



The Daily Brief

 Capricorn Asset Management

Economic Headlines

Friday, 11 January 2019

Domestic markets

The JSE was flat on Thursday as gains in general retailers, gold miners and banks were offset by Naspers.

Interest rate-sensitive shares, such as banks and general retailers, fared best on the day, as fewer interest rate increases in the US could give the Reserve Bank room to keep rates on hold.

An air of caution returned to global markets on Thursday, amid some doubts as to the timing of any US-China trade deal. Progress in mid-level talks between the two countries had bolstered the market earlier in the week, but analysts cautioned a final deal still seemed some way off.

The all share added 0.09% to 53,271 points and the top 40 0.05%. General retailers gained 1.71% and banks 1.55%. The resources index lost 0.84%.

The US Federal Reserve minutes showed a dovish stance from policy makers on Wednesday, indicating that Fed officials are prepared to keep rates on hold until there is greater clarity on what risks global growth faces. Forthcoming event risks include the release of the US inflation figures on Friday. Given the dovish stance by the Fed, this could be closely watched by investors. According to economists polled by Bloomberg, US inflation is expected to slow to 1.9% in December from 2.2% in November. A less-hawkish stance from US policy makers could alleviate the pressure on emerging-market currencies and interest rates, Investec chief economist Annabel Bishop said.

Naspers, the company with the biggest weighting on the all share, lost 0.63% to R2,954.16. Trading ex-dividend, diversified miner BHP lost 1.48% to R284.73, extending Wednesday's 4.13% loss. Glencore fell 1.95% to R51.68. Cashbuild gained 3.96% to R302 and TFG 3.74% to R173.55. Rand hedge British American Tobacco added 1.38% to R451.05.

Asian markets came under pressure after disappointing data emerged from China showing that factory-gate inflation had eased to 0.9% in December from 2.7% the month before.

On the local front, manufacturing data slowed in line with expectations but pointed to continued positive momentum in the fourth quarter of 2018, while the South African Chamber of Commerce and Industry (Sacci) business confidence index (BCI) for December dipped slightly. "November's slowdown in manufacturing growth supports our view that GDP growth eased in the fourth quarter after a very strong third quarter," Capital Economics economist John Ashbourne said. "But activity still remained strong and we think that headline growth will accelerate in 2019."

Shortly after the JSE closed, the Dow was down 0.66% at 23,722.18 points, while in Europe the FTSE 100 had lost 0.14%, the CAC 40 0.66%, and the DAX 30 0.64%. At the same time, platinum had fallen 0.3% to \$822.21/oz and gold 0.2% to \$1,290.62/oz. Brent crude had lost 0.57% to \$60.99 a barrel.

Source: Business Day

Asia

Japanese stocks rallied on Friday tracking a strong U.S. shares, offsetting weakness in convenience stores which reported dismal quarterly earnings on the previous day. The Nikkei share average rose 0.7 percent to 20,306.16 at the midday break. For the week, it has added 3.7 percent.

The Nikkei has recovered the psychologically important line of 20,000 on hopes of a U.S.-Chinese trade deal, which tempered worries over the impact of the dispute on global growth. "The Nikkei now seems comfortable above 20,000. It may gradually recover further while it prices in developments of global issues," said Takuya Takahashi, a strategist at Daiwa Securities. "The market consensus is that the U.S. and China will compromise to some extent for mutual benefit, but it still remains the market's major concern," Takahashi said.

Trade-related optimism faded somewhat as China offered little in the way of details on key issues such as forced technology transfers, intellectual property rights, tariff barriers and cyber-attacks. Still, there was other positive news to keep investors relatively comfortable on equities. Wall Street rose after Federal Reserve Chairman Jerome Powell said the U.S. central bank intends to further shrink the balance sheet.

Tech shares, machinery stocks and automakers gained ground. Advantest Corp jumped 3.6 percent, Komatsu added 2.2 percent, while Honda Motor Co climbed 1.8 percent. Index-heavy Fast Retailing soared more than 5 percent and contributed a hefty positive 81 points to the Nikkei index.

The operator of Uniqlo clothing stores reported an 8 percent fall in its operating profit for the September-November quarter, while it kept its operating profit forecast for the full year through August 2019 unchanged at 270 billion yen. Analysts downplayed the quarterly profit fall, saying that the weak outcome was due to inventory being cleared on unseasonably warm winter and didn't reflect on merchandise quality or operational issues. "It may affect earnings for this fiscal year through August, but its earnings will likely recover in the next fiscal year," Kuni Kanamori, analyst at SMBC Nikko Securities, wrote in a report.

Industrial equipment maker Yaskawa Electric gained 1 percent after the company cut its operating profit forecast to 53 billion yen from 59 billion yen for the fiscal year ending February, with traders saying that the bottom may be nearing. Masayasu Noguchi, an analyst at Nomura Securities, said that the first impression was positive as the company said servo motor order receipts have been recovering since bottoming in September 2018.

The retailer sector stumbled 1.1 percent and was the worst sectoral performer after convenience stores reported disappointing earnings results. FamilyMart UNY Holdings dropped 1.3 percent after its sales for the March-November period fell 1.7 percent, 7&i Holdings 3382.T tumbled 2.5 percent after its domestic convenience store segment for the period dropped 1.1 percent, while Lawson Inc 2651.T shed 1.3 percent as its operating profit for the period fell 11.9 percent. The broader Topix .TOPX gained 0.3 percent.

Source: Tomson Reuters

USA

Wall Street extended its rally into a fifth straight day on Thursday in a session of whipsaw trading as investors responded to mixed comments by Federal Reserve Chairman Jerome Powell, while a warning from Macy's pummeled retail stocks. Powell reiterated the views of other policymakers that the Fed would be patient about interest rate hikes. But major stock indexes temporarily moved into negative territory after Powell said the bank's balance sheet would be "substantially smaller," and after he raised concerns about the size of U.S. debt.

"That's what spooked the market a little bit. It's more of a commentary on the entire economy as a whole," said Randy Frederick, vice president of trading and derivatives for Charles Schwab in Austin. The S&P 500 is up over 10 percent from a 20-month low it touched around Christmas, lifted by hopes for a U.S.-Chinese trade deal, which eased some worries over the impact of the dispute on global growth. The benchmark index's five-day winning streak is its longest since September.

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In the United States, reports from Macy's and American Airlines added to concerns that growth of corporate profits would slow. Macy's Inc stock plunged 17.69 percent and pulled down other retailers after the department store operator cut its same-store sales forecast for the full year because of weak demand during mid-December.

S&P 500 companies on average are seen posting 14.5 percent growth in earnings per share as they report December-quarter results over the next few weeks, according to IBES data from Refinitiv. However, expectations for growth in 2019 are at 6.4 percent, down from an expectation of 7.3 percent on Jan 1.

"It could be a good quarter, but maybe with more cautious outlooks until we get something that comes out of the trade negotiations," said Kurt Brunner, a portfolio manager at Swarthmore Group in Philadelphia. "There is a lot of uncertainty there."

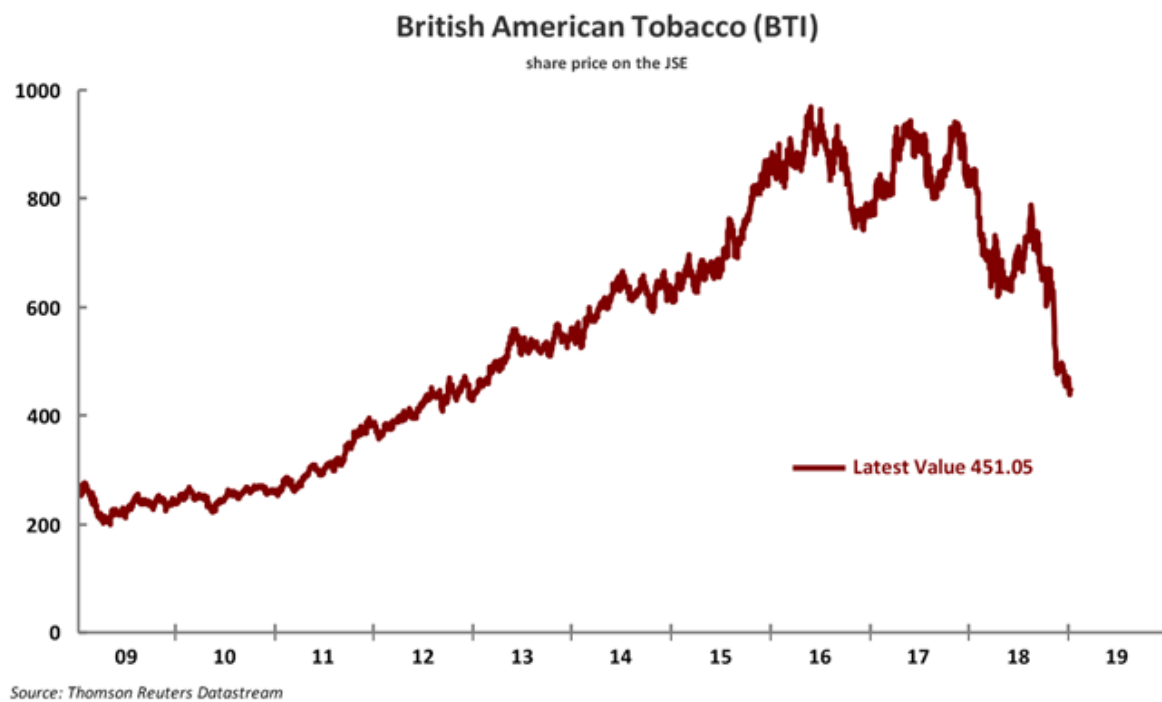
The Dow Jones Industrial Average climbed 0.51 percent to end at 24,001.92 points, while the S&P 500 gained 0.45 percent to 2,596.63. The Nasdaq Composite added 0.42 percent to 6,986.07. Trade-sensitive industrial stocks rose 1.44 percent, lifted by Boeing, which gained 2.55 percent after the U.S. Air Force accepted its long-delayed KC-46 air tanker. American Airlines Group Inc fell 4.13 percent after the No. 1 U.S. carrier cut its fourth-quarter profit and unit revenue forecasts. That weighed on other airline shares as well.

Ten out of 11 S&P sector indexes rose, led by a 1.55 percent increase in real estate, with consumer discretionary ending down 0.23 percent. Advancing issues outnumbered declining ones on the NYSE by a 1.61-to-1 ratio; on Nasdaq, a 1.19-to-1 ratio favored advancers. The S&P 500 posted no new 52-week highs and 1 new low; the Nasdaq Composite recorded 18 new highs and 12 new lows. Volume on U.S. exchanges was 7.3 billion shares, compared with the 8.9 billion-share average over the last 20 trading days.

Source: Thomson Reuters



Chart of the Day



Market Overview

MARKET INDICATORS					
Money Market		Last close	Difference	Prev close	Current Spot
3 months	↓	7.28	-0.010	7.29	7.28
6 months	↓	7.94	-0.004	7.95	7.94
9 months	↓	8.26	-0.002	8.26	8.26
12 months	↓	8.40	-0.002	8.40	8.40
Bonds		Last close	Difference	Prev close	Current Spot
GC21 (BMK: R208)	↑	7.91	0.080	7.83	7.90
GC24 (BMK: R186)	↑	9.48	0.050	9.43	9.46
GC27 (BMK: R186)	↑	9.96	0.051	9.91	9.94
GC30 (BMK: R2030)	↑	10.63	0.050	10.58	10.62
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	↓	1,286	-0.52%	1,293	1,293
Platinum	↓	820	-0.59%	825	819
Brent Crude	↑	61.7	0.39%	61.4	62.2
Main Indices		Last close	Change	Prev close	Current Spot
NSX (Delayed)	↑	1,326	0.74%	1,316	1,325
JSE All Share	↑	53,271	0.09%	53,223	53,646
SP500	↑	2,597	0.45%	2,585	2,597
FTSE 100	↑	6,943	0.52%	6,907	6,976
Hangseng	↑	26,521	0.22%	26,462	26,667
DAX	↑	10,922	0.26%	10,893	10,934
JSE Sectors		Last close	Change	Prev close	Current Spot
Financials	↑	16,738	1.06%	16,562	16,876
Resources	↓	40,955	-0.84%	41,301	41,299
Industrials	↑	64,313	0.01%	64,304	64,765
Forex		Last close	Change	Prev close	Current Spot
N\$/US dollar	↓	13.84	-0.09%	13.85	13.81
N\$/Pound	↓	17.64	-0.40%	17.71	17.59
N\$/Euro	↓	15.91	-0.46%	15.99	15.91
US dollar/ Euro	↓	1.150	-0.37%	1.15	1.152
		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

For enquiries concerning the Daily Brief please contact us at

Daily.Brief@capricorn.com.na

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