



Market Update

Tuesday, 29 January 2019

Global Markets

Global stock markets tumbled on Monday after Caterpillar and Nvidia Corp warned of weak Chinese demand while oil posted its biggest one-day drop in a month on expectations of growing U.S. crude supply.

Equities also were slammed by plunging shares of Brazilian miner Vale SA, which lost some \$19.3 billion of its market value following the collapse of a tailing dam last week that killed at least 60 people. Vale shares dropped 24.5 percent in Sao Paulo trade.

The dollar fell against a basket of currencies as traders awaited the Federal Reserve's two-day policy meeting ending Wednesday and the results of U.S.-China trade talks this week.

The euro reached a 10-day high against the dollar ahead of voting in Britain's parliament on Tuesday that aims to break the Brexit deadlock.

Caterpillar, a bellwether for global industrials, fell 9.1 percent as its quarterly profit missed Wall Street estimates, hurt by softening Chinese demand, a strong dollar and higher manufacturing and freight costs. It was Caterpillar's worst single-day drop since August 2011.

Nvidia slid 13.8 percent after the chipmaker cut its fourth-quarter revenue estimate by half a billion dollars, hit by weak demand for its gaming chips in China and lower-than-expected data center sales.

Apple's downward guidance two weeks ago, along with the announcements by Caterpillar and Nvidia, suggest the U.S.-China trade war will affect more companies, said Kristina Hooper, chief global market strategist at Invesco. "I view this as a cause for concern. It's not a crisis, but it's likely to be a few more canaries in the coal mine because there is going to be a significant cohort of stocks that are likely to be impacted by the U.S.-China trade war," Hooper said. Earnings at Chinese industrial firms shrank for a second straight month in December, hit by slowing prices and weak factory activity.

The FTSEurofirst 300 index of leading regional shares closed down 0.96 percent while MSCI's all-country world equity index declined 0.62 percent. Stocks on Wall Street, down more than 1 percent for most of the session, recouped some losses at the close. The Dow Jones Industrial Average fell 208.98 points, or 0.84 percent, to 24,528.22. The S&P 500 lost 20.91 points, or 0.78 percent, to 2,643.85 and the Nasdaq Composite dropped 79.18 points, or 1.11 percent, to 7,085.69. Emerging market stocks lost 0.39 percent.

Volatility has picked up as investors fret about an economic cycle that is long in the tooth, leading to sharp reactions in the market to news, said Laura Kane, head of investment themes for the Americas at UBS Wealth Management. Equity markets have solid underpinnings with fourth-quarter earnings looking good, a likely truce in the U.S.-China trade talks and the Fed sounding a dovish message, leading her to be optimistic, Kane said. "But the complication of volatility being uncomfortable and the fact we're later in the (business) cycle, that's why we're seeing these larger reactions to market news than we're used to," she said.

U.S. energy companies last week boosted the number of rigs drilling for oil for the first time since late December. U.S. crude production, which rose to a record 11.9 million barrels per day late last year, has undermined sentiment in the oil market, traders said. Also weighing on oil prices are concerns about whether Chinese refiners will continue to import crude at 2018's breakneck pace. U.S. crude settled down 3.17 percent at \$51.99 per barrel and Brent fell 2.77 percent to settle at \$59.93.

In FX markets, the ICE index that tracks the dollar versus the euro, yen, sterling and three other currencies was down 0.05 percent at 95.745. It hit a near two-week low at 95.673 earlier in the session. The euro rose 0.11 percent to \$1.1425 while the Japanese yen strengthened 0.16 percent versus the greenback at 109.36 per dollar. Benchmark 10-year U.S. Treasury notes rose in price to push their yield down to 2.7458 percent. U.S. gold futures settled up 0.4 percent at \$1,303.10 per ounce.

Source: Thomson Reuters

Domestic Markets

South Africa's rand weakened against the dollar on Monday, before a week packed with market-moving events. At 1523 GMT the rand was 0.62 percent weaker at 13.7000 per dollar, as it struggled to hold recent gains below the 13.60 technical resistance mark.

"There are several risk events in the week ahead, so the market is a bit cautious," said ETM Analytics analyst Jana van Deventer. "We have the Fed meeting on Wednesday evening and we also have got U.S.-China trade talks that are happening Wednesday and Thursday".

U.S. policymakers are expected to signal on Wednesday a pause in their interest rate increases and to acknowledge growing risks to the U.S. economy. That will likely weigh on the dollar.

Investors are also waiting for Chinese Vice Premier Liu He's visit to Washington on Jan. 30-31 for the next round of trade negotiations with the United States.

Government bonds weakened, with the yield on the benchmark bond due in 2026 adding 4.5 basis points to 8.765 percent. Stocks slipped, with the Johannesburg Stock Exchange's top-40 index down 0.61 percent to 47,600 points and the broader all-share index down 0.52 percent to 53,767 points.

Big banks and retailers led declines on the blue-chip index, with Shoprite, FirstRand, Truworths, Absa and Standard Bank all featuring at the bottom. Banks and retailers are all sensitive to the health of consumer finances, after a series of poor trading updates from retailers last week. Clothing and furniture retailer Pepkor, formerly Steinhoff Africa Retail, was down 4.2 percent after a trading update that showed quarterly revenues rose 6.1 percent in the three months to end-December.

Source: Thomson Reuters

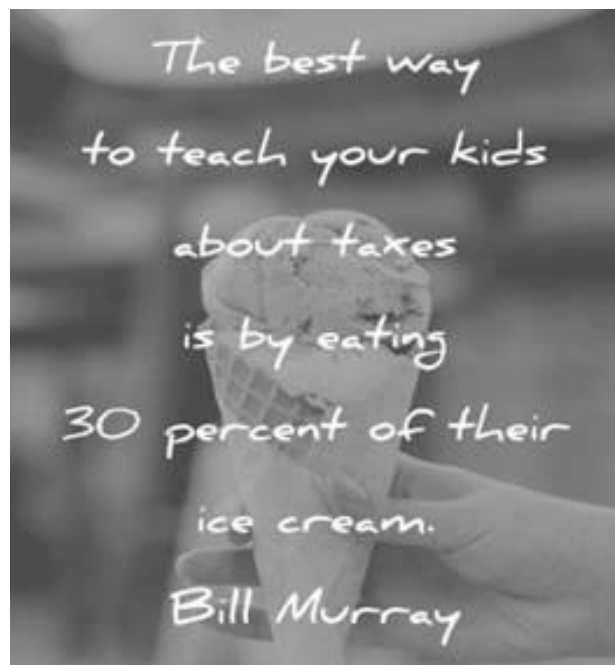
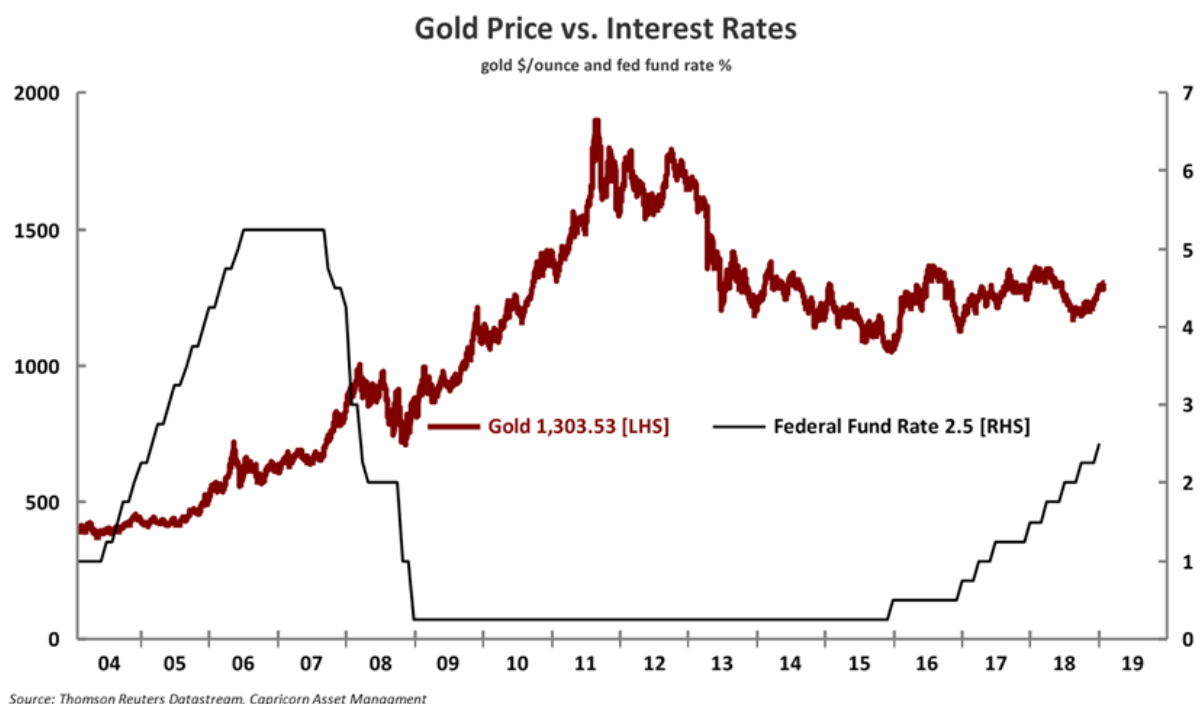


Chart of the Day - The future is not what it used to be



Is gold still a “safe haven” asset? Seemingly not that much. Looking at the behavior of the gold price, it is interesting to note the following. During the 2008 Great Credit Crisis (GCC) gold fell by nearly 30% from around \$1,000 to \$711. In the aftermath of the crisis, though, it surged to \$1,900. This was largely the result of inflation fears in the wake of the Federal Reserve cutting interest rates to virtually zero. However, as it became apparent the deflation rather than inflation was the new normal, the gold price fell by 90% over the next four years all the way back to where it was prior to the GCC. During the “growth scare” phase of late 2015 and early 2016 it jumped again to around \$1,300, trading around this level ever since. Rising interest rates means that the opportunity cost for holding gold is rising which lowers the attractiveness of the asset.

Market Overview

MARKET INDICATORS			29 January 2019		
Money Market		Last close	Difference	Prev close	Current Spot
3 months	↓	7.09	-0.012	7.10	7.08
6 months	↓	7.82	-0.094	7.92	7.82
9 months	↓	8.15	-0.055	8.20	8.14
12 months	↓	8.34	-0.009	8.35	8.34
Bonds		Last close	Difference	Prev close	Current Spot
GC21 (BMK: R208)	↑	8.17	0.045	8.12	8.15
GC24 (BMK: R186)	↑	9.67	0.055	9.61	9.68
GC27 (BMK: R186)	↑	9.87	0.055	9.82	9.89
GC30 (BMK: R2030)	↑	10.66	0.060	10.60	10.68
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	↑	1,303	0.02%	1,303	1,307
Platinum	↓	810	-0.49%	814	814
Brent Crude	↓	59.9	-2.77%	61.6	60.1
Main Indices		Last close	Change	Prev close	Current Spot
NSX (Delayed)	↓	1,344	-1.23%	1,360	1,345
JSE All Share	↓	53,767	-0.52%	54,050	53,932
SP500	↓	2,644	-0.78%	2,665	2,644
FTSE 100	↓	6,747	-0.91%	6,809	6,747
Hangseng	↑	27,577	0.03%	27,569	27,520
DAX	↓	11,210	-0.63%	11,282	11,210
JSE Sectors		Last close	Change	Prev close	Current Spot
Financials	↓	17,170	-1.60%	17,449	17,191
Resources	↑	41,768	0.79%	41,439	42,064
Industrials	↓	64,098	-0.89%	64,673	64,287
Forex		Last close	Change	Prev close	Current Spot
N\$/US dollar	↑	13.66	0.34%	13.61	13.70
N\$/Pound	↑	17.97	0.05%	17.96	18.00
N\$/Euro	↑	15.60	0.51%	15.52	15.67
US dollar/ Euro	↑	1.143	0.18%	1.14	1.144
		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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