



Market Update

Friday, 12 July 2019

Global Markets

Asian shares shuttled between small losses and gains on Friday as investors awaited China trade, lending and growth data, and as worries over Sino-U.S. trade tensions deflated optimism rooted in expectations of a Federal Reserve rate cut this month however an anticipated Fed cut did little to spur gains in Asian markets.

European equities were expected to open higher. Pan-region Euro Stoxx 50 futures were up 0.29% at 3,500, German DAX futures were up 0.36% at 12,367 and FTSE futures were up 0.34% at 7,475. Financial spread betters expect Paris' CAC to open 0.38% higher.

Later on Friday, China will release June trade data, with analysts expecting exports to have fallen as weakening global demand and a sharp hike in U.S. tariffs took a heavier toll on the world's largest trading nation. China is also due to release lending data on Friday, while second-quarter GDP figures are scheduled for Monday. The world's second-largest economy is expected to have slowed to its weakest pace in at least 27 years, raising hopes for more stimulus to fend off a sharper slowdown. "You've got key data coming out, and I don't see why anyone would want to take a position until you've got that data," said Michael Every, head of Asia-Pacific financial markets research at Rabobank in Hong Kong.

MSCI's broadest index of Asia-Pacific shares outside Japan, which moved in a narrow range through the day, was flat in the afternoon. Chinese shares rose, with the CSI300 adding 0.85%.

Australian shares dipped 0.3% and Japan's Nikkei stock index started the day with small losses, but ended 0.2% ahead.

Underscoring the economic impact of global trade tensions, Singapore's economy grew at its slowest pace in a decade in the second quarter as electronics manufacturing output declined for a sixth consecutive month in May, and as exports saw their biggest decline in more than three years.

Amid the global slowdown, U.S. Federal Reserve Chairman Jerome Powell indicated on Thursday that a rate cut is likely at the Fed's next meeting. Bets for such a cut remained strong despite a rise in U.S. consumer inflation in June, and helped to lift the S&P 500 index on Thursday by 0.23% to end at a record closing high of 2,999.91 points.

While the Nasdaq Composite fell 0.08%, the Dow Jones Industrial Average also hit a record high close of 27,088.08 points, rising 0.85% on the day. S&P 500 e-mini futures were last up 0.23% at

3,011. But a tweet by U.S. President Donald Trump on Thursday in which he said that China was not living up to promises it made on buying agricultural products from American farmers threatened to revive worries over trade.

"Markets have enjoyed a bit of a calm spot in the U.S.-China trade war saga since the announcement of a truce and restarting of trade talks at the G20 meeting. Unfortunately, headlines are once again beginning to emerge," ANZ analysts wrote in a morning note. "While this wasn't a big market mover, it does serve as a reminder that things could flare up again," they said.

WEAK TREASURY AUCTION

U.S. Treasury yields had jumped on Thursday after demand was weak for a \$16 billion 30-year bond auction and after the U.S. Labor Department said its consumer price index excluding food and energy rose 0.3% in June, the biggest increase since January 2018. The poorly received auction had pushed the 30-year yield as high as 2.672% on Thursday, according to Refinitiv data.

Yields continued to rise on Friday. Benchmark 10-year Treasury notes last yielded 2.1359%, up from a U.S. close of 2.12% on Thursday, while the 30-year yield touched 2.6511%, up from a close of 2.639%.

"The CPI report will have no material impact on Fed guidance nor have a significant influence on the great Fed debate around 25 or 50," said Stephen Innes, managing partner at Vanguard Markets Pte, referring to expectations of the size of a July rate cut. "After all, the FOMC is unquestionably willing to let inflation run hotter after spending the better part of a decade trying to ignite those flames," he said.

The dollar fell 0.15% against the yen to 108.32, while the euro gained 0.19% to buy \$1.1273.

The dollar index, which tracks the greenback against a basket of six major rivals, was down 0.15% at 96.900.

Oil prices picked up as U.S. oil producers in the Gulf of Mexico cut by output by more than half, in the face of a tropical storm and as tensions in the Middle East remained.

Global benchmark Brent crude gained 0.68% to \$66.97 per barrel. U.S. West Texas Intermediate (WTI) crude was up 0.61% to \$60.57 a barrel.

Gold prices, dulled by the stronger-than-expected U.S. consumer inflation data, regained their shine thanks to renewed trade worries and rate cut expectations. Spot gold last traded up 0.14% at \$1,405.60 per ounce.

Source: Thomson Reuters

Domestic Markets

South Africa's rand strengthened on Thursday after the chairman of the Federal Reserve set the stage for a U.S. interest rate cut later this month, weakening the dollar and boosting risk appetite worldwide. At 1500 GMT, the rand traded at 13.9400 per dollar, up 0.3% from its previous close.

Stocks enjoyed an early rally after positive retail data and comments from U.S. Federal Reserve Chairman Jerome Powell that cemented rate cut expectations, although this faded in the afternoon session.

The yield on South Africa's benchmark 2026 government bond dropped 7 basis points to 8.04%, reflecting higher bond prices. Fed Chair Jerome Powell said on Wednesday the Fed would "act as appropriate" to ensure the world's biggest economy will be able to sustain a decade-long expansion.

Lower interest rates in the United States typically lift demand for higher-yielding assets in emerging markets like South Africa. But economists also expect the South African Reserve Bank to cut its main lending rate at a monetary policy meeting next week, a Reuters poll showed on Thursday.

Data on Thursday showed that South Africa's manufacturing output grew only slightly in May, while the slump in mining continued, albeit more moderately, shifting attention back onto the central bank to stimulate growth.

"Given the potential for rate cuts in South Africa, the benefits the rand may gain from the lower trajectory in U.S. interest rates may not be as telling as at first glance," Warrick Butler, a senior trader at Standard Bank, wrote to clients.

"There is still the backdrop of a possible (credit rating) downgrade in November to contend with, coupled with the continued malaise at (state power firm) Eskom," he said.

The benchmark Johannesburg Stock Exchange Top-40 Index fell 0.59% to 51,188.17 points while the broader All-Share Index dropped 0.56% to 57,273.14 points.

Retailer Woolworths led the way higher in the morning after reporting 5.9% growth in sales over the year, boosting its shares by 7.86% and lifting local retailers by 2.61%. The worst performers were miners Goldfields and energy company Sasol down 3.43% and 3.29% respectively. Greg Davies, chief trader at Cratos Capital, said such companies were suffering due to the stronger rand against the U.S. dollar: "Obviously [the companies] are selling the resources for dollars and getting less rand for them," he said.

Source: Thomson Reuters



Market Overview

MARKET INDICATORS		12 July 2019			
Money Market TB's		Last close	Difference	Prev close	Current Spot
3 months	↓	7.08	-0.016	7.09	7.07
6 months	↓	7.53	-0.004	7.54	7.53
9 months	↓	7.71	-0.002	7.72	7.71
12 months	↓	7.82	-0.001	7.83	7.82
Nominal Bonds		Last close	Difference	Prev close	Current Spot
GC20 (BMK: R207)	↓	7.90	-0.003	7.90	7.90
GC21 (BMK: R2023)	→	7.35	0.000	7.35	7.35
GC22 (BMK: R2023)	↓	8.01	-0.030	8.04	7.98
GC23 (BMK: R2023)	↓	8.46	-0.017	8.48	8.46
GC24 (BMK: R186)	↑	8.98	0.245	8.74	8.74
GC25 (BMK: R186)	→	9.41	0.000	9.41	9.41
GC27 (BMK: R186)	↓	8.90	-0.010	8.91	8.92
GC30 (BMK: R2030)	↑	9.93	0.231	9.69	9.65
GC32 (BMK: R213)	↓	9.87	-0.025	9.89	9.88
GC35 (BMK: R209)	↑	10.95	0.605	10.34	10.38
GC37 (BMK: R2037)	↑	10.43	0.015	10.42	10.49
GC40 (BMK: R214)	↑	10.92	0.035	10.89	10.94
GC43 (BMK: R2044)	→	11.13	0.000	11.13	11.13
GC45 (BMK: R2044)	↑	11.31	0.030	11.28	11.29
GC50 (BMK: R2048)	↑	11.56	0.030	11.53	11.58
Inflation-Linked Bonds		Last close	Difference	Prev close	Current Spot
GI22 (BMK: NCPI)	→	4.20	0.000	4.20	4.20
GI25 (BMK: NCPI)	→	4.90	0.000	4.90	4.90
GI29 (BMK: NCPI)	→	5.89	0.000	5.89	5.89
Commodities		Last close	Change	Prev close	Current Spot
Gold	↓	1,404	-1.07%	1,419	1,410
Platinum	↓	821	-0.49%	825	822
Brent Crude	↓	66.5	-0.73%	67.0	67.1
Main Indices		Last close	Change	Prev close	Current Spot
NSX (Delayed)	↓	1,326	-0.33%	1,331	1,326
JSE All Share	↓	57,273	-0.56%	57,598	57,450
SP500	↑	3,000	0.23%	2,993	3,000
FTSE 100	↓	7,510	-0.28%	7,531	7,529
Hangseng	↑	28,432	0.81%	28,205	28,502
DAX	↓	12,332	-0.33%	12,373	12,342
JSE Sectors		Last close	Change	Prev close	Current Spot
Financials	↓	16,504	-0.71%	16,622	16,649
Resources	↓	45,694	-1.54%	46,407	46,020
Industrials	↓	71,898	-0.03%	71,920	71,835
Forex		Last close	Change	Prev close	Current Spot
N\$/US dollar	↓	13.96	-0.11%	13.98	13.94
N\$/Pound	↑	17.48	0.05%	17.47	17.47
N\$/Euro	↓	15.71	-0.07%	15.73	15.70
US dollar/ Euro	↑	1.125	0.03%	1.125	1.126
		Namibia		RSA	
Economic data		Latest	Previous	Latest	Previous
Inflation	↓	4.1	4.5	4.5	4.4
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



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