Market Update — Monday, 15 July 2019

Global Markets

Asian shares advanced on Monday as investors breathed a sigh of relief after encouraging Chinese data suggested the world's second-biggest economy may be starting to stabilize thanks to ramped-up stimulus from Beijing. Second quarter economic growth slowed to 6.2% in the second quarter from a year earlier, the weakest pace in at least 27 years while separate data showed the country's industrial output and retail sales handily topped forecasts. The promising monthly activity data suggested a flurry of stimulus measures from China have been able to prop-up domestic activity and offset some of the damage from a protracted trade war with the United States, analysts said. Equity markets were choppy in the wake of the Chinese data as some expected Beijing might temper further stimulus.

MSCI's broadest index of Asia-Pacific shares outside Japan gave up losses to be 0.2% higher at 526.72 points. It fell a little more than 1% last week, snapping five straight weeks of gains. Trading was expected to be light as Japan was shut for a public holiday. Australian shares slipped 0.4% while South Korea's KOSPI was mostly flat. Chinese shares pared early losses with the blue-chip index up 0.4%. Hong Kong's Hang Seng index added 0.3%.

"Investors may be scaling back easing expectation upon today's data as fiscal measures appear to be working," said Westpac analyst Frances Cheung. "That said, we believe the PBoC will still be supportive of liquidity. Expect yields to be stable and any temporary bearishness to be expressed via swaps."

Later in the week, U.S. retail sales and industrial production data will provide more clues about the health of the world's largest economy. The U.S. Federal Reserve will release its 'Beige Book' on Wednesday which investors will scour for comments on how trade tensions were affecting business outlook.

In currency markets, the Australian dollar, often played as a liquid proxy for the Chinese yuan, jumped after the data to a high of $0.7033, a level not seen since July 4. The greenback was a tad higher at 96.871 against a basket of major currencies. The dollar index fell for three days in a row as markets fully priced in the chance of a 25-basis-point (bps) cut to U.S. interest rates. There is also a small probability of a 50 bps cut. Against the Japanese yen, the dollar ticked up from near the lowest since early June at 108.04 while the single currency was slightly lower at $1.1267 after three successive sessions of gains.

Expectations that the Fed will keep rates supportive have sent bonds rallying with ten-year U.S. Treasuries below the current Fed rate range of 2.25%-2.50%. "Dovish Fed rhetoric has rendered a July rate cut, in the market's eyes, as a fait accompli: it's not if they cut but by how much," Morgan Stanley strategist Hans Redekar told clients in a note.

"If markets are disappointed, the yield curve would likely flatten, the USD strengthen, and financial conditions tighten. These forces would exacerbate the already considerable headwinds facing the global economy," he added. "Global reflation requires a weaker USD to bolster global trade and commodity prices."Worries about world growth and low inflation has meant investors are piling money onto bonds and money market funds, Jefferies said, citing its global asset fund flows tracker. "The danger is that with a mountain of cash parked in money market funds any trade ceasefire would cause a huge shift away from safe assets," said Sean Darby, Jefferies' global equity strategist. "Presently, investors don't seem to be in any particular rush to buy equities – earnings revisions have yet to bottom out while economic surprises have been rare," he added. "The bottom line is that we would issue a pause on the risk rally."

In commodities, U.S. crude fell31 cents to $59.90 a barrel. Brent crude was off 22 cents at $66.50. Gold slipped to 1,410.01 an ounce, drifting away from a recent six-year top of $1,438.60.

Source: Thomson Reuters

Domestic Markets

South Africa's rand retreated from a five-month high on Friday as risk appetite subdued, but was on track for weekly gains after expectations the U.S. Federal Reserve would cut interest rates had stoked demand for the currency. At 1520 GMT, the rand was 0.25% weaker at 14.0050 per dollar. The currency was on track for weekly gains of more than 1%. Also helping the currency in the week were media reports on Thursday that state asset manager Public Investment Corporation (PIC) might consider converting the $6.4 billion debt of struggling state power utility Eskom to equity.

On the bourse, stocks were flat as worries over global economic growth and U.S.-China trade quelled investor appetite for emerging market equities after an earlier rally fueled by hopes of looser U.S monetary policy.

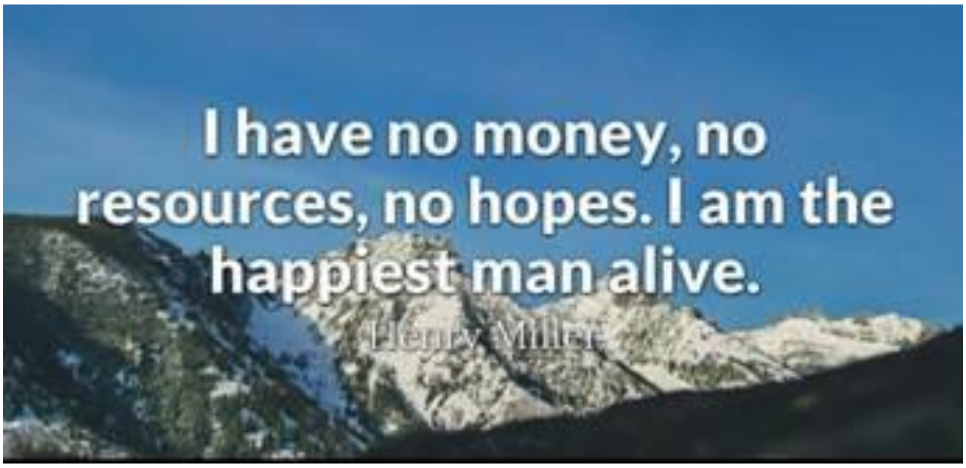
Market focus is now on the South African Reserve Bank's monetary policy committee (MPC) interest rates announcement on Thursday. "The MPC is also highly likely to reduce local interest rates during its meeting next week, but the impact on the rand will probably be overshadowed by the positive effect of the expected Fed rate cut, and the expected benefits to the South African economy," said Bianca Botes, a treasury partner at Peregrine Treasury Solutions. "The local economy, however, will require more than an interest rate cut to see any significant and sustainable growth."

In equities, the benchmark Johannesburg Stock Exchange Top-40 Index fell slightly by 0.06% to 51,157.41 points while the broader All-Share Index dipped by 0.05% to 57,243.86 points. "We're seeing risk-off trade in emerging markets coming through towards the end of the week based on possible Fed outcomes, the ongoing trade war, and the U.S. and China not coming to the party and saying or commenting on further agreements," said Wilmar Buys, FFO Securities portfolio manager.

The bottom performers were mining company Gold Fields, which slipped 2.97% to 72.20 rand, and paper and pulp maker Sappi, which dropped 2.24% to 49.80 rand. Crisis-hit retailer Steinhoff however, rose 12.60% to 1.47 rand despite reporting a 356 million euro ($401 million) half-year loss from continuing operations as the damage from a massive accounting scandal drags on.

Bonds retreated, with the yield on the benchmark 2026 issue rising by 6 basis points to 8.09%.

Source: Thomson Reuters



Market Overview

MARKET INDICATORS					15 July 2019
Money Market TB's		**Last close**	**Difference**	**Prev close**	**Current Spot**
3 months	↓	7.07	-0.005	7.08	7.03
6 months	↓	7.53	-0.004	7.53	7.48
9 months	↓	7.71	-0.002	7.71	7.70
12 months	↓	7.82	-0.001	7.82	7.82
Nominal Bonds		**Last close**	**Difference**	**Prev close**	**Current Spot**
GC20 (BMK: R207)	→	7.90	0.000	7.90	7.90
GC21 (BMK: R2023)	→	7.35	0.000	7.35	7.35
GC22 (BMK: R2023)	↓	7.98	-0.030	8.01	7.86
GC23 (BMK: R2023)	↓	8.46	-0.002	8.46	8.37
GC24 (BMK: R186)	↓	8.74	-0.240	8.98	8.66
GC25 (BMK: R186)	→	9.41	0.000	9.41	9.41
GC27 (BMK: R186)	↑	8.92	0.015	8.90	8.83
GC30 (BMK: R2030)	↓	9.65	-0.271	9.93	9.58
GC32 (BMK: R213)	↑	9.88	0.015	9.87	9.81
GC35 (BMK: R209)	↓	10.38	-0.564	10.95	10.29
GC37 (BMK: R2037)	↑	10.49	0.055	10.43	10.40
GC40 (BMK: R214)	↑	10.94	0.020	10.92	10.85
GC43 (BMK: R2044)	→	11.04	0.000	11.04	11.04
GC45 (BMK: R2044)	↓	11.29	-0.020	11.31	11.20
GC50 (BMK: R2048)	↑	11.58	0.017	11.56	11.50
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	↑	1,415	0.85%	1,404	1,414
Platinum	↑	828	0.85%	821	834
Brent Crude	↑	66.7	0.30%	66.5	66.8
Main Indices		**Last close**	**Change**	**Prev close**	**Current Spot**
NSX (Delayed)	↑	1,331	0.38%	1,326	1,332
JSE All Share	↑	57,277	0.01%	57,273	57,466
SP500	↑	3,014	0.46%	3,000	3,014
FTSE 100	↓	7,506	-0.05%	7,510	7,516
Hangseng	↑	28,472	0.14%	28,432	28,549
DAX	↓	12,323	-0.07%	12,332	12,423
JSE Sectors		**Last close**	**Change**	**Prev close**	**Current Spot**
Financials	↑	16,570	0.40%	16,504	16,611
Resources	↑	45,945	0.55%	45,694	46,148
Industrials	↓	71,576	-0.45%	71,898	71,879
Forex		**Last close**	**Change**	**Prev close**	**Current Spot**
N$/US dollar	↑	13.99	0.19%	13.96	13.87
N$/Pound	↑	17.59	0.62%	17.48	17.43
N$/Euro	↑	15.77	0.33%	15.71	15.65
US dollar/ Euro	↑	1.127	0.15%	1.125	1.128
		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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