6%
Bloomberg-AgriculturSub Index TR	-5.7%	-4.9%	-4.9%	2.4%	-8.5%	-11.4%	-7.6%	-3.4%	0.1%	1.1%	3.2%
Bloomberg-WTI Crude Oil Sub Index TR	-26.8%	-29.9%	-13.8%	-0.2%	-4.5%	-0.6%	-6.4%	-14.0%	-9.0%	-9.8%	-1.1%
Bloomberg-Petroleum Index TR	-25.5%	-28.0%	-14.4%	-0.3%	-3.9%	2.2%	-2.0%	-11.1%	-5.0%	-5.1%	2.1%
Bloomberg-Industrial Metals Index TR	-4.4%	-7.0%	-6.6%	-4.9%	-5.8%	1.5%	9.4%	5.1%	3.6%	4.4%	9.9%
Bloomberg-Copper Sub Index TR	-2.0%	-1.3%	-1.3%	-6.7%	-8.7%	0.6%	7.7%	2.4%	3.0%	7.0%	14.4%
Bloomberg-Softs Index TR	-9.4%	-0.3%	-4.7%	-7.1%	-14.4%	-18.0%	-7.6%	-2.5%	-5.0%	1.2%	1.7%
SA Equity In ZAR	1 mth	3 mth	6 mth	YTD	12 Mth	2 years	3 Years	5 Years	7 Years	10 years	15 years
FTSE/JSE RESOURCE 10	-12.0%	-15.0%	-6.1%	4.6%	3.5%	8.4%	16.0%	-2.8%	-2.2%	2.5%	7.6%
FTSE/JSE FINANCIAL 15	2.6%	-3.5%	-0.4%	-5.3%	4.0%	10.0%	4.6%	10.0%	15.0%	15.0%	16.0%
FTSE/JSE TOP 40	-3.1%	-14.0%	-8.8%	-12.0%	-14.0%	4.1%	1.6%	5.2%	9.3%	12.0%	15.0%
FTSE/JSE ALL SHARE	-3.2%	-13.0%	-8.3%	-12.0%	-13.0%	3.5%	2.3%	5.5%	9.6%	12.0%	15.0%
FTSE/JSE SHAREHOLDER WEIGHTED TOP 40	-0.1%	-12.0%	-8.0%	-15.0%	-16.0%	3.7%	0.8%	5.8%	10.0%	12.0%	15.0%
FTSE/JSE INDUSTRIAL 25	-1.0%	-17.0%	-13.0%	-20.0%	-24.0%	1.0%	-2.9%	5.7%	14.0%	17.0%	19.0%
FTSE/JSE SA LISTED PROPERTY	-1.3%	-5.5%	-7.3%	-24.0%	-21.0%	-4.0%	-2.9%	6.1%	10.0%	13.0%	17.0%
SA BONDS	1 mth	3 mth	6 mth	YTD	12 Mth	2 years	3 Years	5 Years	7 Years	10 years	15 years
SOUTH AFRICAN ALL (ALBI)	3.9%	2.4%	1.7%	7.1%	13.1%	9.4%	8.3%	7.8%	7.8%	8.3%	8.6%
SOUTH AFRICAN GOVT. (GOVI)	3.9%	2.2%	1.3%	6.2%	12.3%	9.1%	8.1%	7.6%	7.6%	8.2%	8.5%
Foreign Exchange Rates	1 mth	3 mth	6 mth	YTD	12 Mth	2 years	3 Years	5 Years	7 Years	10 years	15 years
EURUSD CURRENCY	0.0%	2.5%	3.3%	6.0%	5.2%	-3.3%	-2.3%	3.7%	2.5%	1.2%	0.4%
US\$ Index	0.1%	2.2%	3.6%	5.3%	4.5%	-2.1%	-1.0%	3.8%	3.1%	1.2%	0.5%
EURZAR CURRENCY	6.6%	8.6%	-5.4%	-5.4%	3.9%	-2.5%	-0.9%	-2.5%	-5.1%	-1.9%	-4.7%
GBPZAR CURRENCY	6.7%	7.6%	-4.5%	-5.5%	4.7%	-0.2%	7.1%	-1.2%	-4.6%	-1.2%	-3.1%
USDZAR CURRENCY	6.6%	5.9%	-8.4%	-10.8%	-1.2%	0.8%	1.4%	-6.0%	-7.4%	-3.1%	-5.0%
JPYZAR CURRENCY	6.1%	3.6%	-12.2%	-11.4%	-2.0%	1.2%	4.2%	-7.9%	-12.3%	-4.7%	-5.3%
CNYZAR CURRENCY	6.9%	3.9%	-15.7%	-16.6%	-6.2%	0.3%	-1.4%	-8.5%	-8.5%	-3.2%	-3.9%
RSA Equity Sectors	1 mth	3 mth	6 mth	YTD	12 Mth	2 yr	3 yr	5 yr	7 yr	10 yr	15 yr
Short term Insurance	2.1%	5.8%	3.5%	22.0%	26.0%	21.0%	20.0%	16.0%	18.0%	23.0%	20.0%
Diversified mining	-10.0%	-7.9%	-2.5%	5.8%	5.6%	9.2%	24.0%	1.9%	-0.1%	4.1%	8.2%
Platinum	2.6%	21.0%	36.0%	0.5%	-5.0%	-2.8%	1.5%	-16.0%	-15.0%	-8.1%	-0.6%
Life Insurance	1.4%	0.1%	2.9%	0.1%	8.1%	15.0%	4.5%	9.8%	19.0%	21.0%	16.0%
Banks	5.8%	-2.4%	0.7%	-1.6%	13.0%	16.0%	15.0%	16.0%	17.0%	16.0%	18.0%
Paper	-13.0%	-26.0%	-12.0%	-1.7%	-5.1%	5.7%	2.6%	17.0%	28.0%	20.0%	11.0%
Chemicals	-16.0%	-28.0%	-11.0%	-4.0%	-4.0%	5.3%	3.5%	0.8%	9.8%	12.0%	12.0%
Travel and leisure	2.1%	2.5%	-7.8%	-4.4%	5.4%	-12.0%	-4.9%	-0.5%	6.7%	6.9%	12.0%
Retail food drug	2.7%	-8.0%	-4.8%	-6.1%	-4.2%	8.1%	8.8%	7.0%	9.5%	18.0%	24.0%
Retail gen furn cloth	7.7%	3.6%	-1.7%	-7.2%	7.5%	9.4%	-0.3%	6.5%	9.4%	18.0%	17.0%
General Industrials	6.2%	-3.5%	-1.0%	-9.7%	-2.8%	4.8%	6.3%	8.9%	15.0%	16.0%	20.0%
Financial services	-3.1%	-10.0%	-7.9%	-12.0%	-12.0%	-4.4%	-9.8%	3.7%	9.7%	12.0%	15.0%
Construction	-4.6%	-5.4%	-19.0%	-12.0%	-9.5%	-0.7%	-1.1%	-14.0%	-7.5%	-5.9%	5.5%
Beverages	4.7%	-4.0%	-8.5%	-15.0%	-6.9%	-10.0%	-12.0%	3.6%	12.0%	16.0%	18.0%
Gold	-5.6%	10.0%	9.5%	-15.0%	-24.0%	-11.0%	8.6%	0.2%	-13.0%	-4.7%	-4.1%
Holding co's	-15.0%	-23.0%	-8.3%	-19.0%	-24.0%	-9.4%	-7.8%	3.4%	10.0%	12.0%	14.0%
Richemont	-17.0%	-31.0%	-22.0%	-19.0%	-23.0%	0.3%	-4.5%	-1.6%	12.0%	19.0%	NA
Naspers	6.6%	-15.0%	-8.5%	-20.0%	-25.0%	16.0%	8.9%	24.0%	34.0%	34.0%	34.0%
Property	-1.3%	-5.5%	-7.3%	-24.0%	-21.0%	-4.0%	-2.9%	6.1%	10.0%	13.0%	17.0%
Technology	4.8%	0.8%	13.0%	-25.0%	-31.0%	-28.0%	-19.0%	-7.4%	3.4%	14.0%	12.0%
Telecom	3.1%	0.0%	-17.0%	-25.0%	-22.0%	-6.3%	-7.4%	-6.2%	1.1%	5.3%	13.0%
Metals	-14.0%	-5.7%	-7.7%	-27.0%	-18.0%	17.0%	65.0%	-5.7%	-6.3%	0.3%	12.0%
Food producers	0.9%	-11.0%	-14.0%	-28.0%	-21.0%	-9.0%	-1.5%	4.6%	8.1%	12.0%	17.0%
Health care	-2.4%	-32.0%	-28.0%	-29.0%	-30.0%	-19.0%	-17.0%	-6.5%	6.7%	14.0%	15.0%
British American Tobacco	-25.0%	-31.0%	-23.0%	-39.0%	-42.0%	-18.0%	-14.0%	1.8%	7.9%	11.0%	NA
Steinhoff	-1.1%	-36.0%	59.0%	-62.0%	-97.0%	-83.0%	-72.0%	-45.0%	-29.0%	-14.0%	NA



Stats of the Day



Market Overview

Money Market		Change	Latest
3 months	→	0.00%	7.15%
6 months	→	0.00%	7.75%
9 months	→	0.00%	8.03%
12 months	↓	-0.01%	8.37%
Bonds		Change	Latest
GC21 (R208 : 7.17%)	↓	-0.04%	8.03%
GC24 (R186 : 8.88%)	↓	-0.06%	10.03%
GC27 (R186 : 8.88%)	↓	-0.06%	10.13%
GC30 (R2030 : 9.33%)	↓	-0.05%	10.78%
GC32 (R213 : 9.43%)	↓	-0.05%	11.03%
GC35 (R209 : 9.61%)	↓	-0.05%	11.11%
GC37 (R2033 : 9.55%)	↓	-0.05%	11.35%
Commodities		%Change	Latest
Gold	↑	0.85%	\$ 1,230.86
Platinum	↑	1.46%	\$ 809.76
Copper	→	0.00%	\$ 6,198.00
Brent Crude	↑	4.33%	\$ 60.97
Main Indices		%Change	Latest
NSX (Delayed)	↑	0.97%	1272.41
JSE All Share	↑	3.46%	52,418.46
S&P 500	↑	0.82%	2,760.17
FTSE 100	↑	2.32%	7,141.93
Hangseng	↑	2.55%	27,182.04
DAX	↑	2.65%	11,555.04
JSE Sectors		%Change	Latest
Financials	↑	2.19%	16,556.46
Resources	↑	4.81%	38,211.89
Industrials	↑	3.94%	64,533.52
Forex		%Change	Latest
N\$/US Dollar	↓	-1.53%	13.6580
N\$/Pound	↓	-1.60%	17.4054
N\$/Euro	↓	-1.32%	15.4920
US Dollar/ Euro	↑	0.23%	1.1343
Namibia Monthly Data		Latest	Previous
Namibia Inflation (Oct 18)		5.1	4.8
Bank Prime		10.50	10.50
BoN Repo Rate		6.75	6.75

Source: Bloomberg



Capricorn Asset Management



Bank Windhoek

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