Market Update

Wednesday, 23 January 2019

Domestic markets

The rand slipped on Tuesday, as fears about the health of the global economy dampened appetite for riskier emerging market assets. At 1435 GMT, the rand was 0.2 percent weaker versus the dollar at 13.8575.

The International Monetary Fund's warning of a darkening economic outlook after China's confirmation of its slowest growth rate in nearly 30 years were among factors weighing on investor sentiment.

"Ongoing uncertainty over the Sino-U.S. trade war and a cooling Chinese economy are likely to push risk-averse investors towards safe-haven currencies," said Jee-A van der Linde, an economist at NKC African Economics. "The rand is expected to remain under pressure."

The rand fell by more than 13 percent against the dollar in 2018 but is up around 3.5 percent since the end of last year, helped by a retreat in the dollar in early January.

On the Johannesburg stock market, the Top-40 index was down 0.4 percent at 47,865 points, while the broader All-share index fell 0.3 percent to 53,974 points.

South African government bonds bucked the weaker trend, edging higher as the yield on the benchmark 2026 instrument fell 4.5 basis points to 8.855 percent.

Eastern Markets

China and Hong Kong stocks rose on Wednesday, as Beijing vowed to boost fiscal spending to shore up economic growth, though gains were curbed by worries over the Sino-U.S. trade dispute.

The CSI300 index inched up 0.1 percent to 3,144.84 points at the end of the morning session, while the Shanghai Composite Index gained 0.1 percent to 2,581.62 points. The Hang Seng index added 0.1 percent to 27,021.90 points, while the Hong Kong China Enterprises Index gained 0.3 percent to 10,648.38 points.

China will step up fiscal spending this year to support its economy, focusing on further cuts in taxes and fees for small firms, finance ministry officials said on Wednesday. Mounting pressure on the world's second-biggest economy pushed growth last year to its lowest since 1990 even as Beijing stepped up stimulus measures and spurred banks to lend more.

Putting a dent on sentiment was a report by the Financial Times that the Trump administration had rejected an offer from China for preparatory trade talks this week ahead of high-level negotiations scheduled for next week. White House economic adviser Larry Kudlow pushed back against reports that a preliminary trade meeting between U.S. and Chinese officials was cancelled, saying the story was not true. As much as U.S. President Donald Trump wants to boost markets through a trade pact with China, he will not soften his position that Beijing must make real structural reforms, including how it handles intellectual property, to reach a deal, advisers say.

Huawei suppliers and Chinese telecom stocks sagged in the morning trade, after United States said it will seek extradition of the telecoms giant's CFO. Around the region, MSCI's Asia ex-Japan stock index was weaker by 0.08 percent, while Japan's Nikkei index was up 0.03 percent. The yuan was quoted at 6.787 per U.S. dollar, 0.3 percent firmer than the previous close of 6.8076.

So far this year, the Shanghai stock index is up 3.44 percent, while China's H-share index is up 4.8 percent. Shanghai stocks have risen 3.44 percent this month.

Source: Thomson Reuters

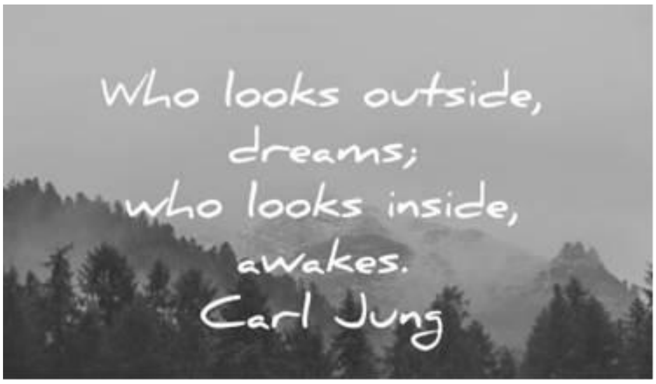
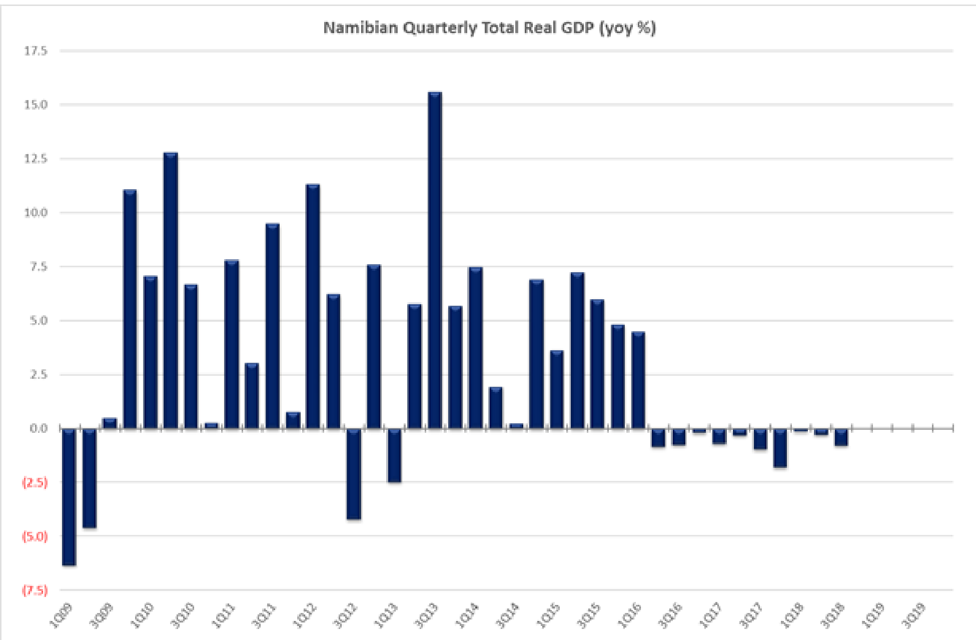


Chart of the Day - The future is not what it used to be

The Namibian economy will probably show marginally positive growth in 2019 of 1.5% in real terms. This outcome will largely be the result of a "flattening" out of the down cycle rather than a real recovery. The down-cycle has been evident since 2016 and carried over throughout 2017 and 2018. In fact, we expect that the economy as a whole contracted in 2018 in real terms.



Amongst the primary sectors, 2018 was a mixed year with Agriculture and Fishing struggling, whilst Mining experienced a bounce. For the latter, it was only the second positive year over the past five. We look for somewhat positive growth from these three sectors in 2019.

Similarly, amongst the secondary sectors, 2018 was mixed, with Manufacturing contacting by an estimated 5, whereas Electricity & Water and Construction are expected to have done reasonably well. Bear in mind that Construction contracted by more than 25% in each of the preceding two years – a sharp, severe recession in the sector. Looking forward, there should be somewhat of a recovery from a low base in these sectors.

The tertiary sector, encompassing mostly services, is where, amongst others, the role of Government is taken into account. The Fiscus has been under tremendous pressure which, of necessity, stifled growth in Government spending and, hence, economic growth. Retail & Wholesale trade has contracted by an estimated 4.9% in 2018. Some other industries like Transport, Post & Telecoms, Financial, Real Estate and Business services were positive, but Hotels & Restaurants were negative, according to the official National Accounts.

Ideally, in a situations like this, a country could use fiscal policy to stimulate the economy. Increasing spending on, say, infrastructure or wages gives final demand in the economy a boost and hence lifts the growth rate. However, Namibia does not have any fiscal manoeuvrability – debt levels, spending levels and deficits are already too high and threatens the country's credit worthiness.

Another option is a tax cut which leaves more disposable income in the pockets of tax payers. They then might opt to increase their spending and hence lift the growth rate. However, this means that the Government's deficit will increase and therefore, runs into the same fiscal constraints. In fact, the pressures are such that Namibians are likely facing tax hikes rather than cuts. A tax cut may also worsen the balance of payments deficit if it leads to increased imports.

As far as inflation goes, it is quite possible that Namibia will have a somewhat higher rate in 2019, before it decreases again in 2020. Seasonal patterns in the constituents of the inflation basket as well as low inflation in early 2018, the so-called base effect", will probably contribute to a 6% plus rate at times during the year. Thereafter, we expect it to average about 5.5% in 2020. This means that Namibians should not expect wage increases much above 5% - 6%.

The lower petrol price and a stronger-than-expected currency will also help to ensure that, as in Namibia, there won't be a break-out in inflation in neighbouring SA. In fact, the South African Reserve Bank (SARB) lowered its inflation outlook and now does not expect inflation to breach the upper band of 6% at any stage over the next three years.

This means that policy driven interest rates will largely be stable in Namibia and SA for the foreseeable future in the absence of black swans (nasty surprises). The weakness in the real economy does not justify higher interest rates. On the contrary it rather calls for policy support, which increases talk that the next move in rates could be down.

Global developments also aligns with lower rather than higher interest rates and do not offer much support for the real economy. The Chinese economy is slowing due to bruising tariffs, weaker consumer confidence and lower demand for its exports. This is not good news for commodity exporters. Europe is beset with issues that are growth negative – Brexit, Yellow Vests and bad loans. Germany, and for that matter, Japan are struggling to prevent an economic contraction. The USA economy seems to be going strong. However, deteriorating global sentiment and domestic political shenanigans, coupled with rising interest rates are stoking fears that a recession is not far away.

The world is experiencing a growth scare similar to that of late 2015 and early 2016. This has affected financial markets badly, especially equity markets – the S&P500, the JSE, Nikkei etc. Markets usually stop panicking when policy makers start to panic and then, after exhausting all other avenues, decide to do the right thing.

Our wish-list for 2019 and beyond is as follows:

- A good rainy season. This will give agriculture a boost. Even though it has become smaller and smaller as a % of GDP, agriculture affects an outsized number of people directly and the knock on effects are significant. There seems to be a high degree of uncertainty regarding what to expect from the rainy season. Further afield, a weak form of El Nino seems to be developing, which may or may not have an impact on Namibia's rain as well as global food prices.
- An external boost to the economy like good rains may just be the tipping point to get us through the worst. Another positive boost could come from better-than-expected intra-regional trade, which will boost the income pool of the Southern African Customs Union. This in turn will alleviate the pressure on the Fiscus and might prevent tax hikes.
- Sanity prevails in the political arena. This include a sensible resolution to the bruising global trade war, the US government shutdown and Brexit, amongst other things. Add to this the wish that elections in Namibia and SA this year lead to outcomes that are better for all concerned. Remember that the decibels will rise sharply in the run-up to these.
- Clarity and sensibility as far as domestic policy issues are concerned. It is critically important that these are settled. The golden thread that runs through the modern economic system and holds it all together is confidence. And confidence is based on clarity of purpose and predictability of policy. Here we refer to things like legislative changes, land reform, NEEEF, tax rates and the currency peg – all of which have been hot topics of late.

Then our entrepreneurs will not lose heart. We desperately need them to create, or, at least, maintain, jobs. This is an environment where we must all show our mettle and draw on the reservoirs of goodwill that exist within the nation.

As far as investment portfolio implications go, then, a cautious approach is still called for. Interest bearing assets should continue to provide a reasonably attractive, nearly risk-free return in a fluid and uncertain macro environment. This means that money market returns and bond yields, generally, remains attractive vs. other asset classes as well as vs. inflation.

Inflation linked bonds are also an asset class that deserves consideration. It protects income and capital against inflation and as such serves as a hedge against "de-pegging" risk.

Perhaps the best cautious approach is to stick to a plan and/or a strategy that is in line with one's personal goals, circumstances, risk tolerance and time horizon. By all means, rebalance a bit. However, bear in mind that asset values have already adjusted and are now discounting to the present (present value) a very bleak outlook (future value). The future may not be what it used to be, but it should prove to be better than what is currently expected.

Market Overview

MARKET INDICATORS					23 January 2019
Money Market		**Last close**	**Difference**	**Prev close**	**Current Spot**
3 months	⬇	7.19	-0.012	7.21	7.16
6 months	⬇	7.90	-0.008	7.91	7.88
9 months	⬇	8.22	-0.002	8.22	8.21
12 months	⬇	8.37	-0.002	8.37	8.36
Bonds		**Last close**	**Difference**	**Prev close**	**Current Spot**
GC21 (BMK: R208)	⬆	8.23	0.060	8.17	8.16
GC24 (BMK: R186)	⬇	9.77	-0.040	9.81	9.83
GC27 (BMK: R186)	⬇	9.98	-0.120	10.10	10.06
GC30 (BMK: R2030)	⬆	10.75	0.085	10.67	10.64
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	⬆	1,285	0.40%	1,280	1,283
Platinum	⬇	788	-0.38%	791	792
Brent Crude	⬇	61.5	-1.98%	62.7	61.8
Main Indices		**Last close**	**Change**	**Prev close**	**Current Spot**
NSX (Delayed)	⬇	1,323	-0.01%	1,324	1,323
JSE All Share	⬇	54,078	-0.11%	54,139	54,078
SP500	⬇	2,633	-1.42%	2,671	2,633
FTSE 100	⬇	6,901	-0.99%	6,971	6,901
Hangseng	⬇	27,005	-0.70%	27,197	27,030
DAX	⬇	11,090	-0.41%	11,136	11,090
JSE Sectors		**Last close**	**Change**	**Prev close**	**Current Spot**
Financials	⬆	16,960	0.30%	16,909	16,960
Resources	⬇	40,983	-0.43%	41,161	40,983
Industrials	⬇	66,117	-0.22%	66,263	66,117
Forex		**Last close**	**Change**	**Prev close**	**Current Spot**
N$/US dollar	⬆	13.95	0.61%	13.87	13.93
N$/Pound	⬆	18.08	1.12%	17.88	18.05
N$/Euro	⬆	15.85	0.56%	15.76	15.83
US dollar/ Euro	⬇	1.136	-0.05%	1.14	1.137
		Namibia		**RSA**	
Economic data		**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

For enquiries concerning the Daily Brief please contact us at

Daily.Brief@capricorn.com.na

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