



Market Update

Wednesday, 06 February 2019

US Markets

U.S. stocks rose on Tuesday as largely upbeat corporate results fueled investor optimism ahead of the highly awaited State of the Union address by President Donald Trump.

Shares of Estée Lauder rose 11.6 percent after the cosmetics maker's quarterly results, driven by strong growth in China, topped estimates. Estée Lauder shares had the largest percentage gain among S&P 500 companies. Luxury fashion company Ralph Lauren Corp also reported better-than-expected sales and earnings, sending its shares 8.4 percent higher.

Shares of Alphabet reversed course to end 0.9 percent higher. The Google parent company's results beat estimates, but its shares were dragged down earlier in the session by sharply higher spending.

Optimism toward the prospect of a lasting resolution to the dispute over border wall funding, which prompted a record 35-day partial U.S. government shutdown, also buoyed Wall Street, said Tony Roth, chief investment officer of Wilmington Trust in Wilmington, Delaware. In his State of the Union speech, scheduled for 09:00 p.m. EST (0200 GMT Wednesday), Trump is expected to urge a congressional committee to work out a border security deal. His speech likely will target areas for potential bipartisan agreement, such as improving infrastructure and lowering prescription drug costs. "The market doesn't care if the wall gets built or if it's never built," Roth said. "All it cares about is that confidence and GDP aren't negatively impacted as a result of a government shutdown."

The Dow Jones Industrial Average rose 172.15 points, or 0.68 percent, to 25,411.52, the S&P 500 gained 12.83 points, or 0.47 percent, to 2,737.7 and the Nasdaq Composite added 54.55 points, or 0.74 percent, to 7,402.08. The CBOE Volatility index, often referred to as an investor fear gauge, dropped 0.16 point to finish at 15.57, its lowest close in four months.

Following a turbulent end to 2018, U.S. stocks have had a stellar run so far this year, with the S&P 500 and the Dow each up about 9 percent and the Nasdaq rising more than 11 percent. In addition to corporate earnings, Wall Street's rally this year has been helped by a recent dovish stance from the Federal Reserve and hopes of a trade deal between the United States and China.

Among other stocks, Boeing shares rose 3.3 percent after the aerospace company said it made a significant investment in supersonic business jet developer Aeron. Shares of Archer Daniels Midland Co slumped 5.9 percent after the grains trader's fourth-quarter profit missed expectations because of the U.S.-China trade dispute.

Advancing issues outnumbered declining ones on the NYSE by a 2.01-to-1 ratio; on Nasdaq, a 1.31-to-1 ratio favored advancers. The S&P 500 posted 21 new 52-week highs and no new lows; the Nasdaq Composite recorded 62 new highs and 14 new lows. Volume on U.S. exchanges was 6.97 billion shares, compared with the 7.56 billion average over the last 20 trading days.

Source: Thomson Reuters

Domestic Markets

South Africa's rand steadied against the dollar in late afternoon trade on Tuesday as traders awaited U.S. President Donald Trump's State of the Union address which could hint at progress in U.S.-China trade talks. At 1527 GMT, the rand was at 13.4300 per dollar, not far off its close of 13.4200 on Monday. The currency had earlier in the day touched a session best of 13.3400, as hopes for progress in the U.S.-China trade dispute fueled a recovery in investors' appetite for risk taking, before giving up the gains in late trade.

After racing to a six-month high of 13.2350 last Thursday after the U.S. Federal Reserve's caution boosted risk appetite, the rand has since eased as investors locked in gains and awaited the next driving force on the index. "With no major local economic data releases scheduled for the next couple of days, we expect the local currency to remain range bound," said Jee-A van der Linde, an economist at NKC African Economics. "Markets will turn to politics for direction," he added.

Investors shifted their focus to President Donald Trump's State of the Union address at 0200 GMT on Wednesday. South African focused investors are also waiting for President Cyril Ramaphosa's state of the nation address on Thursday, where he is expected to give an update on the economy and plans to shore up cash-strapped state companies.

Government bonds closed firmer, with the yield on the benchmark 10-year bond down 5 basis points to 8.59 percent. Stocks recovered after a difficult trading period on Monday, with the Johannesburg Stock Exchange's Top-40 index up 1.73 percent to 47,999 points, and the broader All-share index up 1.53 percent to 54,209 points.

The consumer-facing firms that stocked the bottom of the index on Monday also rebounded, aside from Standard Bank, which was the only faller on the blue-chip index, down 0.79 percent. The all-share index was led upwards by paper and plastics packaging maker Mpact, which issued a trading statement predicting significantly higher underlying earnings per share for the year to Dec. 2018, lifting its shares by over 12 percent.

Source: Thomson Reuters

If you think nobody cares if you're alive, try missing a couple of payments.

Chart of the Day



The chart shows the history of the RSA 10 year bond yield. It includes the standard deviation – a statistical measurement of how a variable behaves relative to its mean, that is the average. From this can be seen that the long term average is 8.36% and the SD is 0.79% for the period shown. This means that for most of the time, the yield is between 7.57% ($8.36\% - 0.79\%$) and 9.15% ($8.36\% + 0.79\%$). This seems to be one of the indicators that the SA bond yield above 9.2% to 9.5% is seen as good value by local and foreign investors. And that the credit rating agencies such as S&P, Moody's and Fitch, although important, do not always have the last word.

The Namibian equivalent of good value on a ten-year bond is 10.5% on the GC30, roughly where it is trading currently (see below).

Big structural moves can also be observed. For instance, from 2008 at the time of the Global Credit Crisis to the low in 2013, bond yields dropped from around 11% to around 5.5%, driven by global deflationary fears. Then it turned up sharply (the so-called Taper Tantrum of 2013) to reach 10.5% during “#Nenegate” at the end of 2015 (who still remembers this?).

Obviously different ranges can be drawn for different periods as many and varied factors play a role in the determination of bond yields, one of which is inflation expectations. With the forward looking inflation profile having drifted down quite substantially, bond yields with tend to trend lower.

Market Overview

MARKET INDICATORS		06 February 2019			
Money Market		Last close	Difference	Prev close	Current Spot
3 months	↓	7.01	-0.005	7.01	7.00
6 months	↓	7.76	-0.007	7.76	7.74
9 months	↓	8.11	-0.003	8.12	8.11
12 months	↓	8.33	-0.002	8.33	8.32
Bonds		Last close	Difference	Prev close	Current Spot
GC21 (BMK: R208)	↓	8.07	-0.075	8.15	8.00
GC24 (BMK: R186)	↓	9.51	-0.025	9.54	9.53
GC27 (BMK: R186)	↓	9.72	-0.025	9.74	9.79
GC30 (BMK: R2030)	↓	10.49	-0.030	10.52	10.51
GI22 (BMK: NCPI)	→	4.82	0.000	4.82	4.82
GI25 (BMK: NCPI)	→	5.31	0.000	5.31	5.31
GI29 (BMK: NCPI)	→	5.85	0.000	5.85	5.85
Commodities		Last close	Change	Prev close	Current Spot
Gold	↑	1,315	0.25%	1,312	1,315
Platinum	↓	816	-0.18%	818	816
Brent Crude	↓	62.0	-0.85%	62.5	61.7
Main Indices		Last close	Change	Prev close	Current Spot
NSX (Delayed)	↑	1,343	0.65%	1,334	1,341
JSE All Share	↑	54,209	1.53%	53,392	54,379
SP500	↑	2,738	0.47%	2,725	2,738
FTSE 100	↑	7,177	2.04%	7,034	7,177
Hangseng	→	27,990	0.00%	27,990	27,990
DAX	↑	11,368	1.71%	11,177	11,368
JSE Sectors		Last close	Change	Prev close	Current Spot
Financials	↑	17,129	0.87%	16,981	17,164
Resources	↑	42,768	1.33%	42,207	42,898
Industrials	↑	64,398	2.25%	62,979	64,617
Forex		Last close	Change	Prev close	Current Spot
N\$/US dollar	↓	13.36	-0.42%	13.42	13.46
N\$/Pound	↓	17.29	-1.13%	17.49	17.42
N\$/Euro	↓	15.25	-0.64%	15.35	15.32
US dollar/ Euro	↓	1.141	-0.20%	1.14	1.138
		Namibia		RSA	
Economic data		Latest	Previous	Latest	Previous
Inflation	↓	5.1	5.6	4.5	5.2
Prime Rate	→	10.50	10.50	10.25	10.25
Central Bank Rate	→	6.75	6.75	6.75	6.75

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

Source: Bloomberg

For enquiries concerning the Daily Brief please contact us at

Daily.Brief@capricorn.com.na

Disclaimer

The information contained in this note is the property of Capricorn Asset Management (CAM). The information contained herein has been obtained from sources which and persons whom the writer believe to be reliable but is not guaranteed for accuracy, completeness or otherwise. Opinions and estimates constitute the writer's judgement as of the date of this material and are subject to change without notice. This note is provided for informational purposes only and may not be reproduced in any way without the explicit permission of CAM.

A member of  **Capricorn Group**
