Economic Headlines **Monday, 14 January 2019**

Domestic markets

The South African rand barely moved in afternoon deals on Friday, giving up earlier gains stemming from dovish comments by the U.S. Federal Reserve chief.

In the absence of major domestic drivers and with local market activity thin this week, the rand has taken its cue from global drivers. At 1517 GMT, it was 0.05 percent weaker against the dollar at 13.8650.

Analysts at Nedbank CIB said technical factors pointed to the rand staying strong, with potential target levels of 13.53 and 13.38 against the dollar on the back of healthy appetite for emerging markets (EM).

Federal Reserve Chairman Jerome Powell stressed again on Thursday the U.S. central bank could be patient in approving further interest rate increases, cementing market expectations the pace of monetary tightening will slow.

The rand and other EM currencies were battered in 2018 by four Fed rate hikes which boosted the dollar and dented appetite for riskier assets.

The dollar .DXY was down 0.3 percent against a basket of major currencies on Friday after Powell's latest cautious remarks.

On the bourse, stocks gained, tracking an upbeat tone in other emerging markets as hopes of a U.S.-China trade deal lifted sentiment. The blue-chip Top-40 index was up 0.69 percent at 47,491 and the broader All-share index rose 0.76 percent to 53,676.

In fixed income, the benchmark 2026 government bond also firmed, as the yield fell 0.5 basis points.

Source: Business Day

Europe

European shares closed higher on Friday after hitting one-month highs as investor appetite for assets considered risky remained firm, despite caution over trade and ahead of earnings season. The pan-European STOXX 600 ended 0.1 percent higher on its fourth straight day in the black -- its longest winning streak since November.

But Frankfurt, Paris and London all ended in negative territory as enthusiasm over China's trade talks with the United States waned without hard evidence about what was agreed. Worries about slowing economic growth in China also lingered while Wall Street's gains from a rally on Thursday faltered as Q4 results season kicks off in earnest next week.

"The lack of additional detail in relation to the update (on U.S.-China trade talks) has encouraged some dealers to trim their positions ahead of the weekend," said David Madden, market analyst at CMC Markets UK.

China-sensitive autos and parts suppliers led the falls, down 1 percent. Valeo dropped 6.4 percent, the biggest faller on the CAC 40, while Continental and Volkswagen were among the biggest DAX decliners.

Still in the first full trading week of 2019, the STOXX 600 gained 1.7 percent as investors regained their appetite for risk boosted by dovish comments from Federal Reserve chairman Jerome Powell.

Equity funds drew inflows of $6.2 billion, the biggest in 11 weeks, BAML said.

The FTSE 100 erased earlier gains as sterling bounced amid growing expectations that the government may delay its departure from the European Union beyond March 29. Focus remained on Prime Minister Theresa May's efforts to get her Brexit deal through parliament, with a crucial vote due on Tuesday.

A drastic about-turn in crude prices also weighed on heavyweight oil stocks. In the healthcare sector, downgrades by Jefferies hit UDG Healthcare and Orion Oyj which were the worst individual performers with falls of 7.7 percent 7.4 percent respectively.

French utilities took a hit after Societe Generale downgraded ratings on Suez and Veolia Environment citing doubts about the global growth outlook. The stocks were down 2.8 percent and 2.6 percent respectively.

The UK's housebuilders were stand-out gainers on the day after BAML upgraded its view on the sector, saying "it seems at least possible, or even probably, that some sort of Brexit resolution is within sight and therefore the UK housebuilding sector may see some relief".

Taylor Wimpey and Persimmon were leading British blue chips, both rising more than 4 percent.

Source: Tomson Reuters

USA

Wall Street dipped slightly on Friday, breaking a five-session rally, as energy shares declined and investors looked ahead to earnings season, which kicks off next week with Citigroup, JPMorgan and other big banks.

Underpinned by optimism over China-U.S. trade talks and expectations of a slow pace of interest rate hikes from the Federal Reserve, the stock market's winning streak through Thursday added 6 percent to the S&P 500 and left it up about 10 percent from the 20-month low it hit around Christmas. The S&P 500 on Friday ended down just 0.01 percent after recovering from a loss of 0.74 percent earlier in the session.

"We've clawed our way back and now the market is just waiting ahead of the start of earnings season next week," said Donald Selkin, Chief Market Strategist at Newbridge Securities in New York. "We're just drifting."

The S&P energy index was off 0.63 percent, leading declines among 11 sectors, as oil prices dropped after nine days of gains. The financial index climbed 0.17 percent. Citigroup Inc, which will report earnings on Monday, rose 0.44 percent after agreeing to give shareholder ValueAct Capital more access to its books and board of directors.

JPMorgan Chase & Co, which reports on Tuesday, declined 0.48 percent. Some bargain hunters are betting on a stronger 2019 for banks after the S&P 500 bank index fell 18.4 percent in 2018. U.S. stocks took a severe beating in the last quarter of 2018 due to worries over trade, interest rate hikes and a slowdown in global growth.

Analysts expect S&P 500 companies' earnings per share to grow by 6.4 percent this year, compared with 23.5 percent in 2018, when they were supercharged by newly enacted corporate tax cuts, according to IBES data from Refinitiv.

General Motors GM.N gave a strong earnings forecast for 2019, sending the automaker's shares surging 7.05 percent. The Dow Jones Industrial Average ended down 0.02 percent at 23,995.95 points, while the Nasdaq Composite dropped 0.21 percent to 6,971.48. The S&P 500 .SPX ended down 0.38 points at 2,596.26. For the week, the S&P 500 rose 2.5 percent, the Dow added 2.4 percent and the Nasdaq picked up 3.4 percent.

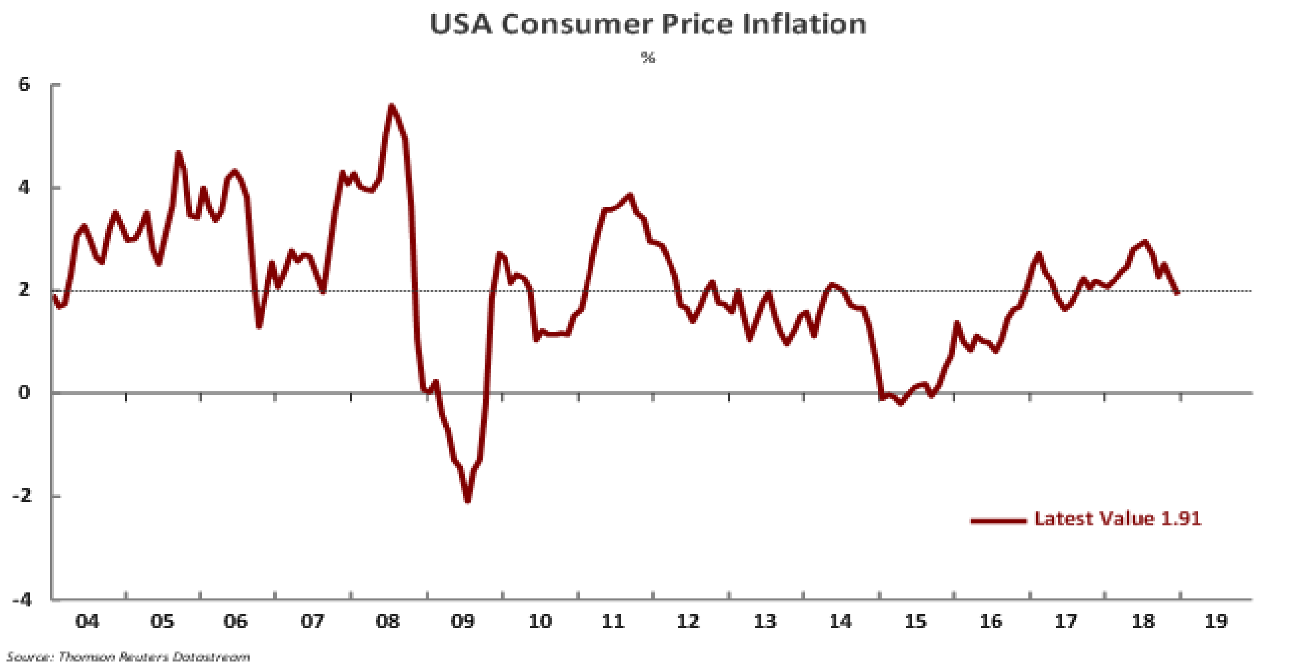
Netflix rose 3.98 percent, bringing its gain in 2019 to 26 percent, helped by analysts' optimistic forecasts for subscriber growth ahead of its earnings next week. Activision Blizzard ATVI.O slumped 9.37 percent, the most on the S&P 500, after it transferred publishing rights for its "Destiny" video game franchise to Bungie.

Advancing issues outnumbered declining ones on the NYSE by a 1.23-to-1 ratio; on Nasdaq, a 1.18-to-1 ratio favored advancers. The S&P 500 posted no new 52-week highs and no new lows the Nasdaq Composite recorded 20 new highs and 9 new lows. Volume on U.S. exchanges was 6.8 billion shares, compared with the 8.9 billion-share average over the last 20 trading days.

Source: Thomson Reuters

"I am so clever that sometimes I don't understand a single word of what I am saying."
– Oscar Wilde, The Happy Prince and Other Stories

Chart of the Day



The latest inflation number out of the USA are, again, below 2%. This added to the market's expectation that inflation will not be problematic and, therefore, the Fed will be slow in hiking rates going forward. One can see from the chart how inflation struggled to get to 2% over the period 2012 to 2016. In the wake of the Great Credit Crisis of 2008 the predominant fear was that of deflation, that is ever lower inflation and/or actually a decrease in the general price level economy-wide. This was one of the primary reasons why the Fed kept rates near zero for 7 years – from December 2008 to December 2015. There was one hike right at the end of 2015, but the Fed only started to lift rates steadily a year later in December 2016 when they had more confidence that inflation will be at 2% plus. This means that we've had a two-year hiking cycle over the course of 2017 and 2018.

Now with inflation falling back to below 2% and general uncertainty regarding the growth outlook globally, a pause might be in order. Monetary policy makers ought to base their decisions on their outlook and not on the latest numbers. Be that as it may, the Fed has become progressively more dovish in their statements of late. This means that they seem to be preparing the market for a pause in the hiking cycle.

The USA inflation rate is a very important indicator to watch, because it impacts monetary policy decisions there and, ultimately, has a bearing on whether we are going to see higher or lower interest rates in our corner of the woods. This means that a slower hiking cycle in the USA will reduce pressure on the SARB and the BoN to hike rates. Albeit an important one, this is obviously not the only factor at play in the setting of domestic policy.

Market Overview

MARKET INDICATORS					
Money Market		**Last close**	**Difference**	**Prev close**	**Current Spot**
3 months	↓	7.28	-0.009	7.28	7.28
6 months	↓	7.94	-0.003	7.94	7.95
9 months	↓	8.26	-0.002	8.26	8.26
12 months	↓	8.40	-0.001	8.40	8.39
Bonds		**Last close**	**Difference**	**Prev close**	**Current Spot**
GC21 (BMK: R208)	↓	7.90	-0.015	7.91	7.93
GC24 (BMK: R186)	↓	9.46	-0.020	9.48	9.43
GC27 (BMK: R186)	↓	9.94	-0.021	9.96	9.92
GC30 (BMK: R2030)	↓	10.62	-0.015	10.63	10.59
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	↑	1,288	0.09%	1,286	1,292
Platinum	↓	811	-1.13%	820	801
Brent Crude	↓	60.5	-1.95%	61.7	59.6
Main Indices		**Last close**	**Change**	**Prev close**	**Current Spot**
NSX (Delayed)	↑	1,336	0.75%	1,326	1,331
JSE All Share	↑	53,653	0.72%	53,271	53,227
SP500	↓	2,596	-0.01%	2,597	2,596
FTSE 100	↓	6,918	-0.36%	6,943	6,918
Hangseng	↑	26,667	0.55%	26,521	26,246
DAX	↓	10,887	-0.31%	10,922	10,887
JSE Sectors		**Last close**	**Change**	**Prev close**	**Current Spot**
Financials	↑	16,852	0.68%	16,738	16,742
Resources	↑	41,152	0.48%	40,955	41,101
Industrials	↑	64,909	0.93%	64,313	64,008
Forex		**Last close**	**Change**	**Prev close**	**Current Spot**
N$/US dollar	↓	13.82	-0.13%	13.84	13.95
N$/Pound	↑	17.76	0.66%	17.64	17.88
N$/Euro	↓	15.85	-0.40%	15.91	15.99
US dollar/ Euro	↓	1.147	-0.27%	1.15	1.146
		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

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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