



## The Daily Brief

 Capricorn Asset Management

**Market Update**

**Tuesday, 16 July 2019**

### Global Markets

Major Asian equity indicators nudged higher on Monday as investors awaited U.S. retail sales data and corporate earnings to gauge the health of the world's biggest economy, with markets remaining focused on a likely U.S. rate cut this month.

MSCI's broadest index of Asia-Pacific shares outside Japan was up 0.17%, with losses in Chinese shares capping gains elsewhere in the region. China's blue-chip CSI300 index was 0.4% lower. South Korea's KOSPI, which spent the morning flickering between small gains and losses, was last up 0.24%. Shares in Taiwan were flat, while the Australian market was up less than 0.1%. Japan's Nikkei stock index dipped 0.74%.

Encouraging Chinese economic data on Monday had provided some relief to investors worried about the economic outlook, but broad pressure across global business and investment from Sino-U.S. trade frictions and slowing world growth reinforced expectations of policy easing by major central banks.

"A U.S. rate cut should make it easier for central banks in Asia to ease their policies, boosting domestic demand in the region," said Yukino Yamada, senior strategist at Daiwa Securities. "We still don't know what to expect from the U.S.-China trade war ... But there are vague expectations that Trump will be quiet during summer and the issue will be put on the back burner until near China's National Day (in early October)," she said. Overnight, however, U.S. President Donald Trump showed no signs of softening his stance on China, warning that Washington could pile on more pressure as bilateral trade talks sputtered along.

U.S. data on Tuesday is expected to show that retail sales gained 0.1% in June, according to the median estimate of economists polled by Reuters. But a decline in net interest margin reported by Citigroup in its mixed quarterly report underlined risks for financial firms in a lower interest rate environment. That decline partly overshadowed better-than-expected profit numbers, triggering a fall in shares of other banks on concerns that it would presage lower profits across the industry.

"Clearly the biggest risk to the most recent rally is the earnings season," said Ryan Felsman, senior economist at CommSec in Sydney. Signs of trade tensions weighing on corporate profits and the fading impact of tax cuts would underscore the U.S. Federal Reserve's concerns over slowing business investment, he said. "That feeds into the narrative of concerns around the global economy,

the slowing in the U.S. economy, but also the need for potentially more aggressive rate cuts from the Fed to support the U.S. economy going forward," Felsman said.

Markets have fully priced in a 25-basis point cut by the Fed at its meeting at the end of this month.

The quiet Asian trading session followed an equally subdued day on Wall Street, with the Dow Jones Industrial Average rising 0.1%, the S&P 500 gaining 0.02% and the Nasdaq Composite adding 0.17%.

### **STEEPER CURVE**

Ahead of the release of U.S. retail sales figures, signs of an improving economic situation in the United States have led to a steepening of the U.S. yield curve, led by higher longer-dated yields. On Tuesday, the yield on benchmark 10-year Treasury notes turned down slightly to 2.0852% compared with its U.S. close of 2.092% on Monday. The two-year yield, closely watched as a gauge of traders' expectations for Fed fund rates, extended its falls to 1.829% compared with a U.S. close of 1.833%.

In the currency market, the dollar was up 0.06% against the yen at 107.97, and the euro ticked up 0.02%, buying \$1.1259. The dollar index, which tracks the greenback against a basket of six major rivals, was flat at 96.933.

Oil prices found some support after earlier easing on signs that the impact of a tropical storm on U.S. Gulf Coast production would be short-lived. U.S. West Texas Intermediate (WTI) crude, added 0.07% to \$59.62 a barrel and Brent crude, the global benchmark, gained 0.23% to \$66.63 per barrel.

Trade in gold echoed the cautious tone of equity markets ahead of U.S. data. The precious metal was last down 0.02% on the spot market at \$1,413.40 per ounce.

**Source: Thomson Reuters**

## **Domestic Markets**

South Africa's rand firmed on Monday as bets the Federal Reserve will cut interest rates next week continued to boost the currency in the absence of any local economic drivers, on a day dominated by ex-president Jacob Zuma's testimony at a graft inquiry.

At 1700 GMT the rand was 0.45% firmer at 13.8975 per dollar from a Friday close of 13.9600 but technical resistance near 13.80 may stall its advance. "Some of that momentum will start to dissipate and it may well require a fresh catalyst of sorts to assist the rand in making back more lost ground," analysts at Investec said in a note. "From a valuation perspective, the ZAR still finds itself undervalued and capable of recovering still further."

Investors expect the Fed to reduce its key rate by 25 basis points and make another cut in September. Lower yields in the United States boosts demand for riskier high yielding assets like the rand. Stronger-than-expected economic data from China also spurred risk bets. The world's no.2 economy reported industrial output rebounded in June from a 17-year low in May, while June retail sales surged 9.8% from a year earlier.

Bonds firmed, with the yield on the benchmark 2026 government issue down 5 basis points at 8.04%.

Former president Zuma struck a defiant tone at the public inquiry into maladministration during his nine-year tenure, saying he was the victim of a "character assassination" by enemies who had tried to get rid of him for more than 20 years. Zuma, who was pushed out by the governing African National Congress (ANC) in February 2018 and replaced by President Cyril Ramaphosa, is seen to still

to yield power inside the party, particularly with the faction opposing Ramaphosa's reform agenda. Zuma has consistently denied wrongdoing.

On the bourse, stocks rose following encouraging production data out of China on Monday boosting emerging markets. The benchmark JSE Top-40 Index was up 0.5% to 51,447.25 points while the broader All-Share Index crept up 0.27% to 57,432.75 points. Tech heavyweight Naspers was among the leaders on the blue-chip index, jumping 2.43% to 3,488.61 rand after strong gains by internet company Tencent Holdings where it holds a 31 percent stake. Among the losers pharmaceuticals company Aspen tumbled 3.77% and luxury goods firm Richemont dipped 1.49%

**Source: Thomson Reuters**



## Market Overview

MARKET INDICATORS		16 July 2019			
<b>Money Market TB's</b>		<b>Last close</b>	<b>Difference</b>	<b>Prev close</b>	<b>Current Spot</b>
3 months	↓	7.03	-0.037	7.07	7.02
6 months	↓	7.48	-0.047	7.53	7.48
9 months	↓	7.70	-0.011	7.71	7.70
12 months	↓	7.82	-0.001	7.82	7.82
<b>Nominal Bonds</b>		<b>Last close</b>	<b>Difference</b>	<b>Prev close</b>	<b>Current Spot</b>
GC20 (BMK: R207)	⇒	7.90	0.000	7.90	7.90
GC21 (BMK: R2023)	⇒	7.35	0.000	7.35	7.99
GC22 (BMK: R2023)	↓	7.86	-0.115	7.98	7.93
GC23 (BMK: R2023)	↓	8.37	-0.096	8.46	8.43
GC24 (BMK: R186)	↓	8.66	-0.085	8.74	8.96
GC25 (BMK: R186)	⇒	9.41	0.000	9.41	8.70
GC27 (BMK: R186)	↓	8.83	-0.085	8.92	8.89
GC30 (BMK: R2030)	↓	9.58	-0.075	9.65	9.92
GC32 (BMK: R213)	↓	9.81	-0.075	9.88	9.87
GC35 (BMK: R209)	↓	10.29	-0.090	10.38	10.99
GC37 (BMK: R2037)	↓	10.40	-0.085	10.49	10.49
GC40 (BMK: R214)	↓	10.85	-0.095	10.94	10.94
GC43 (BMK: R2044)	⇒	11.14	0.000	11.14	11.14
GC45 (BMK: R2044)	↓	11.20	-0.090	11.29	11.29
GC50 (BMK: R2048)	↓	11.50	-0.085	11.58	11.59
<b>Inflation-Linked Bonds</b>		<b>Last close</b>	<b>Difference</b>	<b>Prev close</b>	<b>Current Spot</b>
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
<b>Commodities</b>		<b>Last close</b>	<b>Change</b>	<b>Prev close</b>	<b>Current Spot</b>
Gold	↓	1,414	-0.13%	1,415	1,414
Platinum	↑	840	1.45%	828	842
Brent Crude	↓	66.5	-0.36%	66.7	66.5
<b>Main Indices</b>		<b>Last close</b>	<b>Change</b>	<b>Prev close</b>	<b>Current Spot</b>
NSX (Delayed)	↑	1,332	0.05%	1,331	1,332
JSE All Share	↑	57,537	0.45%	57,277	57,644
SP500	↑	3,014	0.02%	3,014	3,014
FTSE 100	↑	7,532	0.34%	7,506	7,543
Hangseng	↑	28,555	0.29%	28,472	28,563
DAX	↑	12,387	0.52%	12,323	12,394
<b>JSE Sectors</b>		<b>Last close</b>	<b>Change</b>	<b>Prev close</b>	<b>Current Spot</b>
Financials	↓	16,517	-0.32%	16,570	16,542
Resources	↑	46,134	0.41%	45,945	46,245
Industrials	↑	72,168	0.83%	71,576	72,238
<b>Forex</b>		<b>Last close</b>	<b>Change</b>	<b>Prev close</b>	<b>Current Spot</b>
N\$/US dollar	↓	13.90	-0.66%	13.99	13.88
N\$/Pound	↓	17.39	-1.13%	17.59	17.30
N\$/Euro	↓	15.64	-0.77%	15.77	15.60
US dollar/ Euro	↓	1.126	-0.11%	1.127	1.125
		<b>Namibia</b>		<b>RSA</b>	
<b>Economic data</b>		<b>Latest</b>	<b>Previous</b>	<b>Latest</b>	<b>Previous</b>
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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