



## Market Update

Thursday, 31 January 2019

### Global Markets

Asia stocks rose to a four-month high on Thursday after the Federal Reserve pledged to be patient with further interest rate hikes, signaling a potential end to its tightening cycle amid signs of slowing global growth. The dollar struggled near a three-week trough against its major peers and U.S. Treasury yields were significantly lower as investors reacted to the Fed's change in tone.

MSCI's broadest index of Asia-Pacific shares outside Japan rose to its highest since Oct. 4 and was last up 0.7 percent. Japan's Nikkei rose 0.9 percent. The Shanghai Composite Index climbed 0.8 percent despite data showing China's factory activity contracted for a second straight month amid weakening orders. Australian stocks edged up 0.1 percent.

The Fed on Wednesday held interest rates steady as expected, and also discarded its promises of "further gradual increases" in interest rates. The central bank said it would be "patient" before making any further moves amid a suddenly cloudy outlook for the U.S. economy due to global growth risks and impasses over trade and government budget negotiations.

On Wall Street, the Dow and the Nasdaq rallied 1.7 percent and 2.2 percent, respectively, on hopes the Fed's pause would give the U.S. economy and corporate profits more room to run. Late in December the Dow had sunk to its lowest level since September 2017, dogged by factors including worries over cooling economic growth and trade tensions, adding pressure on the Fed to reassess its tightening bias.

"The Fed's statements firmly confirmed its dovish stance, which had already been on display at the start of the year. Market concerns towards the Fed's rate hikes have now been put to rest," said Masahiro Ichikawa, senior strategist at Sumitomo Mitsui Asset Management in Tokyo. "The mention of the balance sheet by the Fed was a positive surprise. The focus now shifts immediately to U.S.-China trade talks, but the equity markets could have enough cushioning to withstand negative news from the talks."

The U.S. central bank also said on Wednesday that its balance sheet would remain larger than previously expected. However, while market expectations for Fed tightening may have waned significantly, some analysts suggested rate hikes still remained a near-term possibility. "While many of the risks to the U.S. outlook remain in place, there is little to suggest that the outlook has changed by as much as the Fed communication says it has," wrote Michael Gapen, chief U.S. economist at

Barclays. "We worry that the Fed has traded near-term support for financial markets and the economy for another round of volatility later this year if it is forced to lift rates higher, which remains more likely than not, in our view."

With the Fed decision out of the way, investors focused their attention on a pivotal round of high-level U.S.-China trade talks which began on Wednesday aimed at easing a months-long tariff war. The two-day talks in Washington are expected to be tense, with little indication so far that Chinese officials are willing to address core U.S. demands to fully protect American intellectual property rights and end policies that Washington has said force U.S. companies to transfer technology to Chinese firms. If the two sides cannot reach a deal soon, Washington has threatened to more than double tariffs on Chinese goods on March 2.

In currencies, the dollar index against a basket of six major currencies struggled near a three-week low of 95.253 brushed on Wednesday, when it had sunk 0.5 percent. A weaker dollar helped nudge the euro to \$1.1501 on Wednesday, its highest since Jan. 11, and the common currency was last up 0.15 percent at \$1.1493. The greenback was down 0.15 percent at 108.88 yen and close to a two-week low of 108.81 reached overnight. The pound was steady at \$1.3117, given some reprieve after slipping earlier in the week when British lawmakers voted down a proposal in parliament that could have prevented a potentially chaotic "no-deal" Brexit.

The benchmark 10-year U.S. Treasury yield extended its decline to as far as 2.674 percent, its lowest since Jan. 14. Oil prices rose after U.S. government data showed signs of tightening supply and as investors remained concerned about supply disruptions following U.S. sanctions on Venezuela's oil industry. U.S. crude oil futures were up 0.7 percent at 54.59 per barrel.

**Source: Thomson Reuters**

## **Domestic Markets**

South Africa's rand steadied against the dollar on Wednesday as investors awaited the Federal Reserve's policy decision and U.S.-China trade talks later in the day. Stocks slipped, with Shoprite, which runs South Africa's biggest supermarket chain, pulling the bourse down. At 1510 GMT the rand was trading at 13.6200 per dollar, little changed from a close of 13.6000 on Tuesday.

Markets expect Fed officials will reinforce their recent dovish stance given a stalemate on global trade, signs of a slowdown in the U.S. economy, and waning business and consumer confidence. "It will be interesting to see whether the Fed's assessment of U.S. growth has changed, with typical recessionary indicators such as persistent stock losses and widening corporate credit spreads levelling off since December," RMB analyst Nema Ramkhelawan-Bhana said in a note. "But, fourth-quarter high-frequency data would have been sparse due to the Federal shutdown, creating an added air of uncertainty to the committee's growth outlook. This, combined with softer global data, should continue to justify the Fed's cautious stance, which is positive for risk assets." A dovish Fed and signs the world's no. 1 economy is slowing, have spurred demand for emerging market assets this month and has seen the rand outperform its peers - bar the Russian rouble.

Investors focus was also on Chinese Vice Premier Liu He's visit to Washington on Wednesday and Thursday for a round of trade negotiations with the United States.

In fixed income, the yield on the benchmark government paper due in 2026, dropped 2 basis point to 8.74 percent.

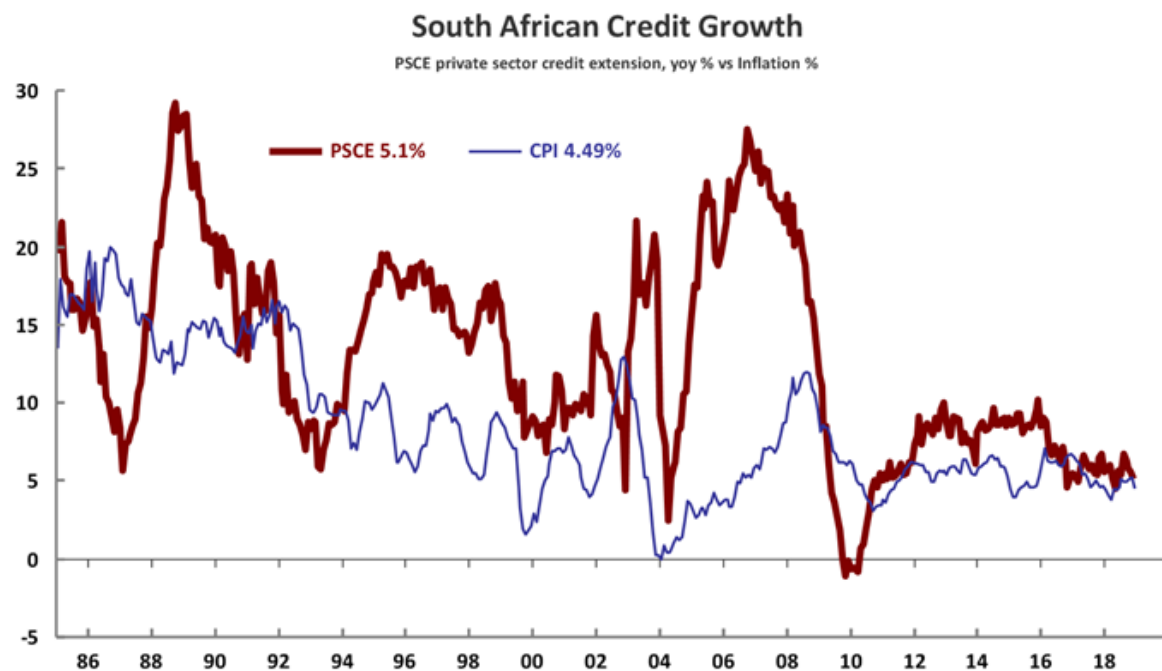
On the bourse, Shoprite issued a profit warning after market close on Tuesday, prompting its shares to plunge by 14.2 percent on Wednesday and dragging on the stocks of fellow retailers Truworths, Woolworths and The Foschini Group. The retailers, alongside Spar Group, filled the bottom of the Johannesburg Stock Exchange's Top-40 index. A series of South African retailers have reported poor performance over the last few months, with the country's consumers reining in spending in a lagging economy. The blue-chip index overall was down 0.47 percent to 47,972 points and the broader all-share index .JALSH was also down by 0.47 percent to 54,131 points.

Source: Thomson Reuters



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## Chart of the Day



## Market Overview

MARKET INDICATORS		31 January 2019			
<b>Money Market</b>		Last close	Difference	Prev close	Current Spot
3 months	↓	7.02	-0.054	7.08	7.00
6 months	↓	7.80	-0.021	7.82	7.79
9 months	↓	8.14	-0.009	8.14	8.13
12 months	↓	8.34	-0.005	8.34	8.33
<b>Bonds</b>		Last close	Difference	Prev close	Current Spot
GC21 (BMK: R208)	↓	8.11	-0.027	8.14	8.09
GC24 (BMK: R186)	↓	9.64	-0.030	9.67	9.53
GC27 (BMK: R186)	↓	9.84	-0.030	9.87	9.94
GC30 (BMK: R2030)	↓	10.63	-0.030	10.66	10.52
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
<b>Commodities</b>		Last close	Change	Prev close	Current Spot
Gold	↑	1,320	0.58%	1,312	1,320
Platinum	↑	815	0.68%	810	815
Brent Crude	↑	61.7	0.54%	61.3	62.1
<b>Main Indices</b>		Last close	Change	Prev close	Current Spot
NSX (Delayed)	↓	1,345	-0.63%	1,353	1,345
JSE All Share	↓	54,132	-0.47%	54,388	54,132
SP500	↑	2,681	1.55%	2,640	2,681
FTSE 100	↑	6,942	1.58%	6,834	6,942
Hangseng	↑	27,643	0.40%	27,532	27,919
DAX	↓	11,182	-0.33%	11,219	11,182
<b>JSE Sectors</b>		Last close	Change	Prev close	Current Spot
Financials	↓	17,333	-0.46%	17,413	17,333
Resources	↑	42,687	1.21%	42,176	42,687
Industrials	↓	64,055	-1.36%	64,936	64,055
<b>Forex</b>		Last close	Change	Prev close	Current Spot
N\$/US dollar	↓	13.31	-2.04%	13.59	13.37
N\$/Pound	↓	17.46	-1.66%	17.76	17.55
N\$/Euro	↓	15.28	-1.64%	15.53	15.37
US dollar/ Euro	↑	1.148	0.41%	1.14	1.150
		Namibia		RSA	
<b>Economic data</b>		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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