Market Update — Wednesday, 30 January 2019

Global Markets

Asian equities steadied on Wednesday as investors awaited Federal Reserve policy guidance and the outcome of high level trade talks between the United States and China, while drawing relief from Apple Inc's earnings.

Sterling smarted from the previous day's sharp fall as British lawmakers rejected most amendments that sought to avoid Britain leaving the European Union without a deal, reviving worries of a chaotic withdrawal from the European Union.

MSCI's broadest index of Asia-Pacific shares outside Japan was little changed. Japan's Nikkei was an outlier, dropping 0.5 percent. U.S. S&P 500 e-mini futures tacked on 0.2 percent, after Apple shares rose 5.7 percent after the bell as the iPhone maker reported sharp growth in its services business.

Investors were relieved that there was no fresh bad news after the company shocked financial markets at the start of this month when its rare revenue warning sparked fears the U.S.-China trade tensions were taking a toll on the tech sector. CEO Tim Cook, who is in regular contact with U.S. President Donald Trump, also said trade tension between the United States and China is easing in January.

That helped boost optimism around current high-level trade talks between the two countries, even though many investors remain skeptical about whether the economic giants can bridge differences over a number of issues, such as intellectual property rights and technology transfers. China's Vice Premier Liu He is in Washington this week to meet U.S. officials, including Trump. U.S. Treasury Secretary Steve Mnuchin said on Tuesday he expected to see significant progress in talks with Chinese officials and that U.S. charges against telecommunications giant Huawei Technologies Co Ltd were a separate issue.

"It seems December was the worst month and since then things might be starting to recover a bit. If we can see more such evidence, market sentiment will be bolstered," said Nobuhiko Kuramochi, chief strategist at Mizuho Securities. "Yet, it's still not clear how strong any such recovery would be. I would bet markets will be range-bound from here," he said.

Investors are also looking to the outcome of the Federal Reserve's rates review later in the day, with expectations policymakers will reinforce their recent dovish stance given signs of a slowdown in the U.S. economy. U.S. interest rate futures are pricing in virtually no change in official rates this year. Investors are looking for hints from Chairman Jerome Powell on whether he has any inclination to slow the drawdown of the Fed's balance sheet by up to $50 billion a month.

In the currency market, the British pound was on a slippery slope on renewed concerns over a no-deal Brexit. British lawmakers on Tuesday instructed Prime Minister Theresa May to reopen a Brexit treaty with the European Union to replace a controversial Irish border arrangement - and promptly received a flat rejection from Brussels. "The possibilities of no Brexit and of an extension of the Article 50 deadline have fallen. Markets may be under-estimating the chances that we could have a hard Brexit," said Takafumi Yamawaki, head of Japan FX and rates research at JPMorgan Securities.

The pound, which fell 0.67 percent on Tuesday, was last up 0.2 percent at $1.3095, off three-month highs of $1.3218 touched on Friday. Other major currencies were little moved. The euro changed hands at $1.1438, having risen to a two-week high of $1.14505 on Tuesday. The dollar was steady against the yen at 109.37 yen. The Australian dollar gained 0.5 percent to $0.7192 after a reading on domestic inflation proved not to be as weak as bears had bet.

Gold rose 0.15 percent to 8-1/2-month highs of $1,314.3 per ounce, helped by flight-to-quality bids amid various tensions around the world. In addition to U.S.-China trade worries, demand for gold has also been driven by concerns about a disruptive Brexit and political turmoil in Venezuela, which could increase Washington's diplomatic hostilities towards Russia and China.

Oil prices held firm after the United States imposed sanctions on state-owned Venezuelan oil company PDVSA, a move likely to reduce the OPEC member's crude exports and relieve some global oversupply worries. U.S. crude futures rose more than 2 percent on Tuesday and last stood at $53.46 per barrel, up 0.3 percent.

Chinese iron ore futures jumped nearly 6 percent, hitting their daily upside limit, after Brazil's Vale SA said it was cutting output following a deadly tailings dam disaster. The most traded iron ore on the Dalian Commodity Exchange rose to 589 yuan ($87.51) a ton, the highest since early September 2017.

Source: Thomson Reuters

Domestic Markets

South Africa's rand firmed on Tuesday, gaining with other emerging market currencies on hopes of a pause to increases to U.S. interest rates, while stocks also climbed. At 1520 GMT the rand was up 0.3 percent at 13.6225 against the dollar, having closed at 13.6650 overnight in New York.

The currency has traded in a narrow range in the past two sessions, with moves largely driven by offshore events, especially the direction of lending rates in the United States and the continuing trade dispute between Washington and Beijing.

Investors expect the U.S. Federal Reserve to adopt a more cautious policy stance than in 2018, pressured by signs of a peak in U.S. corporate earnings and the threat of economic slowdown both at home and globally. Locally, investors are holding off big bets on the rand ahead of the annual budget next month, leaving the currency in a range between 13.30 and 13.80.

Bonds weakened slightly, with the yield on benchmark paper due in 2026, the R186 up 0.5 basis points to 8.765 percent.

Stocks were on a high, however, with the Johannesburg Stock Exchange's top-40 index rising 1.3 percent to 48,208 points and the broader all-share index up 1.2 percent.

Absa, one of South Africa's big four lenders, led the way with a 6.2 percent advance to 186.50 rand per share after the company announced the departure of Chief Executive Maria Ramos. The shares were buoyed by analyst and investor hopes that a new CEO, who will be recruited from outside the bank, will bring fresh perspective and deliver growth after years of declining market share.

Source: Thomson Reuters

Eskom news

The South African government will soon debate whether to split up state power firm Eskom to make it financially viable, Public Enterprises Minister Pravin Gordhan said on Tuesday.

Eskom is vital to the health of Africa's most industrialised economy as it supplies more than 90 percent of its power, but it is drowning in debt after a decade of steep financial decline.

Experts hired by President Cyril Ramaphosa to help revive the ailing company are proposing splitting it up into three state-owned entities responsible for power generation, distribution and transmission, sources familiar with the matter told Reuters last week.

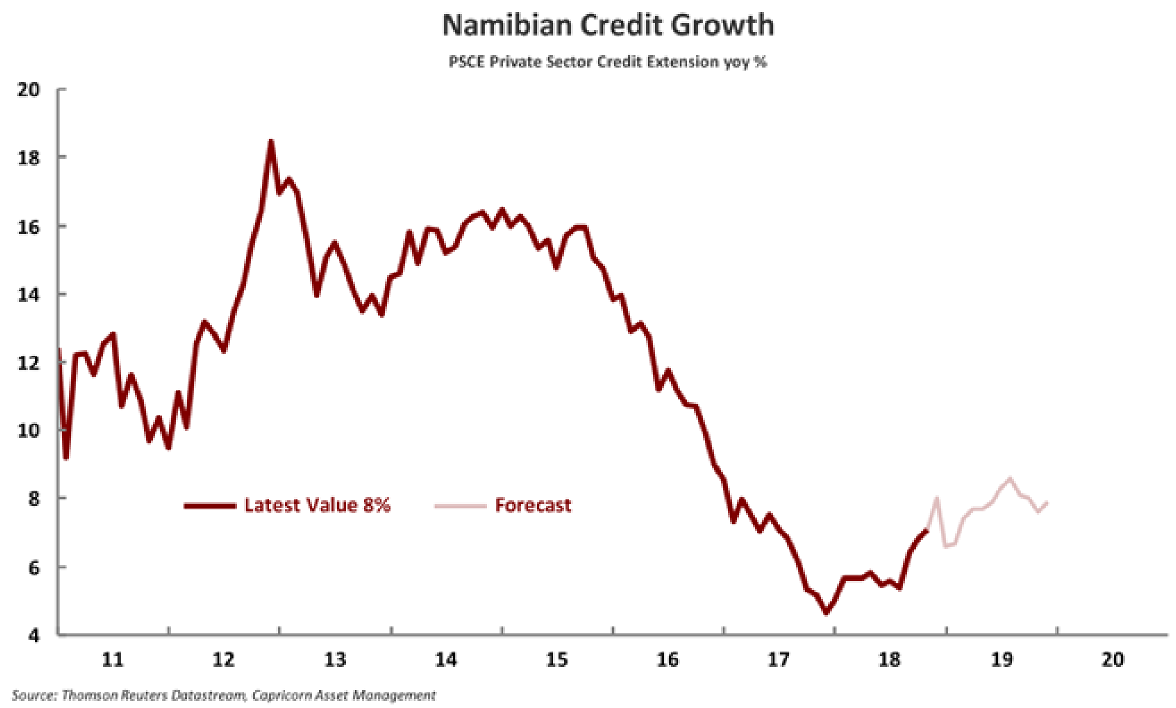
Ramaphosa is due to meet the experts this week, and Eskom's fate will also be debated at a cabinet meeting starting on Wednesday. "Should Eskom be unbundled into generation, transmission and distribution, as is the worldwide practice? That is a debate we are going to have soon. And it is going to go beyond a debate because we need very fast movement," Gordhan said at a business conference outside Johannesburg.

Gordhan, who also oversees struggling state firms Denel and South African Airways, added that the government would be willing to sell stakes in state firms to private investors "once we get to a level of stability in some of these outfits".

"The fiscus doesn't have space for endless bailouts," referring to the budget.

Source: Thomson Reuters

Chart of the Day



Market Overview

MARKET INDICATORS				30 January 2019	
Money Market		**Last close**	**Difference**	**Prev close**	**Current Spot**
3 months	↓	7.08	-0.016	7.09	7.02
6 months	↓	7.82	-0.006	7.82	7.80
9 months	↓	8.14	-0.003	8.15	8.14
12 months	↓	8.34	-0.002	8.34	8.34
Bonds		**Last close**	**Difference**	**Prev close**	**Current Spot**
GC21 (BMK: R208)	↓	8.14	-0.030	8.17	8.10
GC24 (BMK: R186)	→	9.67	0.000	9.67	9.65
GC27 (BMK: R186)	→	9.87	0.000	9.87	9.85
GC30 (BMK: R2030)	↓	10.66	-0.005	10.66	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	↑	1,312	0.64%	1,303	1,314
Platinum	→	810	0.00%	810	812
Brent Crude	↑	61.3	2.32%	59.9	61.3
Main Indices		**Last close**	**Change**	**Prev close**	**Current Spot**
NSX (Delayed)	↑	1,353	0.73%	1,344	1,354
JSE All Share	↑	54,388	1.15%	53,767	54,255
SP500	↓	2,640	-0.15%	2,644	2,640
FTSE 100	↑	6,834	1.29%	6,747	6,834
Hangseng	↓	27,532	-0.16%	27,577	27,566
DAX	↑	11,219	0.08%	11,210	11,219
JSE Sectors		**Last close**	**Change**	**Prev close**	**Current Spot**
Financials	↑	17,413	1.41%	17,170	17,373
Resources	↑	42,176	0.98%	41,768	42,389
Industrials	↑	64,936	1.31%	64,098	64,478
Forex		**Last close**	**Change**	**Prev close**	**Current Spot**
N$/US dollar	↓	13.59	-0.47%	13.66	13.57
N$/Pound	↓	17.76	-1.17%	17.97	17.75
N$/Euro	↓	15.53	-0.42%	15.60	15.51
US dollar/ Euro	↓	1.143	-0.03%	1.14	1.143
		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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