Market Update Thursday, 24 January 2019

Domestic markets

The South African rand rallied against a weaker dollar on Wednesday as top trading partner China pledged more fiscal spending to support its own slowing economy. But local stocks slipped as bourse heavyweight Naspers fell. At 1610 GMT, the rand ZAR=D3 traded at 13.8350 versus the dollar, 0.9 percent firmer than its previous close and mirroring gains seen in other emerging market currencies.

The South African currency has taken its cue from global drivers for much of this month, first from expectations that the pace of U.S. monetary tightening will slow this year and more recently from concerns over global growth. The signal from Chinese finance ministry officials on Wednesday that the world's second-largest economy will increase stimulus measures this year helped ease concerns about demand for South Africa's commodity-heavy exports.

Data showing South Africa's consumer inflation fell significantly in December, to 4.5 percent from 5.2 percent in the previous month, barely moved the rand. The inflation reading was in line with the forecasts of economists polled by Reuters. It added to evidence that the central bank is unlikely to raise interest rates at its next monetary policy meeting in March. "We expect that inflation will remain within target this year, and that attention will soon turn back to rate cuts," Capital Economics said in a research note.

South African government bonds edged higher on Wednesday, as the yield on the benchmark 2026 instrument fell 3 basis points to 8.82 percent.

Stocks closed slightly lower, with the Johannesburg Stock Exchange's All-share index down 0.3 percent to 53,915 points and the Top-40 index down 0.4 percent to 47,742 points.

Internet and entertainment group Naspers was the biggest faller on the blue-chip index, falling 3.2 percent to 3,050 rand. Trader Greg Davies of Cratos Capital said Naspers was likely dragged down by bad news for Chinese tech giant Tencent 0700.HK, in which it holds a more than 30 percent stake. Tencent was singled out by China's cyber watchdog for spreading "vulgar information" via one of its apps. The regulator ordered the platform to make changes, as it deleted thousands of other mobile apps.

Eastern Markets

Japan's Nikkei edged lower on Thursday morning as lingering concerns about the global economy and international trade frictions hurt sentiment, but chip-related stocks outperformed after Texas Instruments alleviated worries about chip demand.

The Nikkei share average dropped 0.4 percent to 20,506.81 at the midday break, but managed to stay above its 25-day moving average of 20,447.77. Index-heavy Fast Retailing 9983.T slumped 2.6 percent and contributed a hefty 50 negative points to the index.

Turnover has been low recently as investors are on the sidelines, analysts said. On the Tokyo Stock Exchange's main board, turnover was below 2 trillion yen for the past three days. "Investors are not overly pessimistic about Japanese equities' fundamentals despite weak earnings from some companies such as Nidec," said Takuya Takahashi, a strategist at Daiwa Securities. With the International Monetary Fund cutting its global growth outlook on Monday, investor sentiment has stayed sour, he said. The IMF cut its 2019 and 2020 global growth forecasts, citing a bigger-than-expected slowdown in China and the Eurozone, and said failure to resolve trade tensions could further destabilise a slowing global economy.

Bucking the weakness, chip equipment makers Advantest Corp surged 4.5 percent, Tokyo Electron jumped 3 percent and Nikon Corp, which makes stepper, rallied 5 percent, after Texas Instruments Inc beat Wall Street's profit estimates. Investors had feared the worst after warnings of a slowing smartphone market from Apple Inc AAPL.O.

On the brighter side, hopes for Pope Francis's proposed visit to Japan in November - the first do so since John Paul II nearly 40 years ago - lifted tourism-linked stocks. According to Kyodo News, he has expressed his desire to visit the atomic-bombed cities of Hiroshima and Nagasaki and offer prayers for the victims of the U.S. atomic bombings of the cities. The Kyodo report pushed up travel agency firm H.I.S. Co, which rose 1.5 percent and Ringer, which operates Nagasaki-style noodle restaurants, advanced 0.2 percent. Kyushu Railway rose 0.1 percent, outperforming the rail road sector which fell 0.7 percent and was the worst sectoral performer.

The broader Topix was flat at 1,547.10.

US Markets

Wall Street ended slightly higher on Wednesday after a spate of upbeat earnings reports, but lingering concerns about trade tensions and the longest U.S. government shutdown ever limited the advance. All three major U.S. stock indexes closed in positive territory, with the blue chip Dow Jones Industrial Average seeing the biggest gains on positive quarterly results from International Business Machines, Procter & Gamble Co and United Technologies.

Investor sentiment was dampened by reports that business leaders gathered at the World Economic Forum in Davos, Switzerland, were losing confidence in President Donald Trump's policies that have resulted in the prolonged U.S.-China trade stand-off. Uncertainty persisted in Washington, where no end to the longest-ever federal government shutdown appeared to be in sight.

The United States could see zero growth in the first quarter if the shutdown extends through March, according to White House economic adviser Kevin Hassett on Wednesday. "The headlines coming out of Davos are rehashing some of the pessimism," said Matthew Keator, partner in the Keator

Group, a wealth management firm in Lenox, Massachusetts. "We are in a more anxious market here, coming off the lows of the fourth quarter," Keator added. "People's wounds are still fresh."

Still, a spate of positive earnings helped boost the Dow. IBM provided the biggest boost to the Dow, rising 8.5 percent after cloud and software services helped its profit come in above analyst estimates and the company offered better-than-expected guidance for 2019. Procter & Gamble advanced 4.9 percent after the company upped its full-year sales forecast and took advantage of price increases and strong demand to beat analyst earnings estimates. United Technologies reported a better-than-expected fourth-quarter profit and forecast 2019 earnings above analyst estimates. The industrial conglomerate's stock ended the session 5.4 percent higher.

The Dow Jones Industrial Average rose 171.14 points, or 0.7 percent, to 24,575.62, the S&P 500 gained 5.8 points, or 0.22 percent, to 2,638.7 and the Nasdaq Composite added 5.41 points, or 0.08 percent, to 7,025.77.

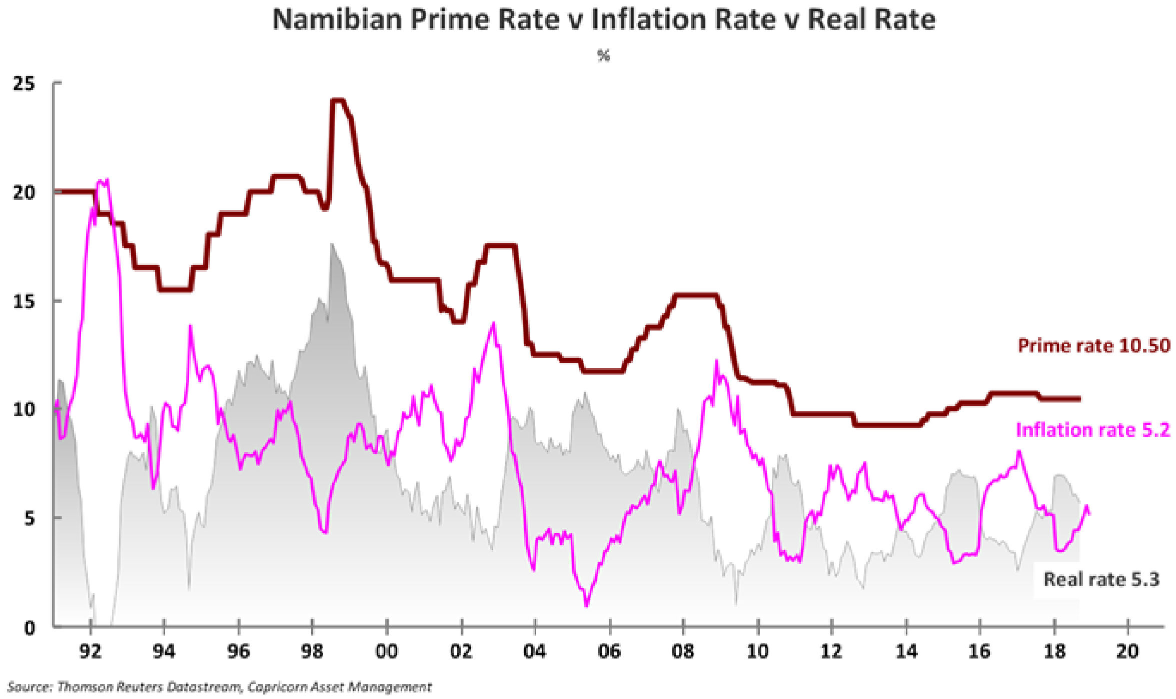
Of the 11 major sectors of the S&P 500, only energy and materials closed in the red.

Fourth-quarter reporting season is in full swing, and of the 15 percent of S&P 500 companies that have reported, 77.6 percent have beaten analyst estimates, according to Refinitiv data. Analysts now see S&P 500 earnings growth of 14.2 percent in the quarter.

Comcast Corp CMCSA.O rose 5.5 percent after the top U.S. cable service provider posted better-than-expected earnings and announced it would raise its dividend by 10 percent. Shares of Tesla dropped 3.8 percent after the electric automaker said it was reducing production hours for higher-priced Model S and Model X cars, days after announcing job cuts. After the bell, Ford Motor Co reported lower operating profit in the fourth quarter, weighed down by losses in every global region but North America. Advancing issues outnumbered declining ones on the NYSE by a 1.05-to-1 ratio; on Nasdaq, a 1.02-to-1 ratio favored decliners. The S&P 500 posted 4 new 52-week highs and 1 new low; the Nasdaq Composite recorded 16 new highs and 45 new lows. Volume on U.S. exchanges was 6.83 billion shares, compared to the 7.82 billion average over the last 20 trading days.

Source: Thomson Reuters

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



The chart reveals interesting trends over the past nearly three decades. During the late 80's and early 90's inflation rates of 15%+ were not uncommon – this was a period of high double digit inflation rates and prime interest rates of 20%+. See the surge in the latter around 1998 – the LTCM Russian Emerging Market Debt crisis. During the mid- to late 90's inflation established a firm down trend. This was reversed around the end of the millennium with a currency blow-out. This was one of the previous times that the "world ended". Inflation then fell sharply in the mid-2000's from this high base. During the global boom period of 2003 to 2007 it picked up again and then it was further boosted by a food price crisis. Since the Great Credit Crisis of 2008 (another time that the "world ended"), in a deflationary world, inflation reached a structurally lower level where it bottomed at around 3% and peaked at between 7% and 8%. This was helped along firmly by Namibian membership of the CMA (common monetary area) and the currency peg to the rand. This linked Namibia into the inflation targeting approach of the SARB. Their target band of 3% to 6% brought about price stability, but more importantly, it anchored inflation expectations and enhanced the predictability of monetary policy.

Currently we expect that inflation (depicted by the pink line) will drift a bit higher over the coming year, but not enough to trigger a policy response that would lift prime rate (dark red line). This means that the real prime rate, which is the difference between the two (depicted by the shaded area) should fall a bit – it could go to around 3.5%. Over the past six years it has actually bottomed at around 2.5%.

Market Overview

MARKET INDICATORS					24 January 2019
Money Market		**Last close**	**Difference**	**Prev close**	**Current Spot**
3 months	⬇	7.16	-0.036	7.19	7.14
6 months	⬇	7.88	-0.022	7.90	7.92
9 months	⬇	8.21	-0.004	8.22	8.21
12 months	⬇	8.36	-0.006	8.37	8.35
Bonds		**Last close**	**Difference**	**Prev close**	**Current Spot**
GC21 (BMK: R208)	⬇	8.19	-0.040	8.23	8.12
GC24 (BMK: R186)	⬇	9.74	-0.030	9.77	9.69
GC27 (BMK: R186)	⬇	9.95	-0.030	9.98	10.05
GC30 (BMK: R2030)	⬇	10.73	-0.020	10.75	10.69
GI22 (BMK: NCPI)	➡	4.74	0.000	4.74	4.74
GI25 (BMK: NCPI)	⬇	5.26	-0.001	5.26	5.26
GI29 (BMK: NCPI)	➡	5.95	0.000	5.95	5.95
Commodities		**Last close**	**Change**	**Prev close**	**Current Spot**
Gold	⬇	1,282	-0.20%	1,285	1,280
Platinum	⬆	794	0.76%	788	794
Brent Crude	⬇	61.1	-0.59%	61.5	60.7
Main Indices		**Last close**	**Change**	**Prev close**	**Current Spot**
NSX (Delayed)	⬆	1,333	0.73%	1,323	1,334
JSE All Share	⬇	53,915	-0.30%	54,078	53,478
SP500	⬆	2,639	0.22%	2,633	2,639
FTSE 100	⬇	6,843	-0.85%	6,901	6,818
Hangseng	⬆	27,008	0.01%	27,005	27,121
DAX	⬇	11,072	-0.17%	11,090	11,051
JSE Sectors		**Last close**	**Change**	**Prev close**	**Current Spot**
Financials	⬆	17,015	0.32%	16,960	17,021
Resources	⬆	41,052	0.17%	40,983	40,667
Industrials	⬇	65,433	-1.04%	66,117	64,527
Forex		**Last close**	**Change**	**Prev close**	**Current Spot**
N$/US dollar	⬇	13.82	-0.99%	13.95	13.78
N$/Pound	⬇	18.05	-0.13%	18.08	18.00
N$/Euro	⬇	15.72	-0.80%	15.85	15.67
US dollar/ Euro	⬆	1.138	0.19%	1.14	1.138
		Namibia		**RSA**	
Economic data		**Latest**	**Previous**	**Latest**	**Previous**
Inflation	⬇	5.1	5.6	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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