Market Update — Tuesday, 26 March 2019

Global Markets

Asian shares bounced back on Tuesday after two days of losses as U.S. 10-year Treasury yields edged higher, but the outlook remained murky as investors weighed the odds of whether the U.S. economy is in danger of slipping into recession.

MSCI's broadest index of Asia-Pacific shares outside Japan rebounded 0.3 percent after losing 1.4 percent in the previous session. Australian shares were flat, while Japan's Nikkei jumped 1.8 percent after recording its biggest drop since late December on Monday. China's blue-chip CSI300 and Hong Kong's Hang Seng Index also rose, by 0.3 percent and 0.5 percent, respectively. Wall Street shares were little changed on Monday with the S&P 500 ending with a small loss of 0.08 percent. U.S. stock futures rose, with E-Minis for the S&P 500 tacking on one-third of a percent.

Investors have been spooked by sharp falls in U.S. bond yields and an inversion of the U.S. Treasury yield curve, which is widely seen as an indicator of an economic recession. The 10-year U.S. Treasury yield edged up to 2.430 percent, having shed 5 basis points on Monday. It has fallen about 18 basis points since the Federal Reserve last week ditched projections for raising rates this year and announced the end of its balance sheet reduction, citing signs of an economic slowdown.

The 10-year yield fell below the yield for three-month bills on Friday for the first time since 2007, inverting the yield curve. San Francisco Fed researchers have said that the difference in those two maturities was the most useful for forecasting a recession.

Investors will also be watching Fed policymakers scheduled to speak on Tuesday. U.S. economic growth could be "pretty weak" in the first quarter but will likely much closer to 2-2.5 percent for the rest of the year, but a central bank pause is the responsible thing to do, Fed Bank of Boston president and CEO Eric Rosengren said at a conference in Hong Kong. Fed funds rate futures are now fully factoring in a rate cut later this year, with about an 80 percent chance of a move priced in by September.

In the currency market, the fall in U.S. yields undermined the dollar's yield attraction. The euro stood at $1.1315, having gained a tad on Monday after Germany's IFO Institute said its business climate index rose to 99.6, beating a consensus forecast of 98.5 and ending six consecutive months of decline. The dollar was a shade higher at 110.10 yen, after having hit a 1 1/2-month low of 109.70 on Monday.

The British pound stood at $1.3195, erasing small gains made after lawmakers voted to wrest control of the Brexit process from Prime Minister Theresa May's government for a day. May said on Monday there was not yet enough support to put her Brexit deal to a third vote in parliament.

Oil prices hovered below their recent four-month peaks, as the prospect of tighter U.S. crude supply was offset by concerns about a slowdown in global economic growth. U.S. crude futures traded at $59.21 per barrel, up nearly 0.7 percent on day, a tad below Thursday's high of $60.39, its highest since mid-November. Brent futures were up 0.2 percent at $67.33. Gold was slightly lower at $1,320.90, not far off a near one-month peak of $1,324.60 scaled during the previous session.

Source: Thomson Reuters

Domestic Markets

South Africa's rand firmed on Monday, gaining alongside other emerging market currencies as concerns over a possible recession in the United States dented the dollar. Stocks weakened as sentiment for riskier assets dwindled with global stocks under pressure as fears for economic growth sent investors to safe-haven assets. At 1505 GMT the rand was 0.97 percent firmer at 14.3500 per dollar compared to a close of 14.4900 on Friday in New York.

Most developing world currencies firmed on Monday as the dollar took a back seat after the U.S. yield curve inverted on Friday for the first time since mid-2007, the strongest indication of a possible recession for the world's largest economy. South African focused investors will this week keep a close eye on the central bank interest rates decision on Thursday and a Moody's ratings review on Friday.

The South African Reserve Bank is expected to keep lending rates steady when it concludes its second monetary policy meeting for the year on Thursday but may strike a hawkish tone as oil and electricity prices climb. "The decision by Moody's is far more touch-and-go as market participants continue to debate whether South Africa's metrics have deteriorated enough to warrant a downgrade in its sovereign outlook," RMB analyst Nema Ramkhelawan-Bhana said in a note.

South Africa's economy has barely grown in the past decade with fiscal missteps and corruption contributing to weak business and consumer confidence. The country has also experienced its worst power cuts in years this year as state utility Eskom struggles with generation capacity shortages.

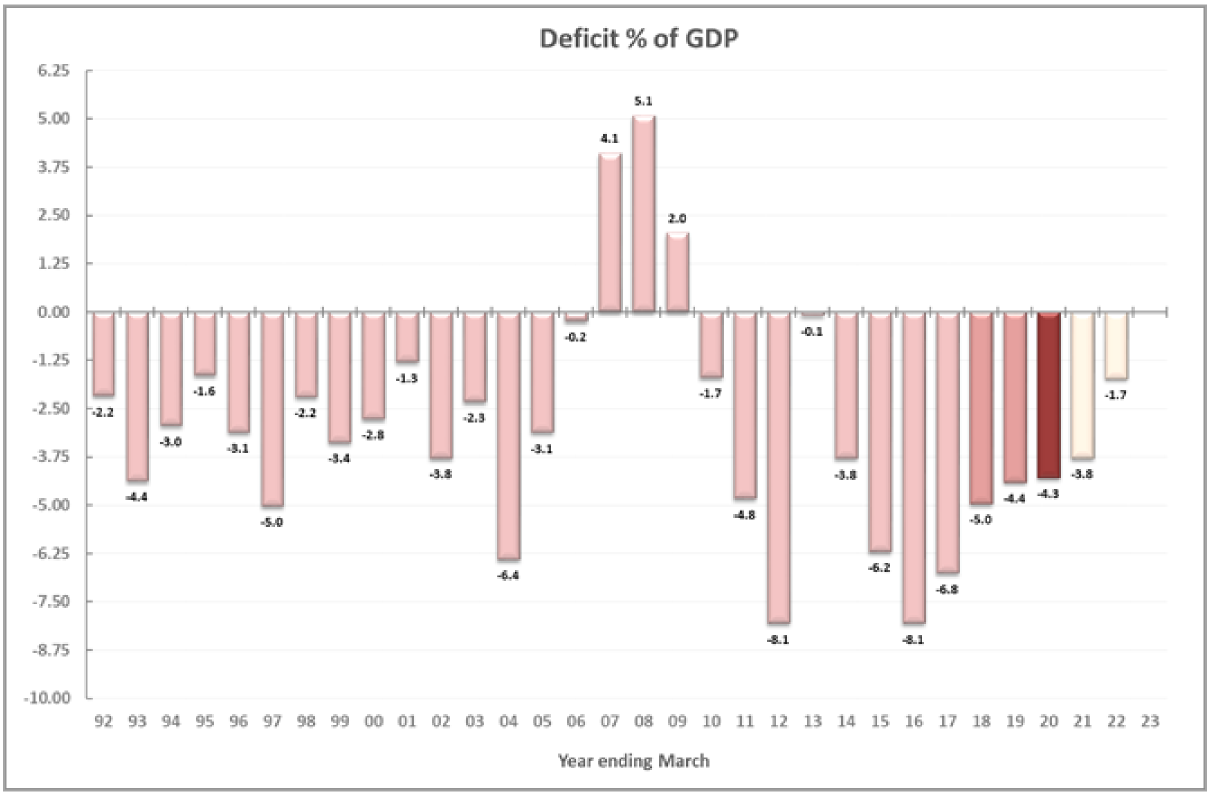
Bonds also firmed, with the yield on the benchmark paper due in 2026 falling 4 basis points to 8.71 percent.

On the bourse, the Johannesburg All-Share index fell 1.32 percent to 55,367 points and the Top-40 index was 1.27 percent weaker at 49,162 points. Among the decliners on blue-chip index were Anglo American Platinum which fell 4.57 percent to 796.86 rand, Tiger Brands which lowered 2.35 percent to 256.97 rand and MTN which closed down 3.10 percent to 90.60 rand. Despite shares being were weaker across the board, the gold sector, which ticked up 0.68 percent, offered some relief as they benefited from safe-haven demand in times of risk-off sentiment.

Source: Thomson Reuters

Chart of the Day – Namibia's deficit to GDP ratio

The Budget will be tabled tomorrow, the 27th. The chart shows the deficit-to-GDP numbers as it was at the previous Budget. The plan was to manage down the deficit from 5% in FY18 to below 2% by FY23. The darker colored bar is what was expected for the coming fiscal year, FY20. It seems to us that it will be very difficult to do in the current macro environment with downward pressure on revenues and upward pressure on expenditures.



Market Overview

MARKET INDICATORS				26 March 2019	
Money Market TB's		**Last close**	**Difference**	**Prev close**	**Current Spot**
3 months		7.38	-0.006	7.38	7.36
6 months		7.95	0.000	7.95	7.95
9 months		8.14	0.000	8.14	8.14
12 months		8.34	-0.011	8.35	8.34
Bonds		**Last close**	**Difference**	**Prev close**	**Current Spot**
GC21 (BMK: R208)		8.09	-0.070	8.16	8.05
GC24 (BMK: R186)		9.63	-0.035	9.66	9.63
GC27 (BMK: R186)		9.83	-0.035	9.87	9.91
GC30 (BMK: R2030)		10.64	-0.035	10.68	10.64
GI22 (BMK: NCPI)		4.66	0.000	4.66	4.66
GI25 (BMK: NCPI)		5.11	0.000	5.11	5.11
GI29 (BMK: NCPI)		5.73	0.000	5.73	5.73
Commodities		**Last close**	**Change**	**Prev close**	**Current Spot**
Gold		1,322	0.66%	1,313	1,317
Platinum		855	1.30%	844	851
Brent Crude		67.2	0.27%	67.0	67.3
Main Indices		**Last close**	**Change**	**Prev close**	**Current Spot**
NSX (Delayed)		1,286	-1.01%	1,300	1,287
JSE All Share		55,367	-1.32%	56,107	55,367
SP500		2,798	-0.08%	2,801	2,798
FTSE 100		7,178	-0.42%	7,208	7,178
Hangseng		28,523	-2.03%	29,113	28,511
DAX		11,347	-0.15%	11,364	11,347
JSE Sectors		**Last close**	**Change**	**Prev close**	**Current Spot**
Financials		15,854	-1.22%	16,050	15,854
Resources		46,021	-1.34%	46,644	46,021
Industrials		67,400	-1.34%	68,315	67,400
Forex		**Last close**	**Change**	**Prev close**	**Current Spot**
N$/US dollar		14.30	-1.25%	14.48	14.34
N$/Pound		18.87	-1.30%	19.12	18.94
N$/Euro		16.17	-1.26%	16.38	16.22
US dollar/ Euro		1.131	-0.02%	1.13	1.131
		Namibia		**RSA**	
Economic data		**Latest**	**Previous**	**Latest**	**Previous**
Inflation		4.4	4.7	4.1	4.0
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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