



Market Update

Thursday, 20 June 2019

Global Markets

A gauge of global stock markets rose on Thursday while the dollar dropped and global bond yields plunged, with the 10-year U.S. yield falling below two percent, after the Federal Reserve signaled possible interest rate cuts later this year.

MSCI's broadest index of Asia-Pacific shares outside Japan rose 0.6% while Japan's Nikkei gained 0.6%. The MSCI ACWI, which incorporates readings of 49 equity markets across the world, gained 0.3% on Thursday. It has recovered a large part of its 6.7% losses made after U.S. President Donald Trump threatened new tariffs on all of China's imports last month. Signs that China and the United States are returning to the negotiating table after a six-week hiatus also bolstered risk sentiment.

The rally in stocks comes as a host of Asian central banks are scheduled to hold policy meetings later in the day, with most expected to flag moves toward looser monetary settings. The Bank of Japan kept monetary policy steady on Thursday, preferring to save its dwindling ammunition, but speculation is rising it may further loosen its ultra-easy stance later this year.

On Wall Street, the S&P 500 gained 0.3% to 2,926, just 19 points off its record closing high hit on April 30.

The U.S. Federal Reserve on Wednesday signaled interest rate cuts beginning as early as July, saying it is ready to battle growing global and domestic economic risks as it took stock of rising trade tensions and growing concerns about weak inflation. The bulk of Fed policymakers slashed their rate outlook for the rest of the year by roughly half a percentage point, and Fed Chairman Jerome Powell said others agree the case for lower rates is building.

Many investors viewed the overall tone as more dovish than their expectations, sending the 10-year U.S. Treasuries yield to as low as 1.974%, its lowest level since November 2016. It was as high as 2.8% in January.

Japanese 10-year bond yields slipped 1.5 basis points to minus 0.155%, matching three-year lows while Australian yield hit a record low below 1.3%.

U.S. money market derivatives, such as Fed funds futures and overnight indexed swaps, are fully pricing in a rate cut of 25 basis points at next policy review on July 30-31, with about one-third chance of a bigger 50 basis point cut. A total of 75 basis point reduction is priced in by the end of year.

The Chinese yuan has recovered over the past couple of days on hopes of U.S.-China talks next week on the sideline of Group of 20 summit. The offshore yuan traded flat at 6.8916 to the dollar, after having hit a five-week high of 6.8835 earlier. The euro rose 0.3% to \$1.1254 after the Fed's dovish signals undermined the dollar's yield attraction. The dollar fell 0.5% on the yen to hit a five-month low of 107.57 yen extending losses after the Bank of Japan stood pat on policy. The British pound rebounded 0.25% to \$1.2674 from Tuesday's 5-1/2-month low of \$1.2507 as investors trimmed their short bets before the Bank of England's policy meeting on Thursday where it may strike a more hawkish tone than those of its peers.

Gold jumped above its long-held resistance around \$1,350 per ounce to hit its highest level since September 2013, rising to as high as \$1,392.3. It last stood at \$1,362.20, up 1.4%.

Oil prices held firm, underpinned by a larger-than-expected decline in U.S. crude inventories. U.S. West Texas Intermediate (WTI) crude futures rose 1.1% to \$54.33 a barrel. Members of the Organization of the Petroleum Exporting Countries (OPEC) agreed to meet on July 1, followed by a meeting with non-OPEC allies on July 2, after weeks of wrangling over dates. Oil producers will discuss whether to extend a deal on cutting 1.2 million barrels per day of production that runs out this month.

Source: Thomson Reuters

Domestic Markets

South Africa's rand dipped in late trade on Wednesday as investors took profits from a strong rally in the previous session ahead of a closely-watched policy decision by the U.S. Federal Reserve. At 1520 GMT the rand was 0.12% weaker at 14.5250 per dollar after a close of 14.5075 overnight, losing some momentum after posting a two-week high of 14.4700 earlier in the day.

A pledge by President Cyril Ramaphosa on Tuesday to give more support to cash-strapped power utility Eskom, combined with an increasingly dovish outlook from U.S. and Eurozone central banks saw the rand gain by its most in a single session since Jan. 4.

Ramaphosa is likely to give details of the Eskom support in his state of the nation address on Thursday as pressure mounts on him to deliver on his election pledge to jump-start flagging growth and avoid losing the country's investment-grade credit rating.

Investor hopes that the U.S. Federal Reserve will soon cut rates and subdued inflation data at home are set to keep demand for the rand healthy.

Bonds were firmer, with the yield on the benchmark paper due in 2026 falling 7 basis points to 8.18%, its best since April 2018.

Stocks ended weaker, with the benchmark Johannesburg Stock Exchange's (JSE) Top-40 Index down 0.11% to 52,534 points while the broader All-Share Index closed 0.13% lower at 58,553.

Tobacco company British American Tobacco was one of the blue-chip index's worst performers, falling 2.14% while retail company Mr Price dropped 1.79%. Scandal-hit Steinhoff saw its locally-listed shares slide nearly 9% after the firm reported a 1.2 billion euro (\$1.3 billion) annual loss and warned that the massive accounting scandal it faces would likely cause further damage to operations.

Source: Thomson Reuters

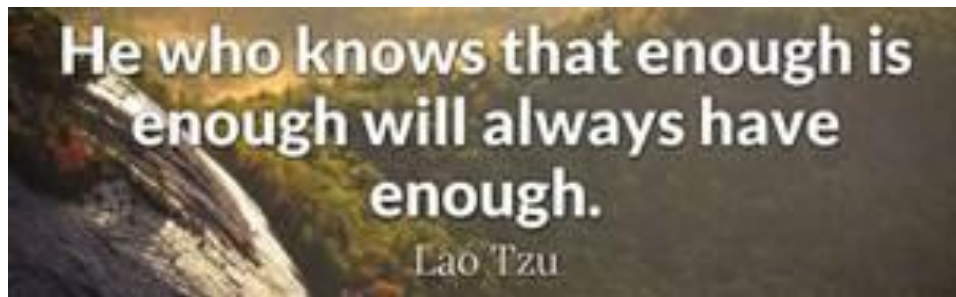
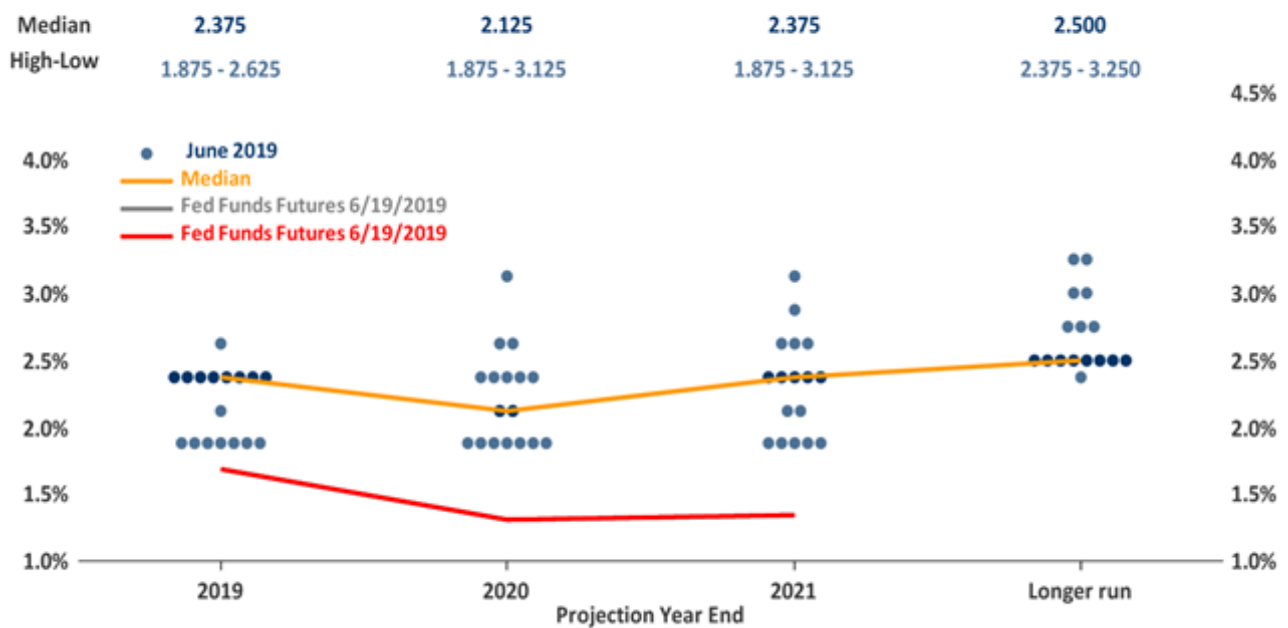


Chart of the Day – Namibia Inflation in May 2019 at 4.1%

In the wake of the FOMC (Federal Open Market Committee) meeting, market expectations are now for a significant cut in interest rates in the USA. The Chairman of the Fed has signaled that cuts are on the cards. This means that, globally, central banks will be able to lean heavily towards monetary stimulus, including the SARB (South African Reserve Bank) and the BoN (Bank of Namibia). We now expected them to lower rates in July (SARB) and August (BoN).

US Fed Projections - the "Dot Plot"

from latest meeting of the FOMC



Source: Thomson Reuters Datastream, Capricorn Asset Management

Market Overview

MARKET INDICATORS			20 June 2019		
Money Market TB's		Last close	Difference	Prev close	Current Spot
3 months	⇒	7.18	0.000	7.18	7.15
6 months	⇒	7.61	0.000	7.61	7.60
9 months	⇒	7.83	0.000	7.83	7.82
12 months	⇒	8.09	0.000	8.09	8.08
Bonds		Last close	Difference	Prev close	Current Spot
GC21 (BMK: R208)	⇒	7.55	0.000	7.55	7.55
GC24 (BMK: R186)	↓	8.90	-0.095	9.00	8.90
GC27 (BMK: R186)	↓	8.99	-0.090	9.08	8.99
GC30 (BMK: R2030)	↓	9.94	-0.075	10.01	9.94
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	↑	1,360	1.02%	1,346	1,386
Platinum	↑	811	1.38%	800	817
Brent Crude	↓	61.8	-0.51%	62.1	63.0
Main Indices		Last close	Change	Prev close	Current Spot
NSX (Delayed)	↑	1,396	0.73%	1,386	1,396
JSE All Share	↓	58,565	-0.11%	58,629	58,565
SP500	↑	2,926	0.30%	2,918	2,926
FTSE 100	↓	7,404	-0.53%	7,443	7,404
Hangseng	↑	28,202	2.56%	27,499	28,457
DAX	↓	12,309	-0.19%	12,332	12,309
JSE Sectors		Last close	Change	Prev close	Current Spot
Financials	↑	17,346	1.29%	17,124	17,346
Resources	↓	46,901	-0.62%	47,194	46,901
Industrials	↓	72,870	-0.42%	73,179	72,870
Forex		Last close	Change	Prev close	Current Spot
N\$/US dollar	↓	14.31	-2.16%	14.63	14.29
N\$/Pound	↓	18.09	-1.52%	18.36	18.16
N\$/Euro	↓	16.06	-1.88%	16.37	16.12
US dollar/ Euro	↑	1.122	0.29%	1.119	1.128
		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

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