



Market Update

Monday, 17 June 2019

Global Markets

Asian stocks inched higher on Monday, with a rebound in the Hong Kong market helping the mood, as investors remained cautious ahead of a closely-watched Federal Reserve meeting. But the simmering trade dispute between the United States and China as well as political tensions in the Middle East kept risk-appetite in check.

MSCI's broadest index of Asia-Pacific shares outside Japan edged up 0.1%, after opening slightly weaker. Japan's Nikkei average ticked up by a similar amount. Asian markets got a quick boost after Hong Kong's Hang Seng Index jumped as much as 1.4%. At the weekend, the territory's leader Carrie Lam climbed down on a bill that would have allowed extradition to China. The Hang Seng fell for three sessions in a row through Friday, after the extradition bill triggered mass protests and some of the worst unrest seen in the territory since Britain handed it back to Chinese rule in 1997. Mainland Chinese shares also firmed, with the benchmark Shanghai Composite up 0.2% and the blue-chip CSI 300 rising 0.2%.

U.S. Secretary of State Mike Pompeo told Fox News on Sunday that President Donald Trump would raise the issue of Hong Kong's human rights with China's President Xi Jinping at a potential meeting of the two leaders at the G20 summit in Japan later this month.

Wall Street stocks ended lower on Friday as investors turned cautious before this week's Fed meeting, while a warning from Broadcom on slowing demand weighed on chipmakers and added to U.S.-China trade worries. Investors are waiting for more clues from the Fed after policymakers raised expectations for a rate cut in recent weeks. Strong U.S. retail sales data on Friday rolled back expectations of a Fed rate cut at this week's meeting to 21.7%, from 28.3% on Thursday, according to CME Group's FedWatch tool. But bets of an easing at the July meeting remain high at 85%.

Financial markets were sideswiped by a sudden escalation in Sino-U.S. trade tensions in early May, with growing anxiety among investors that a protracted standoff could tip the global economy into recession. Geopolitical tensions in the Middle East added another layer of uncertainty after the United States blamed Iran for attacks on two oil tankers in the Gulf of Oman last week.

Hopes that global central banks will keep the money spigots open have helped to temper some of the fears, and all eyes are on the Fed's two-day meeting starting on Tuesday. The Bank of Japan also meets this week and is widely expected to reinforce its commitment to retain a massive stimulus program for some time to come.

The retail sales report also sent short-dated U.S. Treasury yields higher, flattening the yield curve. Benchmark 10-year notes was last at 2.091%, while two-year bond yield edged up, shrinking the spread between two- and 10-year yields to 23.6 basis points compared to more than 30 earlier this month. A Reuters poll showed a growing number of economists expect the Fed policymakers to cut interest rates this year, although the majority still see it holding steady.

In currency markets, the dollar index against a basket of six major currencies climbed to 97.583 on Friday, its highest level in almost two weeks, after the U.S. retail sales data eased fears that the world's largest economy is slowing sharply. The index last stood at 97.488, while the euro fetched \$1.1222, near the lower end of its weekly trading range.

Oil prices rose on Monday after U.S. Secretary of State Pompeo said Washington will take all actions necessary to guarantee safe navigation in the Middle East, as tensions mounted following attacks on tankers last week. Brent futures rose 0.4% to \$62.24 a barrel, while U.S. West Texas Intermediate crude futures gained 0.3% to \$52.66.

Spot gold was little changed at \$1,341.48 an ounce after hitting a 14-month peak on Friday. Bitcoin jumped overnight to \$9,391.85, its highest level in 13 months. It was last quoted at \$9,104.64.

Source: Thomson Reuters

Domestic Markets

South Africa's rand firmed on Friday as domestic political concerns eased, with the focus of investors shifting to inflation data and the U.S. central bank meeting next week. Stocks weakened along with global equity markets as Chinese data stoked investor anxieties over a global growth slowdown. At 1550 GMT, the rand traded at 14.7975 per dollar, 0.5% firmer than its close on Thursday.

Domestic political uncertainty has fed investor jitters in recent days, after the main opposition party called for South Africa's graft watchdog to release a report into allegations President Cyril Ramaphosa misled parliament over a donation to his 2017 campaign to lead the ruling African National Congress party. A spokeswoman for the presidency declined to comment.

Senior ANC officials meanwhile contradicted each other over whether the party had decided to expand the South African Reserve Bank (SARB) mandate in the wake of data showing the worst economic contraction in a decade. Bianca Botes, a Treasury partner at Peregrine Treasury Solutions, said fallout from the SARB mandate debacle seems to have settled, for now. "With severe fluctuations in the local unit, short-term strength should be used as a buying opportunity as biases still lean towards a weaker rand by the end of 2019," Botes said.

South Africa's May consumer price inflation data is due to be released on Wednesday. The numbers will assist in setting the tone for the next interest rate decision in July. Investors are also looking towards the U.S. Federal Open Market Committee (FOMC) meeting next week to see if the U.S. central bank's monetary policy stance matches market expectations for a near-term rate cut.

In fixed income, the yield on the benchmark government bond due in 2026 dipped a basis point to 8.38%.

On the bourse, the benchmark JSE Top-40 Index fell 0.81% to 52,166 points while the broader All-Share Index weakened 0.86% closing at 58,193 points. Energy company Sasol and paper and packaging company Mondi PLC were the biggest losers on the blue-chip index, with Sasol down 2.06% to 357 rand, while Mondi PLC dipped 1.99% to 321.34 rand. A rise in oil prices on Friday was

not enough to lift Sasol as prices remained on track for a weekly loss on fears that trade disputes will dent global oil demand. Retailer Steinhoff weakened 4.55% to 1.47 rand ahead of the publication of its delayed 2018 results on Tuesday. On the upside, a rush to safe-haven assets like gold boosted local bullion miners like AngloGold Ashanti, up 3.68% and Goldfields up 1.75%.

South African markets will be closed on Monday for a public holiday.

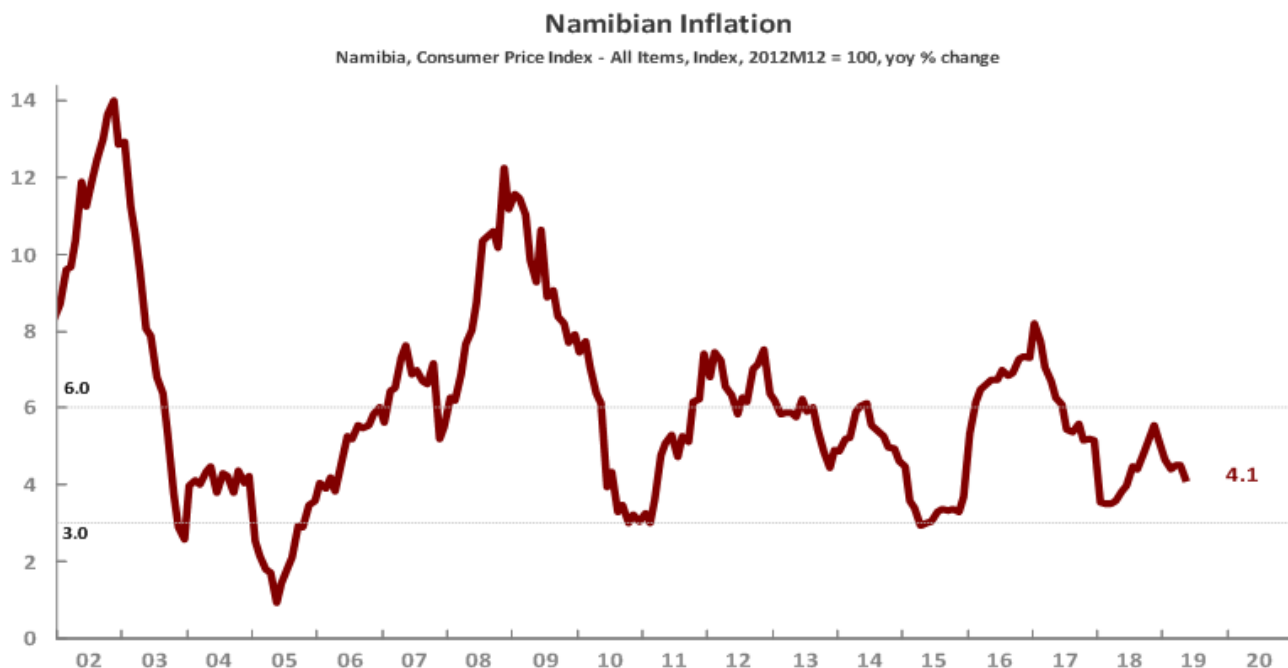
Source: Thomson Reuters



Chart of the Day – Namibia Inflation in May 2019 at 4.1%

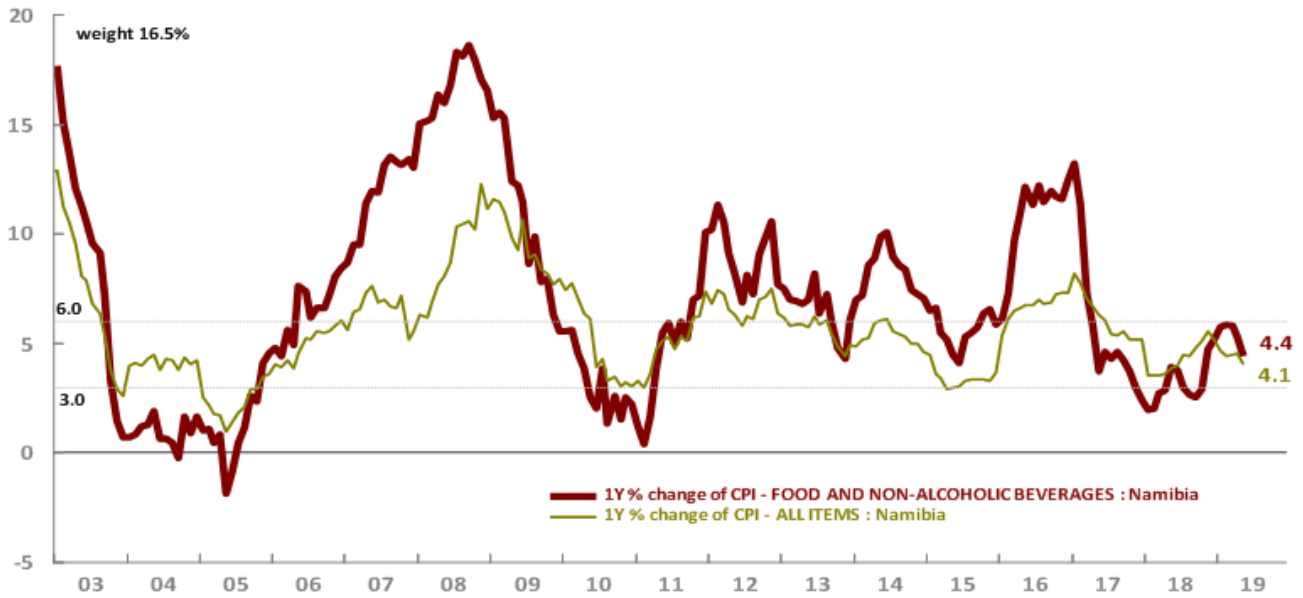
Inflation dipped below our expectation as well as below the average of the last four months of 4.5%. Month-on-month the change is a negative -0.1%, whereas we expected plus 0.3%. Most of the big components of the basket decelerated (see charts below, which also show the weights). Food inflation turned down to 4.4% from the 5% plus levels it maintained of late. Alcoholic beverages & Tobacco dropped to 5.5% from 7.5%. Housing ticked down to below 2%, while Transport picked up a bit from 7.1% to 7.6%.

It seems that the general economic weakness has a big effect on demand and that leads to downward pressures on prices. Similar trends in the RSA will likely prompt the SARB to cut interest rates, which should lower the Prime Rate somewhat and give a little relief to indebted households and firms.



Food and non-alcoholic beverages

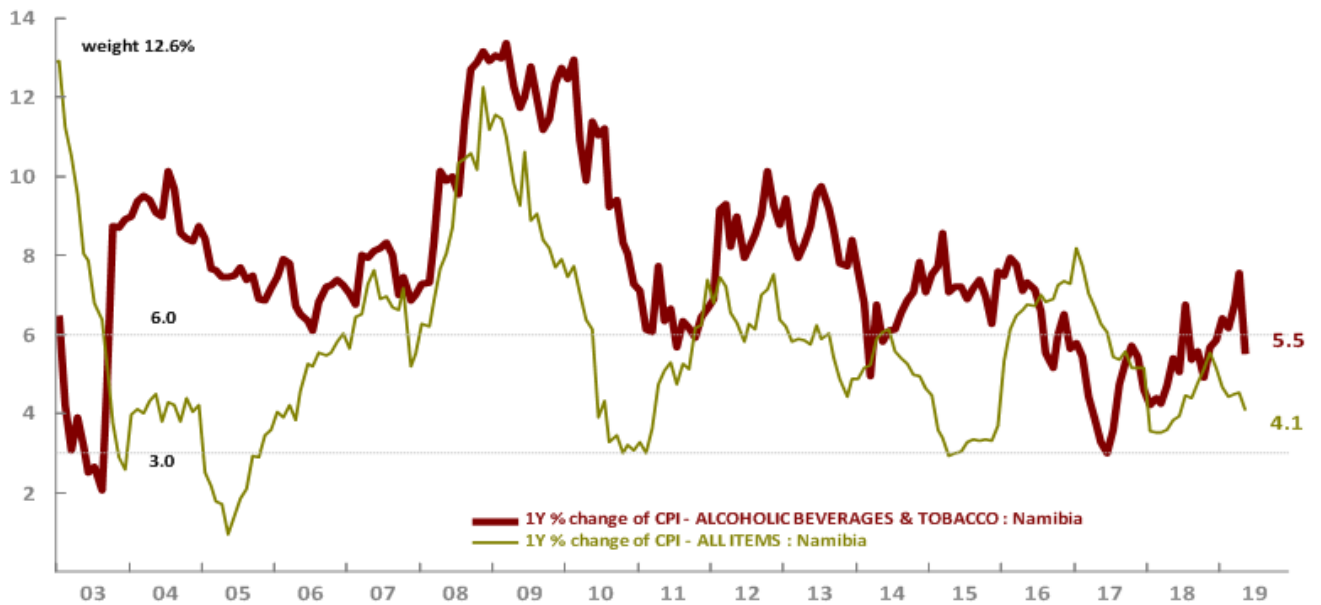
yoy % change



Source: Thomson Reuters Datastream, Capricorn Asset Management

Alcoholic beverages and tobacco

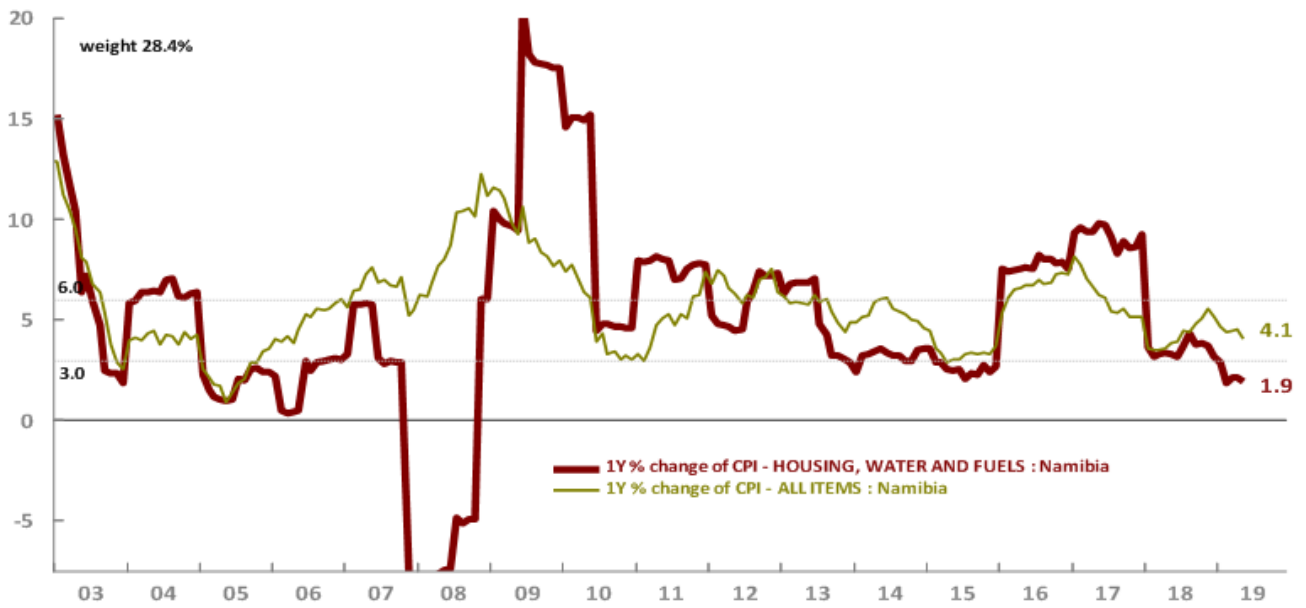
yoy % change



Source: Thomson Reuters Datastream, Capricorn Asset Management

Housing, water, electricity, gas and fuels

yoy % change



Source: Thomson Reuters Datastream, Capricorn Asset Management

Transport

yoy % change



Source: Thomson Reuters Datastream, Capricorn Asset Management

Market Overview

MARKET INDICATORS		17 June 2019			
Money Market TB's		Last close	Difference	Prev close	Current Spot
3 months	↓	7.22	-0.006	7.22	7.18
6 months	↓	7.71	-0.004	7.71	7.61
9 months	↓	7.89	-0.002	7.89	7.83
12 months	↓	8.09	-0.003	8.10	8.09
Bonds		Last close	Difference	Prev close	Current Spot
GC21 (BMK: R208)	⇒	7.55	0.000	7.55	7.55
GC24 (BMK: R186)	↓	8.99	-0.350	9.34	9.02
GC27 (BMK: R186)	↓	9.07	-0.495	9.57	9.10
GC30 (BMK: R2030)	↑	10.01	0.016	9.99	10.03
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)	⇒	5.73	0.000	5.73	5.73
Commodities		Last close	Change	Prev close	Current Spot
Gold	↓	1,341	-0.05%	1,342	1,334
Platinum	↓	799	-1.05%	808	796
Brent Crude	↑	62.0	1.14%	61.3	61.8
Main Indices		Last close	Change	Prev close	Current Spot
NSX (Delayed)	↓	1,377	-0.16%	1,379	1,377
JSE All Share	↓	58,194	-0.86%	58,698	58,194
SP500	↓	2,887	-0.16%	2,892	2,887
FTSE 100	↓	7,346	-0.31%	7,369	7,362
Hangseng	↓	27,118	-0.65%	27,295	27,254
DAX	↓	12,096	-0.60%	12,169	12,111
JSE Sectors		Last close	Change	Prev close	Current Spot
Financials	↓	16,876	-0.39%	16,941	16,876
Resources	↓	47,450	-1.44%	48,141	47,450
Industrials	↓	72,317	-0.72%	72,843	72,317
Forex		Last close	Change	Prev close	Current Spot
N\$/US dollar	↓	14.80	-0.31%	14.85	14.81
N\$/Pound	↓	18.64	-0.96%	18.82	18.64
N\$/Euro	↓	16.59	-0.92%	16.74	16.61
US dollar/ Euro	↓	1.121	-0.60%	1.128	1.122
Economic data		Namibia		RSA	
		Latest	Previous	Latest	Previous
Inflation	↓	4.1	4.5	4.4	4.5
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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