Market Update Tuesday, 19 February 2019

Eastern Markets

Japanese shares edged up to new two-month peaks on Tuesday, supported by hopes of a breakthrough in U.S.-China trade talks, with investors snatching up defensive shares amid lingering worries about the global economic slowdown.

While markets were without firm directional cues as U.S. markets shut on Monday for a public holiday, sentiment remained broadly positive with investors looking for more clues from trade negotiations between Washington and Beijing. A new round of talks between the United States and China to resolve their trade war will take place in Washington on Tuesday, with follow-up sessions at a higher level later in the week, the White House said on Monday.

Japan's Nikkei share average added as much as 0.2 percent to 21,326.11, its highest since mid-December, then ended the morning session, up 0.1 percent on the day. "It is still difficult to buy foreign demand-led sectors. But I think domestic demand-led firms will do well because the government is likely to take lots of steps to support the economy to counter the planned hikes in consumption tax," said Tsuyoshi Shimizu, head of research at Asset Management One. "Earnings expectations have fallen a bit too much. It seems like markets expect Japanese corporate earnings to fall about five percent in the next financial year, but I do think they can grow by almost 10 percent," he added.

Defensive shares gained with East Japan Railway and Central Japan Railway rising 1.5 percent and 1.4 percent, respectively. Many exporters were softer as investors remain wary that slowdowns in China and elsewhere could hurt their top line. Robot maker Fanuc fell 0.7 percent and Panasonic dropped 0.8 percent. Shin-etsu Chemical shed 0.7 percent.

The latest Reuters monthly tankan, which showed corporate sentiment in February slipped to the lowest levels since late 2016, also weighed on investor sentiment. The monthly poll found manufacturers' mood sliding for a fourth straight month and service-sector morale falling for the first time in four months, in a sign companies took a hit from weakening demand both at home and abroad amid slowing global growth and trade frictions.

Other notable movers included Softbank Group, which fell 3.5 percent after the Wall Street Journal reported that its key investors, including Saudi Arabia's sovereign wealth fund, were unhappy with the high valuation of its flagship Vision Fund. The broader Topix edged up 0.2 percent to 1,604.54, which was also the highest in two months.

Source: Thomson Reuters

Domestic Markets

South Africa's rand weakened in late afternoon trade on Monday as investors awaited Wednesday's budget, when the finance minister is expected to unveil plans to shore up state-owned power utility Eskom. Stocks rallied, with the Johannesburg All-share index and Top-40 index touching 3-1/2-month and 4-1/2-month highs respectively, with investors growing hopeful the United States and China will agree a deal to end their trade war.

At 1530 GMT, the rand was down 0.43 percent at 14.1300 per dollar compared with Friday's close of 14.0700 in New York. Since the resumption of nationwide rolling power cuts by Eskom on Feb. 10, the rand has lost nearly 4 percent, breaching the psychological 14.00 mark as the crisis at the cash-strapped utility put a possible credit downgrade to junk back on the radar.

Although Eskom paused the blackouts on Friday for the first time in five days, it warned its creaking infrastructure could buckle at any time. Finance Minister Tito Mboweni is expected to unveil a rescue package for Eskom in the annual budget on Wednesday. "The size and structure of the provision of support for Eskom will be a critical consideration," RMB analysts Mpho Tsebe and Elena Ilkova said in a note. "Eskom remains a significant fiscal risk and providing it with financial support might be credit-neutral for the sovereign, only if this is accompanied by broader measures to stabilise the power utility," they added.

Government bonds firmed, with the yield on the benchmark paper due in 2026 down 2.5 basis points to close at 8.855 percent.

On the bourse, the Johannesburg All-Share index ended the session up 1.16 percent at 55,259 points, a level last seen on Nov. 2, while the Top-40 index climbed 1.18 percent to 49,019 points, a level it last touched on Oct. 4.

"A little bit more confidence coming back into the market, that the U.S. and China can do a trade deal, so optimism is back again," Cratos Capital equities trader Greg Davies said. U.S. and Chinese officials will continue negotiations in Washington this week after both sides reported progress at talks in Beijing last week. Davies added that weaker rand was also helping the market "because the rand hedges and all the resources are climbing." Rand-hedged shares make the bulk of their revenue outside South Africa and tend to rise as the currency weakens.

Royal Bafokeng Platinum topped the gainers, climbing 10 percent to 33 rand, while market heavyweight Naspers rose 1.93 percent to 3,115 rand and MediClinic gained 1.64 percent to 58.09 rand.

Source: Thomson Reuters

How South African mines cope with power cuts - Reuters News

South African utility Eskom imposed the worst power cuts in several years on homes and businesses last week, conjuring up memories of the 2008 crisis when the grid nearly collapsed and cost the mining industry billions in lost output. Although Eskom - which supplies around 90 percent of power in Africa's most industrialised economy - paused the blackouts on Friday for the first time in five days, it warned that its creaking infrastructure could buckle at any time.

A decade ago, the state utility ordered mining houses to evacuate all underground staff and cease mining operations for five days as it cut electricity supply to minimum levels. It is not clear how much the industry, which consumes about 15 percent of Eskom’s annual output, lost in production but the crisis sent prices of both gold and platinum to record levels and pummeled the rand.

But mining companies now appear to be better prepared to cope with the scheduled blackouts thanks largely to an agreement struck in 2010 between Eskom and the industry that allows it to continue operating on reduced power. "The South African mines are probably a little bit better prepared for electricity cuts than they were 10 years ago," said Peter Major, an analyst and director of mining at Mergence Corporate Solutions.

Anglo American Platinum Ltd, the world's top producer of the metal, said it lost 14,000 ounces or less than 1 percent of annual output - based on 2018 production - last week. Diversified miners Exxaro and Anglo American said their operations were affected to varying degrees while AngloGold Ashanti said safety and production were untouched. An industry group, the Mineral Council, did not give specific details about the impact of last week's power cuts on production but said the effect on output for the sector had been minimal.

Miners including Impala Platinum, Harmony and Sibanye-Stillwater have also been working on reducing their reliance on Eskom by setting up their own power generators. However, it has been difficult to get that off the ground because of red tape and prohibitive costs, they say.

What is at stake?

South Africa is home to the world's biggest platinum group metals deposits, accounting for just over 90 percent of global production. Any disruption in output could directly affect prices of the white metal. The mining industry directly contributes more than 7 percent to the economy which has been struggling with anemic growth over the last 10 years. Miners, among the biggest consumers of electricity in the country, are already grappling with weak profits that could be exacerbated by the potential loss of output if Eskom imposes deeper power cuts.

The potential impact on jobs is also a concern in a country with a jobless rate of more than 27 percent and has prompted fierce opposition from the country's powerful trade unions to President Cyril Ramaphohsa's plan to split the utility. "With all these power cuts through Eskom there will be consequences ... People will lose their work for less time put in for work and we are very, very concerned about this," said Stanford Mazhindu, spokesperson of trade union UASA.

What are miners doing to cope?

The 2010 agreement between Eskom and the mining industry has partly shielded miners from the massive disruption caused by the 2008 power cuts, when the sector was forced to shut for five days to allow the grid to recover. Under the scheme, Eskom gives the industry notice to reduce their power consumption by between 15 and 20 percent when the national grid is at its tightest and unable to meet demand. "If it's a 15 or 20 percent reduction in demand and it goes on for an extended period, it can have quite a big impact," said Sibanye spokesman James Wellsted. For instance, concentrators are switched off and water pumps that would prevent underground dams from flooding are only turned on during low usage hours at night, he said. Impala Platinum reduces its usage of power-intensive equipment, including furnaces, during national peak usage times when residential consumers are just waking up or have just returned from work, spokesman Johan Theron said.

Are these measures enough?

Despite these measures, business leaders and the Mineral Council are still concerned about the risks Eskom poses to the industry. Impala's Theron said shifting energy-intensive work to an off-peak demand period in the middle of the night to catch up on lost production "is not ideal or sustainable, as it will impact the business over time in that wear on furnaces are accelerated under these operating conditions". While the industry was coping, extended rolling blackouts would have affected the commercial viability of mines, particularly deep-level mining and platinum mines, Mineral Council spokeswoman Charmane Russell said.

Why can't miners generate their own power?

Attempts by miners to produce their own power are expensive, as Eskom requires them to connect to the grid for a fee. The variety of legal codes found at the energy regulator and energy ministry are additional hurdles to independent power generation, they say. The volume of electricity consumed by the industry is also too much to rely solely on self-generation.

"We need to fix Eskom, to think that underground gold mining can survive without Eskom is going to be difficult," said Peter Steenkamp, the chief executive of gold miner Harmony. However, a few companies have succeeded in cutting dependency on the grid. Petrochemicals firm Sasol produces 70 percent of its electricity needs to power its sprawling plants. Power generation, from steam turbines commissioned in 2010 and contracted with Eskom via a medium-term power purchase programme, helped to alleviate Eskom's shortages at the time, Sasol said.

But companies such as Sibanye are struggling to do the same. The precious metals producer has pushed back plans, unveiled in 2014, to build a solar plant because of difficulty in getting finance for the project and bureaucracy related to connecting to the national power grid. Harmony Gold has also been trying to build a 30 megawatt solar plant. Amplats said it was also considering building a 100 megawatt solar power plant at the group's Mogalakwena mine.

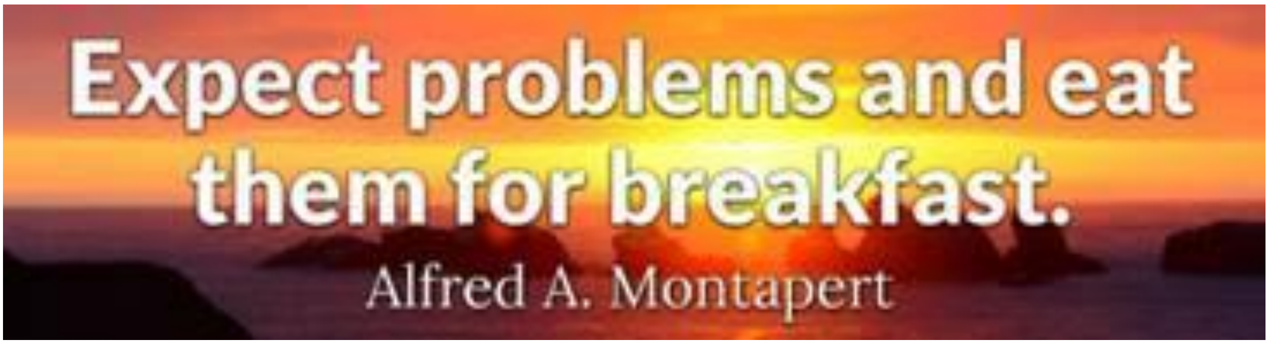
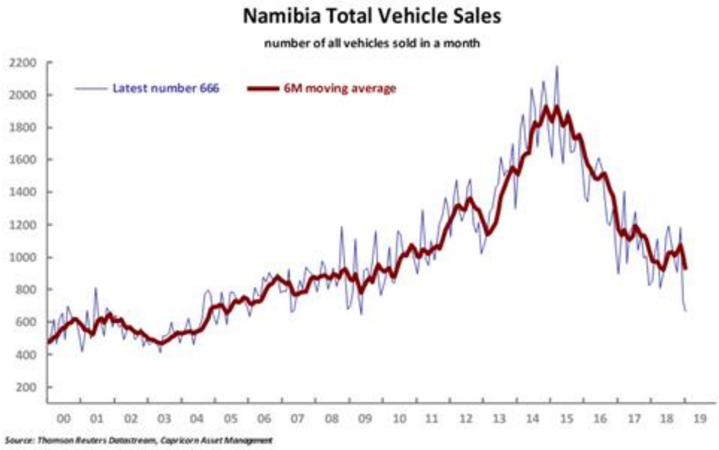
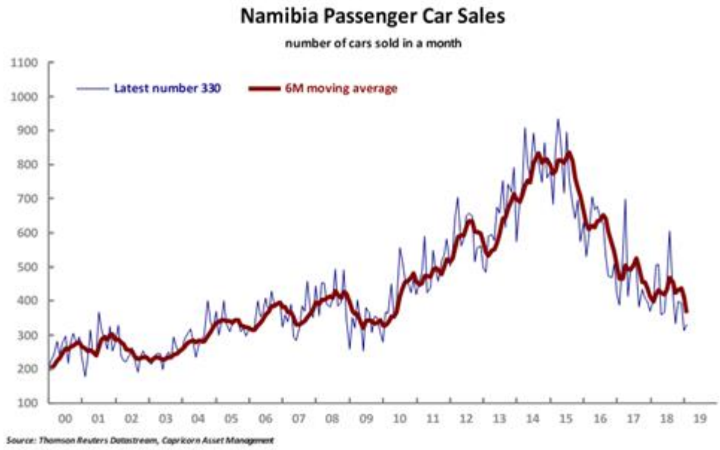
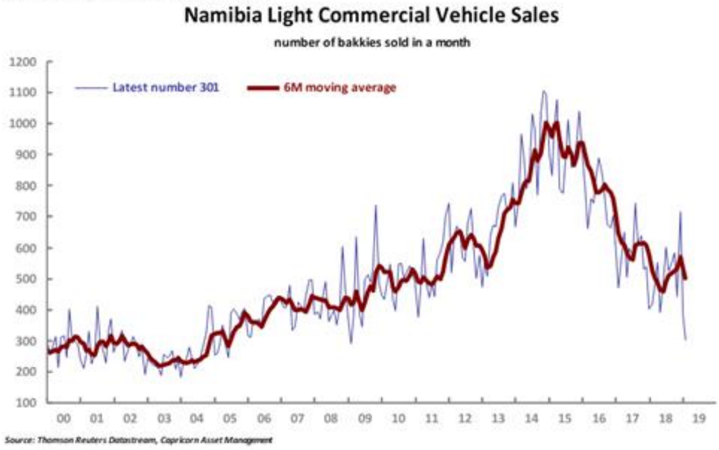
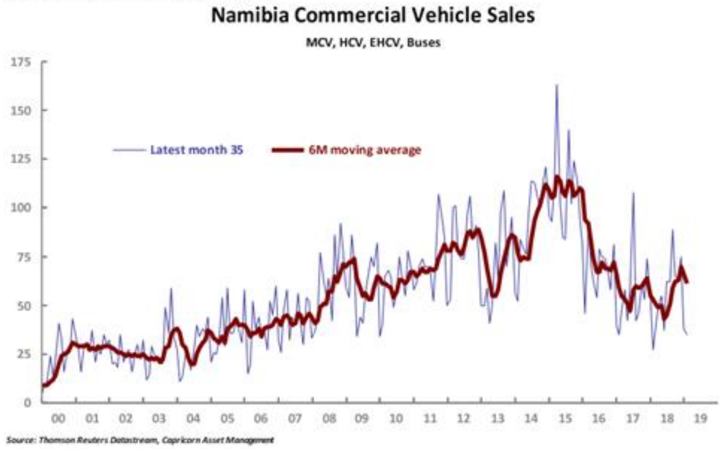


Chart of the Day









Market Overview

MARKET INDICATORS					19 February 2019
Money Market		**Last close**	**Difference**	**Prev close**	**Current Spot**
3 months	↓	6.86	-0.022	6.88	6.84
6 months	↓	7.66	-0.014	7.68	7.65
9 months	↓	8.07	-0.008	8.08	8.07
12 months	↓	8.30	-0.001	8.30	8.30
Bonds		**Last close**	**Difference**	**Prev close**	**Current Spot**
GC21 (BMK: R208)	↑	8.21	0.005	8.21	8.12
GC24 (BMK: R186)	↓	9.77	-0.010	9.78	9.83
GC27 (BMK: R186)	↓	9.97	-0.010	9.98	10.06
GC30 (BMK: R2030)	↓	10.76	-0.010	10.77	10.79
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
Commodities		**Last close**	**Change**	**Prev close**	**Current Spot**
Gold	↑	1,326	0.39%	1,321	1,325
Platinum	→	802	0.00%	802	807
Brent Crude	↑	66.5	0.38%	66.3	66.5
Main Indices		**Last close**	**Change**	**Prev close**	**Current Spot**
NSX (Delayed)	↑	1,340	1.03%	1,326	1,340
JSE All Share	↑	55,260	1.16%	54,628	54,935
SP500	→	2,776	0.00%	2,776	2,776
FTSE 100	↓	7,219	-0.24%	7,237	7,219
Hangseng	↑	28,347	1.60%	27,901	28,260
DAX	↓	11,299	-0.01%	11,300	11,299
JSE Sectors		**Last close**	**Change**	**Prev close**	**Current Spot**
Financials	↑	16,934	1.18%	16,737	16,846
Resources	↑	44,916	0.96%	44,487	44,445
Industrials	↑	65,902	1.32%	65,046	65,543
Forex		**Last close**	**Change**	**Prev close**	**Current Spot**
N$/US dollar	↑	14.10	0.29%	14.06	14.13
N$/Pound	↑	18.22	0.55%	18.12	18.24
N$/Euro	↑	15.94	0.43%	15.88	15.97
US dollar/ Euro	↑	1.131	0.13%	1.13	1.130
		Namibia		**RSA**	
Economic data		**Latest**	**Previous**	**Latest**	**Previous**
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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