



Market Update

Friday, 19 July 2019

Global Markets

Asian stocks rose on Friday after a top Federal Reserve official cemented expectations of a U.S. interest rate cut later this month, fueling appetite for riskier assets and keeping a cap on the dollar. In early European trade, pan-region Euro Stoxx 50 futures were up 0.63%, German DAX futures rose 0.63% and Britain's FTSE futures gained 0.46%. In oil markets, crude surged after the United States said its navy destroyed an Iranian drone in the Strait of Hormuz, a major chokepoint for global crude flows, raising concerns about supply disruptions out of the region.

New York Fed President John Williams said on Thursday that policymakers could not wait for economic disaster to hit before adding stimulus, in a speech read as a strong argument in favor of quick monetary action. The comments by Williams made it a virtual certainty the Fed would cut interest rates by 25 basis points (bps) at its July 30-31 policy meeting and also revived expectations of an even deeper 50 bps reduction.

Financial markets quickly reacted, with Fed fund rate futures at one point pricing in almost 70 percent chance of a 50 bp cut at the month-end meeting. The odds eased to around 40 percent after the New York Fed clarified that Williams' speech was not about immediate policy direction. "In July we expect central banks to ease across the globe, led by the Fed and the ECB," economists at Morgan Stanley wrote.

After rate cuts by South Africa and Ukraine this week, Russia and Turkey are expected to join the easing in the central and eastern European sphere, they added. South Korea and Indonesia also lowered rates this week, with countries such as Britain expected to eventually follow.

MSCI's broadest index of Asia-Pacific shares outside Japan was up 1%, bouncing back from the previous day's losses, while Japan's Nikkei advanced 2%. Wall Street shares shook off a sluggish start and moved higher overnight thanks to Williams' dovish comments. Elsewhere in Asia, the Shanghai Composite Index rose 0.8%, Australian stocks added 0.75% and South Korea's KOSPI gained 1.4%. The MSCI ex-Japan index climbed a modest 1%, as riskier assets were partly capped by U.S. President Donald Trump's reiteration of his threat to impose further duties on Chinese imports. The two sides resumed talks recently to seek an end to a year-long trade war that has rattled financial markets and slowed global growth. But most analysts don't expect an agreement any time soon, with some predicting a strong risk of further tariff escalation.

"Dovish Fed policy expectations do provide support for the equity markets, which are set to rebound after suffering losses the previous day," said Masahiro Ichikawa, senior strategist at Sumitomo Mitsui DS Asset Management. "But factors such as U.S.-China trade issues and tensions over Iran are likely to limit the markets' gains."

The dollar index against a basket of six major currencies stood little changed at 96.841 after losing roughly 0.5% overnight to a two-week low of 96.671 in the wake of comments from the Fed's Williams. The greenback was up 0.3% at 107.620 yen crawling away from a three-week trough of 107.210 on Thursday after the New York Fed's clarification of Williams' comments. The currency had previously lost 0.6% against its Japanese peer. The euro was 0.15% lower at \$1.1258 after climbing 0.45% the previous day.

U.S. Treasury yields were lower across the board in light of Williams' dovish views. The 2-year yield was at 1.7894% after touching a two-week low of 1.7520%. The 10-year yield declined to a 10-day trough of 2.023% and was last at 2.0465%.

In commodities, U.S. crude oil futures reversed a large part of the previous day's deep losses, rising 1.45% to \$56.10 per barrel. Crude rallied after the reports the U.S. Navy had destroyed the Iranian drone. Oil prices had fallen on Thursday amid expectations that output would rise in the Gulf of Mexico as operations resumed following last week's hurricane.

Spot gold extended the previous day's rally made on the prospects of lower U.S. interest rates and brushed a six-year high of \$1,452.60 an ounce, before pulling back a touch to \$1,443.41. Middle East tensions also helped boost safe-haven gold.

Source: Thomson Reuters

Domestic Markets

South Africa's rand rallied against the dollar on Thursday and bond yields fell after the central bank cut its main lending rate by 25 basis points in a widely expected move to counter floundering economic growth. At 1600 GMT, the rand was 0.93% higher at 13.8825 per dollar after closing at 14.0125 in previous session.

The South African Reserve Bank (SARB) cut rates by 25 basis points to 6.5% in a unanimous decision, its first easing since March 2018, although it struck a cautious tone suggesting future reductions to borrowing costs were not a foregone conclusion despite benign inflation. "Current domestic conditions unequivocally favored the SARB cutting rates, especially with the global macro climate of monetary policy easing meaning any rate cut will likely have a muted impact on South African assets," said market analyst at Monex Simon Harvey. The reaction in the rand was tame by historical standards, he added.

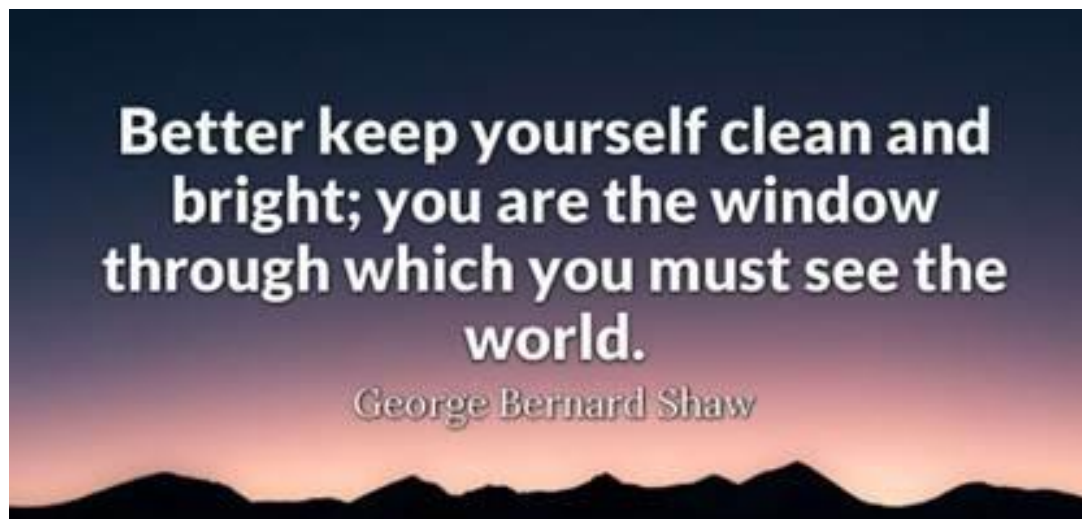
Growth in Africa's most industrialised economy contracted by a surprise 3.2% in the first quarter, swelling calls for the bank to do more to support consumer spending and corporate activity. But in a media briefing on Thursday the bank poured cold water on the long-term impact of lower lending rates, saying the weak economy was linked more to fiscal policies and a rate cut could only have a short term effect. The U.S. Federal Reserve is set to lower rates at its own policy meeting next week, a move likely to spur demand for higher-yielding emerging market assets, although South Africa's now lower lending rate may limit interest.

Traders said the rand in the meantime would likely see some increased volatility as investors looked for quick gains. Bonds also crossed a crucial psychological mark, with the yield on benchmark 2026 government bonds dipping below 8% to 7.975%, 5 basis points lower on the day.

Stocks closed higher, with miners, retailers and financial firms, all of which benefit from the interest rate decision or its effect on the rand, topping the Johannesburg Stock Exchange's blue-chip index. The JSE Top-40 index rose 0.33% to 51,733 points and the broader all-share index closed 0.37% higher at 57,847 points.

Among top-40 companies, the biggest gainer was British American Tobacco, up 5.9% on the back of rival Philip Morris' better-than-expected second quarter earnings and improved full-year outlook. Anglo American Platinum's performance was also boosted by positive second quarter results, lifting the stock 3.4%, with fellow miners AngloGold Ashanti, Goldfields and Exxaro close behind.

Source: Thomson Reuters



Market Overview

MARKET INDICATORS		19 July 2019			
Money Market TB's		Last close	Difference	Prev close	Current Spot
3 months	➡	7.00	0.000	7.00	7.00
6 months	➡	7.46	0.000	7.46	7.46
9 months	➡	7.69	0.000	7.69	7.69
12 months	➡	7.82	0.000	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)	➡	8.00	0.000	8.00	7.35
GC22 (BMK: R2023)	⬆	7.87	0.005	7.87	7.87
GC23 (BMK: R2023)	⬆	8.33	0.002	8.33	8.33
GC24 (BMK: R186)	⬆	8.97	0.365	8.60	8.60
GC25 (BMK: R186)	➡	8.64	0.000	8.64	8.64
GC27 (BMK: R186)	⬇	8.77	-0.052	8.83	8.77
GC30 (BMK: R2030)	⬇	9.58	-0.010	9.59	9.58
GC32 (BMK: R213)	⬇	9.74	-0.082	9.82	9.74
GC35 (BMK: R209)	⬇	10.34	-0.010	10.35	10.34
GC37 (BMK: R2037)	⬇	10.41	-0.045	10.45	10.41
GC40 (BMK: R214)	⬇	10.89	-0.015	10.91	10.89
GC43 (BMK: R2044)	➡	11.09	0.000	11.09	11.09
GC45 (BMK: R2044)	⬇	11.24	-0.015	11.26	11.24
GC50 (BMK: R2048)	⬇	11.54	-0.020	11.56	11.54
Inflation-Linked Bonds		Last close	Difference	Prev close	Current Spot
GI22 (BMK: NCPI)	➡	4.20	0.000	4.20	4.20
GI25 (BMK: NCPI)	➡	4.70	0.000	4.70	4.70
GI29 (BMK: NCPI)	➡	5.89	0.000	5.89	5.89
Commodities		Last close	Change	Prev close	Current Spot
Gold	⬆	1,446	1.36%	1,427	1,439
Platinum	⬆	849	0.71%	843	852
Brent Crude	⬇	61.9	-2.72%	63.7	62.8
Main Indices		Last close	Change	Prev close	Current Spot
NSX (Delayed)	⬆	1,338	0.54%	1,331	1,340
JSE All Share	⬆	57,873	0.41%	57,636	58,451
SP500	⬆	2,995	0.36%	2,984	2,995
FTSE 100	⬇	7,493	-0.56%	7,535	7,539
Hangseng	⬇	28,462	-0.46%	28,593	28,765
DAX	⬇	12,228	-0.92%	12,341	12,332
JSE Sectors		Last close	Change	Prev close	Current Spot
Financials	⬆	16,617	0.75%	16,493	16,806
Resources	⬇	46,368	-0.03%	46,380	46,832
Industrials	⬆	72,603	0.40%	72,316	73,320
Forex		Last close	Change	Prev close	Current Spot
N\$/US dollar	⬇	13.83	-1.24%	14.01	13.86
N\$/Pound	⬇	17.36	-0.31%	17.41	17.35
N\$/Euro	⬇	15.60	-0.78%	15.72	15.60
US dollar/ Euro	⬆	1.128	0.46%	1.122	1.125
		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



For enquiries concerning the Daily Brief please contact us at

Daily.Brief@capricorn.com.na

Disclaimer

The information contained in this note is the property of Capricorn Asset Management (CAM). The information contained herein has been obtained from sources which and persons whom the writer believe to be reliable but is not guaranteed for accuracy, completeness or otherwise. Opinions and estimates constitute the writer’s judgement as of the date of this material and are subject to change without notice. This note is provided for informational purposes only and may not be reproduced in any way without the explicit permission of CAM.

A member of  **Capricorn Group**
