



Market Update

Monday, 21 January 2019

Domestic markets

South Africa's rand was weaker on Friday, a day after the central bank adopted a less hawkish tone at its monetary policy meeting. At 1615 GMT, the rand traded at 13.7925 per dollar, 0.5 percent lower than its previous close.

The South African Reserve Bank kept its benchmark repo rate unchanged at 6.75 percent on Thursday, as expected, but noted an improved near-term inflation outlook. Its models now forecast just one interest rate increase by the end of 2021, thanks to lower expectations for global oil prices and a stronger rand prediction.

"Given policymakers' change of heart, we now expect that they will keep their key rate on hold for the duration of 2019. Indeed, we think that attention will soon focus on the possibility of rate cuts," Capital Economics said in a research note.

In fixed income, the yield on South Africa's benchmark 2026 government bond rose 9.5 basis points to 8.895 percent on Friday, reflecting weaker bond prices.

Local equities rose in line with global markets, after a report suggesting there had been progress in resolving the trade dispute between the United States and China, South Africa's biggest trading partner.

On the Johannesburg Stock Exchange, the Top-40 index gained 0.61 percent to 47,585 points, while the All-share index rose 0.55 percent to 53,731 points.

Among the top risers, Shoprite gained 2.05 percent to 190.07 rand and bourse heavyweight Naspers rose 0.62 percent to 3,062.52 rand.

Source: Thomson Reuters

Offshore

U.S. stocks rallied on Friday, helping Wall Street's major indexes advance for the fourth consecutive week, as increased hopes the United States and China would resolve their trade dispute lifted shares across sectors.

The market was boosted after a Bloomberg report said China sought to raise its annual goods imports from the United States by a combined value of more than \$1 trillion in order to reduce its trade surplus to zero by 2024.

The news followed a report on Thursday that U.S. Treasury Secretary Steven Mnuchin was considering lifting some or all tariffs imposed on Chinese imports. A Treasury spokesman denied Mnuchin had made any such recommendation.

A strong rally in January has put the benchmark S&P 500 index on track for its best monthly gain since March 2016. The S&P 500 is now 8.9 percent below its Sept. 20 record close after dropping 19.8 percent below that level - near the 20-percent threshold commonly considered to confirm a bear market - on Christmas Eve.

"It's risk-on again," said Tim Ghriskey, chief investment strategist at Inverness Counsel in New York. "We've gotten an olive branch from China regarding trade. Obviously there's been a very positive reaction from the market."

The Dow Jones Industrial Average rose 336.25 points, or 1.38 percent, to 24,706.35, the S&P 500 .SPX gained 34.75 points, or 1.32 percent, to 2,670.71 and the Nasdaq Composite .IXIC added 72.77 points, or 1.03 percent, to 7,157.23.

For the week, the Dow rose 2.96 percent, the S&P 500 gained 2.87 percent, and the Nasdaq added 2.66 percent. All three indexes registered their biggest four-week percentage gain since October 2011. U.S. stock markets will be closed on Monday for the Martin Luther King Jr. holiday.

Industrial stocks rose 1.9 percent, the second-most among the S&P 500's major sectors, while the Philadelphia SE semiconductor index climbed 2.3 percent. Both groups of shares have been sensitive to trade developments. Technology stocks were the biggest boost to the S&P 500, rising 1.5 percent.

Even with the session's gains, relatively light trading volume during the week indicated some investors were still waiting on the sidelines. On Friday, volume on U.S. exchanges was 7.99 billion shares, compared to the 8.44 billion average over the last 20 trading days. "A lot of people have liquidated their positions coming into earnings so that they can react quickly as earnings come out," said Mark Otto, global market commentator at GTS in New York. Analysts have lowered their fourth-quarter earnings forecast for S&P 500 companies to 14.2 percent year-over-year growth from 20.1 percent estimated on Oct. 1, according to IBES data from Refinitiv.

Shares of Schlumberger NV SLB.N jumped 8.1 percent after the oilfield services provider reported quarterly revenue that beat estimates. Shares of Netflix, however, fell 4.0 percent after the video-streaming company forecast lower-than-expected revenue for the first quarter.

Advancing issues outnumbered declining ones on the NYSE by a 2.93-to-1 ratio; on Nasdaq, a 2.26-to-1 ratio favored advancers. The S&P 500 posted three new 52-week highs and no new lows; the Nasdaq Composite recorded 32 new highs and 22 new lows.

Source: Thomson Reuters

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— & —
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Chart of the Day

The latest economic indicators out of China, such as real GDP growth, confirm that the second largest economy of the world is slowing down, however, not disastrously so. The growth rate of 6.4% in the last quarter meant that for 2018 as whole, the economy grew by 6.6%. This is still strong growth, but is the slowest since 1992 (see chart). The previous times that growth was this low, was at the turn of the millennium (who still remembers “Y2K”?) and during the Great Credit Crisis of 2008-09.

Some of the factors at play are:

- Slowing domestic demand as consumer confidence has been waning. Solid wage growth is being overshadowed by uncertainties.
- Bruising USA tariffs and slowing global demand are slowing export growth.
- Fixed investment spending is weighed down by a clampdown on debt creation.

Trends in the Chinese economy are important for commodity exporters, such as Namibia and SA, and global corporate profits (see Apple’s latest results). It has been the main engine of global economic growth for a number of years.

We expect that policy makers in China will continue to react to the slow-down by implementing stimulatory measures. These might include interest rate cuts, infrastructure spending, continuing to lower the banks’ reserve requirement ratios and even tax cuts. However, the slowdown is likely to remain evident for quite a while until these measures start to have an effect.



Source: Thomson Reuters Datastream, Capricorn Asset Management

Market Overview

MARKET INDICATORS		21 January 2019			
Money Market		Last close	Difference	Prev close	Current Spot
3 months	↓	7.22	-0.010	7.23	7.21
6 months	↓	7.93	-0.003	7.93	7.91
9 months	↓	8.25	-0.001	8.25	8.22
12 months	↓	8.38	-0.002	8.38	8.37
Bonds		Last close	Difference	Prev close	Current Spot
GC21 (BMK: R208)	↑	8.13	0.005	8.12	8.17
GC24 (BMK: R186)	↑	9.80	0.045	9.75	9.87
GC27 (BMK: R186)	↑	10.00	0.020	9.98	10.10
GC30 (BMK: R2030)	↑	10.65	0.018	10.63	10.57
GI22 (BMK: NCPI)	→	4.74	0.000	4.74	4.74
GI25 (BMK: NCPI)	→	5.26	0.000	5.26	5.26
GI29 (BMK: NCPI)	→	5.95	0.000	5.95	5.95
Commodities		Last close	Change	Prev close	Current Spot
Gold	↓	1,281	-0.80%	1,291	1,282
Platinum	↑	816	1.30%	805	796
Brent Crude	↑	62.7	2.48%	61.2	62.6
Main Indices		Last close	Change	Prev close	Current Spot
NSX (Delayed)	↑	1,330	0.42%	1,324	1,331
JSE All Share	↑	53,732	0.55%	53,436	54,016
SP500	↑	2,671	1.32%	2,636	2,671
FTSE 100	↑	6,968	1.95%	6,835	6,965
Hangseng	↑	27,091	1.25%	26,756	27,166
DAX	↑	11,206	2.63%	10,919	11,206
JSE Sectors		Last close	Change	Prev close	Current Spot
Financials	↑	16,936	0.11%	16,918	16,965
Resources	↑	41,056	1.00%	40,649	41,199
Industrials	↑	65,115	0.64%	64,702	65,762
Forex		Last close	Change	Prev close	Current Spot
N\$/US dollar	↑	13.83	0.82%	13.72	13.89
N\$/Pound	↓	17.80	-0.05%	17.81	17.87
N\$/Euro	↑	15.71	0.53%	15.63	15.81
US dollar/ Euro	↓	1.136	-0.30%	1.14	1.139
Economic data		Namibia		RSA	
		Latest	Previous	Latest	Previous
Inflation	↓	5.1	5.6	5.2	5.1
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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