Economic Headlines — Monday, 07 January 2019

South Africa's rand rallies on U.S. rate cut bets, stocks follow

South Africa's rand firmed to a two-week best on Friday, 4th of January 2019, as emerging markets were boosted by increased expectations of the U.S. central bank cutting lending rates this year. At 1430 GMT the rand was 0.84 percent firmer at 14.1550 after an overnight close of 14.3075.

"What we're seeing is how a recalibration in the Fed's policy guidance is going to affect emerging market currencies going forward," said Halen Bothma of ETM Analytics. Traders of contracts tied to the Federal Reserve's policy rate kept bets the U.S. central bank will not deliver a single rate hike this year and will begin cutting rates next year.

With little on the local data front in the first week of the New Year, the rand has looked to offshore events for direction, and has seen volatile trade with swings in the dollar setting the tone. The rand reached a session best of 14.0925 soon after trading in London kicked off before some of the momentum after a surge in U.S. job growth helped steady the greenback, DXY, which traded 0.15 percent higher after a rocky start.

Survey data on Thursday showed U.S. factory activity slowed more than expected, the latest sign the world's largest economy was losing steam, igniting bets the Federal Reserve could switch from raising to cutting rates.

That aided the rand recovery from Wednesday's "flash crash" that saw the unit plunge to a three-month low in a global selloff. "Events in the U.S. will remain a determining factor for the rand, contributing to the ongoing capriciousness of the local exchange rate," said Annabel Bishop, senior economist at Investec.

Bonds were firmer, with yield on the benchmark paper due in 2026, the R186, down 5 basis points to 8.8 percent, it’s lowest since mid-August.

Stocks also continued to regain some of the losses they had endured in the first few days of the New Year, with the Johannesburg Stock Exchange's Top-40 index up 0.96 percent to 46,059 points and the broader all-share index up 0.82 percent to 52,093 by 1511 GMT.

Consumer-focused sectors, namely retailers and banks, led the top-40 index upwards, with Truworths, The Foschini Group, and Mr Price at the top, as well as bourse heavyweight Naspers, which was up 2.3 percent.

Anglogold Ashanti ANGJ.J, meanwhile, was the worst performer on the index, down 4 percent, after benefiting from rising gold prices as investors retreated to safer assets earlier in the week.

Source:

THOMSON REUTERS

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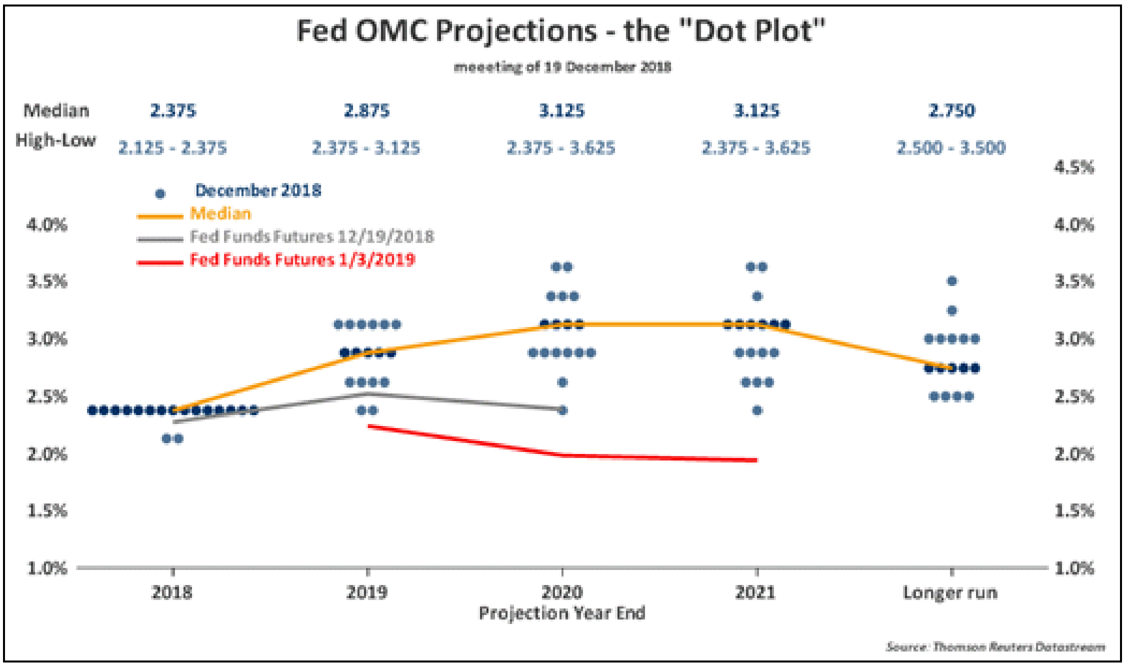
Prospects 2019: USA Fed rate



The chart shows the so-called "Dot-Plot". It is a representation of the views of the members of the USA Federal Reserve's Open Market Committee that is the monetary policy authority of the USA. It is from the last Fed meeting on the 19nth of December 2018. From it the following can be seen:

The Fed officials project at least two hikes in 2019, i.e. a year-end Fed Fund rate of 2.875%. There are quite a number of the committee members seeing a rate of more than 3% by year end 2019. At least one further hike is expected in 2020 to bring the rate to 3.125%. Then no change in 2021. In the longer run, they see the rate being maintained at 2.75% to 3.0%.

The market seems to be pricing out any hikes – disbelieving the Fed. At the time of the meeting futures were showing a flat profile (grey line). Whereas the latest pricing are indicating that the market expects no hikes from here (red line). In fact, the Fed is expected to be cutting rates by 2020.

We think there will be another hike over the course of 2019, purely on the back of the strength in the USA economy, e.g. unemployment below 4%.

Therefore the market underestimates and the Fed overestimates the hiking cycle, in our view. Be that as it may, the outlook for rising rates in the USA has softened substantially. This means that there will be less pressure on the Bank of Namibia and/or the South African Reserve Bank to hike rates in 2019.

Market Overview

MARKET INDICATORS					
Money Market		**Last close**	**Difference**	**Prev close**	**Current Spot**
3 months	↓	7.34	-0.019	7.36	7.33
6 months	↓	7.96	-0.008	7.97	7.96
9 months	↓	8.27	-0.004	8.28	8.27
12 months	↓	8.41	-0.003	8.41	8.41
Bonds		**Last close**	**Difference**	**Prev close**	**Current Spot**
GC21 (BMK: R208)	↑	7.97	0.055	7.92	7.90
GC24 (BMK: R186)	↑	9.59	0.050	9.54	9.51
GC27 (BMK: R186)	↑	10.08	0.051	10.03	9.99
GC30 (BMK: R2030)	↑	10.76	0.045	10.72	10.66
GI22 (BMK: NCPI)	→	4.74	0.000	4.74	4.74
GI25 (BMK: NCPI)	↑	5.26	0.001	5.26	5.26
GI29 (BMK: NCPI)	→	5.95	0.000	5.95	5.95
Commodities		**Last close**	**Change**	**Prev close**	**Current Spot**
Gold	↓	1,285	-0.68%	1,294	1,291
Platinum	↑	823	3.03%	798	825
Brent Crude	↑	57.1	1.98%	56.0	58.2
Main Indices		**Last close**	**Change**	**Prev close**	**Current Spot**
NSX (Delayed)	↑	1,300	1.32%	1,283	1,300
JSE All Share	↑	52,203	1.03%	51,670	52,584
SP500	↑	2,532	3.43%	2,448	2,532
FTSE 100	↑	6,837	2.16%	6,693	6,812
Hangseng	↑	25,626	2.24%	25,064	25,836
DAX	↑	10,768	3.37%	10,417	10,728
JSE Sectors		**Last close**	**Change**	**Prev close**	**Current Spot**
Financials	↑	16,413	1.00%	16,250	16,530
Resources	↑	40,274	0.33%	40,142	40,632
Industrials	↑	62,774	1.61%	61,781	63,255
Forex		**Last close**	**Change**	**Prev close**	**Current Spot**
N$/US dollar	↓	13.95	-2.43%	14.30	13.95
N$/Pound	↓	17.75	-1.69%	18.06	17.79
N$/Euro	↓	15.89	-2.43%	16.29	15.96
US dollar/ Euro	↑	1.139	0.01%	1.14	1.144
		Namibia		**RSA**	
Economic data		**Latest**	**Previous**	**Latest**	**Previous**
Inflation	↑	5.6	5.1	5.2	5.1
Prime Rate	→	10.50	10.50	10.25	10.00
Central Bank Rate	→	6.75	6.75	6.75	6.50

Source: Bloomberg

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