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**Market Update**

**Monday, 18 February 2019**

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## **Global Markets**

Progress in the U.S.-China trade talks helped send world stock markets broadly higher on Friday and pulled investors out of the safety of government bonds. Europe's broad Stoxx 600 index rallied 1.4 percent. The Dow Jones Industrial Average rose 443.86 points, or 1.74 percent, to 25,883.25, the S&P 500 gained 29.87 points, or 1.09 percent, to 2,775.6 and the Nasdaq Composite added 45.46 points, or 0.61 percent, to 7,472.41.

China and the United States reached a consensus in principle on some key issues during the talks, China's state news agency Xinhua said on Friday. Negotiations will continue next week in Washington as investors hope for an end to the trade war between the world's two largest economies. "The next potential steps in the U.S. protectionist push could be pivotal for the global outlook," Bank of America Merrill Lynch economists wrote in a note. "With the trade war already starting to hurt the U.S., we expect the Trump Administration to pull its punch."

MSCI's gauge of stocks across the globe gained 0.82 percent. The index is up nearly 10 percent for the year. Emerging markets were set for their first back-to-back weekly loss since late last year. The MSCIEF index of emerging-market stocks dropped 0.7 percent, leaving it up approximately 7.6 percent for the year.

Though there were signs of progress in the trade discussions, some investors remained cautious on whether tariffs would soon be eliminated. "We expect that the longer-term direction of tariffs on imports from China is likely to be downward, but we expect this to be a gradual process and believe that some of the recently imposed tariffs might still be in effect through the 2020 election," economists at Goldman Sachs wrote in a note.

The broad stock rallies helped pull investors out of the safety of government bonds, sending yields higher. Benchmark 10-year U.S. Treasury notes last fell 1/32 in price to yield 2.6626 percent, from 2.659 percent late on Thursday.

U.S. President Donald Trump signed a bill Friday that prevented another partial federal government shutdown by funding several agencies that otherwise would have closed on Saturday morning.

The dollar index fell 0.11 percent, with the euro down 0.05 percent to \$1.1293.

Crude oil reached 2019 highs above \$65 per barrel after OPEC-led supply cuts and a bigger-than-expected cut by Saudi Arabia this week encouraged investors. The global Brent benchmark gained

2.2 percent to \$66.01 per barrel. It has risen over 4.5 percent this week. U.S. crude rose 2.1 percent to \$55.58 per barrel.

**Source: Thomson Reuters**

## Domestic Markets

South Africa's rand was on course for a loss of more than three percent against the dollar this week, as five consecutive days of power cuts reminded investors about the fragility of an economic recovery.

At 1520 GMT, the rand traded at 14.1250 versus the dollar, barely changed from its previous close of 14.1275 and more than 3.5 percent weaker than at the end of last week.

Struggling state power firm Eskom implemented one of the worst power cuts in several years from Sunday to Thursday, hurting small businesses without backup power generators and industrial firms that consume large volumes of power. Eskom said power cuts were not likely on Friday, but warned the power system remained vulnerable.

Investors are waiting for more details on how President Cyril Ramaphosa's government plans to shore up Eskom's balance sheet - plans which should be unveiled during a budget speech by the finance minister on Feb. 20.

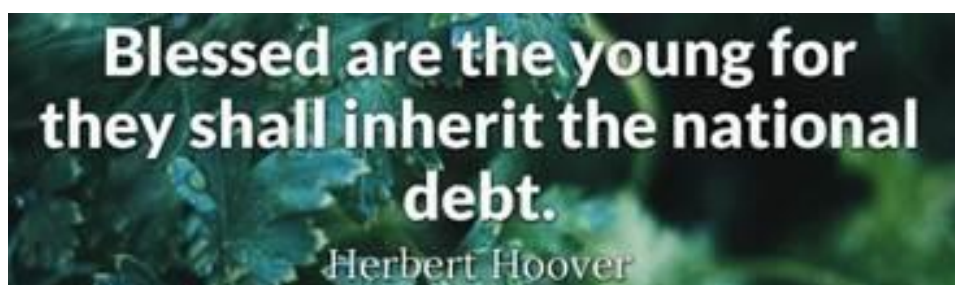
After this week's steep fall in the rand, Nedbank CIB analysts said they were more comfortable that risks to the currency were better priced. "South Africa's fiscal position has come to the fore as the market anxiously awaits more details on Eskom and how the government will account for this in the budget," Nedbank CIB analysts wrote in a research report.

Government bonds firmed on Friday, with the yield on the benchmark 2026 bond falling 6.5 basis points to close at 8.88 percent. On the bourse, stocks ended the week higher, with the Johannesburg All-share index up 0.19 percent at 54,628 points, while the blue-chip Top-40 index up 0.2 percent at 48,446 points.

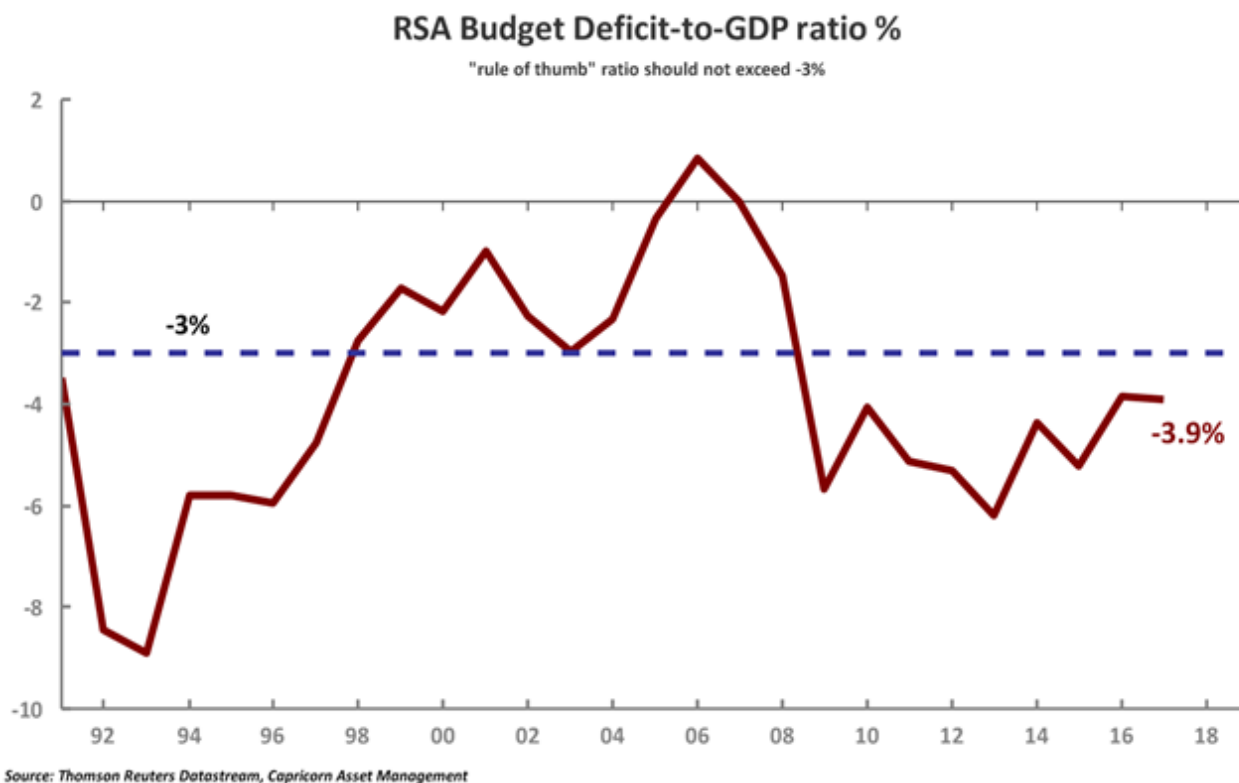
EOH Holdings led stocks higher after issuing an update on its relationship with Microsoft. The Chief Executive of EOH Holdings issued an open letter on Friday, in which he described a recent and fruitful meeting with the firm and the Microsoft leadership after Microsoft announced its intention on Tuesday to terminate its channel partner agreement with EOH's subsidiary. CEO Stephen van Coller said in the letter Microsoft has advised that it is taking EOH's proposals under consideration and further review. Its shares ended 14.64 percent stronger at 19.50 rand on the announcement and other measures that EOH is doing to strengthen its leadership.

Packaging and paper firm Mondi rose 0.94 percent to 353 rand after flagging an up to 29 percent increase in full-year basic headline earnings per share. Food producer Pioneer Food Group rose 1.47 percent to 81.25 rand after saying it increased turnover by 7.8 percent in the four months to January 31.

**Source: Thomson Reuters**



## Chart of the Day



The SA Minister of Finance will table the National Budget on Wednesday the 20<sup>th</sup> of February. One of the key issues that has to be addressed is Eskom. It is financially and operationally in a deep hole. It is going to prove to be a litmus test for the leadership of President Ramaphosa and his Cabinet. Much of what ails Eskom is symptomatic of the malaise that is gripping the whole economy and the Fiscus with it.

There is very little wiggle room in Government's financial position. Debt end Deficits are already too high (see chart) and the weak economy is impacting on revenue growth. It is highly unlikely that the tax rates in the "main categories" (personal income tax, company income tax and VAT) will be hiked. However, the usual inflationary adjustments will be made to the "sin taxes", fuel levy and the like.

The Deficit is unlikely to reach, the more healthy, 3% of GDP any time soon. SA's "lost decade" also finds its expression in the Budget Deficit of the last 10 years, which has been consistently in unhealthy territory since 2008. This means that the Government cannot raise spending much in order to stimulate the economy or to pay Eskom's bills, although some sort of support for the ailing utility has been promised. Tough, meaning politically unpalatable, decisions will have to be made and soon.

The Minister will have to perform a fine balancing act and present a credible medium term plan to right the ship. Credibility and positive reform is critically important to restore confidence. The country's credit worthiness is on the line.

## Market Overview

MARKET INDICATORS			18 February 2019		
<b>Money Market</b>		<b>Last close</b>	<b>Difference</b>	<b>Prev close</b>	<b>Current Spot</b>
3 months	↓	6.88	-0.062	6.94	6.86
6 months	↓	7.68	-0.007	7.68	7.66
9 months	↓	8.08	-0.003	8.08	8.07
12 months	↓	8.30	-0.002	8.31	8.30
<b>Bonds</b>		<b>Last close</b>	<b>Difference</b>	<b>Prev close</b>	<b>Current Spot</b>
GC21 (BMK: R208)	↓	8.21	-0.060	8.27	8.16
GC24 (BMK: R186)	↓	9.78	-0.070	9.85	9.85
GC27 (BMK: R186)	↓	9.98	-0.070	10.05	10.08
GC30 (BMK: R2030)	↓	10.77	-0.075	10.85	10.62
GI22 (BMK: NCPI)	→	4.82	0.000	4.82	4.82
GI25 (BMK: NCPI)	→	5.17	0.000	5.17	5.17
GI29 (BMK: NCPI)	→	5.85	0.000	5.85	5.85
<b>Commodities</b>		<b>Last close</b>	<b>Change</b>	<b>Prev close</b>	<b>Current Spot</b>
Gold	↑	1,321	0.65%	1,312	1,323
Platinum	↑	802	2.10%	786	803
Brent Crude	↑	66.3	2.60%	64.6	66.5
<b>Main Indices</b>		<b>Last close</b>	<b>Change</b>	<b>Prev close</b>	<b>Current Spot</b>
NSX (Delayed)	↑	1,326	0.70%	1,317	1,326
JSE All Share	↑	54,628	0.19%	54,527	54,962
SP500	↑	2,776	1.09%	2,746	2,776
FTSE 100	↑	7,237	0.55%	7,197	7,218
Hangseng	↓	27,901	-1.87%	28,432	28,347
DAX	↑	11,300	1.89%	11,090	11,268
<b>JSE Sectors</b>		<b>Last close</b>	<b>Change</b>	<b>Prev close</b>	<b>Current Spot</b>
Financials	↓	16,737	-0.16%	16,763	16,802
Resources	↑	44,487	1.12%	43,996	44,887
Industrials	↓	65,046	-0.06%	65,083	65,422
<b>Forex</b>		<b>Last close</b>	<b>Change</b>	<b>Prev close</b>	<b>Current Spot</b>
N\$/US dollar	↓	14.06	-0.37%	14.11	14.09
N\$/Pound	↑	18.12	0.25%	18.07	18.21
N\$/Euro	↓	15.88	-0.38%	15.94	15.93
US dollar/ Euro	↓	1.129	-0.05%	1.13	1.131
		<b>Namibia</b>		<b>RSA</b>	
<b>Economic data</b>		<b>Latest</b>	<b>Previous</b>	<b>Latest</b>	<b>Previous</b>
Inflation	↓	4.7	5.1	4.5	5.2
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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**For enquiries concerning the Daily Brief please contact us at**

**[Daily.Brief@capricorn.com.na](mailto:Daily.Brief@capricorn.com.na)**

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