Economic Headlines Tuesday, 15 January 2019

Domestic markets

The South African rand was little changed on Monday as investors awaited closely watched data releases including mining output later in the week, while a plunge in investment firm Brait sent stocks lower.

At 1550 GMT the rand was at 13.81 against the dollar, more than 0.1 percent stronger than its previous close. The South African currency has started 2019 on the front-foot, rallying more than 3.5 percent against the dollar. But it remains vulnerable to swings in global risk appetite as well as uncertainty surrounding this year's parliamentary election.

Later this week investors will scrutinise domestic data releases including mining output and retail sales, as well as a repo rate decision by the South African Reserve Bank (SARB). Economists polled by Reuters expect the SARB to leave the rate on hold, while retail sales and mining are seen expanding modestly.

Africa's most industrialised economy emerged from recession in the third quarter last year, but the recovery has been halting since.

On the Johannesburg bourse, Brait plunged 21.48 percent to 25 rand after its British fashion chain New Look announced a deal with creditors to cut 1 billion pounds ($1.3 billion) off its debts, its latest turnaround attempt. It was the biggest decliner on the All-Share Index, which fell 0.31 percent to 53,485 points.

Ron Kiplin, portfolio manager at Cratos Capital, which does not hold Brait shares but researches the stock, said the restructuring served to show the weakness of Brait's position in terms of both capital and liquidity.

Source: Thomson Reuters

Europe

China's surprisingly weak trade data brought a four-day rally in European shares to a halt on Monday, with luxury goods and technology stocks leading the drop as investors fretted about slowing global growth and weaker-than-expected earnings.

The pan-European STOXX 600 ended down 0.5 percent, reversing some of last week's gains that saw the index hit a one-month high. The market notched up four straight days of gains, its longest winning streak since November. Germany's DAX and France's CAC 40 fell 0.3 and 0.4 percent respectively. Ahead of Tuesday's crunch UK parliamentary vote on Brexit, London's FTSE 100 declined 0.9 percent.

Luxury goods firms, which rely on appetite for handbags and jewellery from China's burgeoning middle class, bore the brunt of the selling. LVMH, Hermes and Gucci owner Kering were among the biggest fallers in Paris, down between 1.6 and 2.6 percent, while Moncler in Milan dropped 2.7 percent. On average, one third of the luxury sector is exposed to Chinese demand.

Danish jeweler Pandora slumped 6 percent to the bottom of the STOXX 600, also hurt by a price target cut by Morgan Stanley. Burberry bucked the trend, garnering strength from a BAML upgrade to neutral from underperform.

UK-listed miners, which are also exposed to the health of the world's No. 2 economy, were down 1 percent.

Adding to market nerves was the start later on Monday of the fourth-quarter U.S. earnings season, with Citi first to report. S&P 500 earnings will have grown 14.5 percent in the final quarter of the year, the slowest since the third quarter of 2017, sharply lower than the 28.4 percent rise in the third quarter last year and almost flat year-on-year, I/B/E/S Refinitiv data indicates.

In Europe, gloom across technology stocks returned with the weaker Chinese data. The tech index fell 1.5 percent.

Having briefly dropped in early deals after reporting fourth-quarter sales at the bottom end of its guidance, chip designer and Apple supplier Dialog Semiconductor jumped 1.9 percent. Credit Suisse said it believed the company's trading update was much better than its peers and noted strength in the company's non-Apple business.

Continental CONG.DE shares rose 3 percent, also rebounding from initial losses after the auto parts supplier warned of deteriorating conditions in the car sector. "Conti has most likely tried to be cautious by giving a broader range for 2019 guidance," said Jefferies analysts.

JD Sports delivered some good news to the UK's battered retail sector, forecasting profits at the upper end of expectations. Shares gained 6.4 percent on London's FTSE 250.

Elsewhere, M&A caught investors' attention after pan-European stock market operator Euronext officially launched its all-cash $729 million bid for Oslo Bors. The news came just hours after the Norwegian stock market operator's board said it had found alternative bidders and would issue a recommendation by late February. Euronext shares gained 1 percent, while rival London Stock Exchange LSE.L rose 1.5 percent as the news stirred expectations of potential dealmaking among stock market operators.

Broker recommendations drove other individual moves. Swiss hearing aid maker Sonova rose 3.9 percent after UBS upgraded its rating to buy. French retirement home operator Orpea slumped 7.5 percent after Exane cut its rating.

Source: Tomson Reuters

USA

U.S. stocks declined on Monday as an unexpected drop in China's exports reignited worries of a global economic slowdown and prompted caution among investors as the corporate earnings season kicked off. Data showed that China's exports unexpectedly fell the most in two years in December and imports also contracted. The drop pointed to further weakening of the world's second-largest economy and faltering global demand.

Chipmakers, which get a sizable portion of their revenue from China, took a hit, with the Philadelphia SE Semiconductor Index down 1.6 percent. The technology sector's 0.9 percent fall was the biggest drag on the S&P 500. The Dow Jones Industrial Average fell 86.11 points, or 0.36 percent, to 23,909.84, the S&P 500 lost 13.65 points, or 0.53 percent, to 2,582.61 and the Nasdaq Composite dropped 65.56 points, or 0.94 percent, to 6,905.92.

As worries over global growth have mounted, lofty expectations for U.S. corporate growth have subsided. Analysts now estimate that S&P 500 earnings will grow 14.3 percent year-over-year for the fourth quarter, whereas in October they forecast a 20.1-percent jump, according to IBES data from Refinitiv.

"It will be a big thing to see if the Chinese slowdown is real, or if it is an excuse for some companies not to hit the high growth seen last quarter," said Craig Birk, chief investment officer at Personal Capital in San Francisco. "If things are really slowing down, you'll start to see it show up this quarter in earnings."Apple had pointed to slowing demand in China when it cut its revenue forecast on Jan 2.

However, earnings season began on a positive note as Citigroup beat profit estimates. The bank's shares rose 4.0 percent and bolstered the S&P financial sector, which rose 0.7 percent. JPMorgan Chase & Co and Wells Fargo & Co are set to report earnings on Tuesday.

Adding to the downbeat mood on Monday, the partial government shutdown entered its 24th day, making it the longest shuttering of federal agencies in U.S. history.

Shares of PG&E Corp plunged 52.4 percent after the U.S. power utility said it was preparing to file for Chapter 11 bankruptcy for all of its businesses.

Despite Monday's drop, the S&P 500 has climbed nearly 10 percent from its Christmas Eve low as optimism over U.S.-China trade talks and expectations that the Fed will slow its pace of interest-rate hikes have driven a recent stock rally.

Declining issues outnumbered advancing ones on the NYSE by a 1.76-to-1 ratio; on Nasdaq, a 2.18-to-1 ratio favored decliners. The S&P 500 posted no new 52-week highs and one new low; the Nasdaq Composite recorded 18 new highs and 15 new lows. Volume on U.S. exchanges was 6.8 billion shares, compared to the 8.83 billion average over the last 20 trading days.

Source: Thomson Reuters

Chart of the Day

Market Overview

MARKET INDICATORS				15 January 2019	
Money Market		**Last close**	**Difference**	**Prev close**	**Current Spot**
3 months	↑	7.28	0.001	7.28	7.27
6 months	↑	7.95	0.006	7.94	7.94
9 months	↓	8.26	-0.003	8.26	8.25
12 months	↓	8.39	-0.007	8.40	8.39
Bonds		**Last close**	**Difference**	**Prev close**	**Current Spot**
GC21 (BMK: R208)	↑	7.93	0.030	7.90	8.15
GC24 (BMK: R186)	↓	9.43	-0.025	9.46	9.78
GC27 (BMK: R186)	↓	9.92	-0.025	9.94	10.01
GC30 (BMK: R2030)	↓	10.59	-0.025	10.62	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	↑	1,292	0.33%	1,288	1,287
Platinum	↓	800	-1.36%	811	798
Brent Crude	↓	59.0	-2.46%	60.5	59.4
Main Indices		**Last close**	**Change**	**Prev close**	**Current Spot**
NSX (Delayed)	↓	1,334	-0.11%	1,336	1,334
JSE All Share	↓	53,486	-0.31%	53,653	53,666
SP500	↓	2,583	-0.53%	2,596	2,583
FTSE 100	↓	6,855	-0.91%	6,918	6,900
Hangseng	↓	26,298	-1.38%	26,667	26,830
DAX	↓	10,856	-0.29%	10,887	10,963
JSE Sectors		**Last close**	**Change**	**Prev close**	**Current Spot**
Financials	↑	16,859	0.04%	16,852	16,919
Resources	↓	41,137	-0.04%	41,152	41,194
Industrials	↓	64,525	-0.59%	64,909	64,889
Forex		**Last close**	**Change**	**Prev close**	**Current Spot**
N$/US dollar	↓	13.77	-0.40%	13.82	13.79
N$/Pound	↓	17.71	-0.28%	17.76	17.75
N$/Euro	↓	15.80	-0.34%	15.85	15.80
US dollar/ Euro	↑	1.147	0.06%	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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