



The Daily Brief

 Capricorn Asset Management

Market Update

Wednesday, 21 Aug 2024



Global Markets

Global stocks hovered near their highest in a month on Tuesday, while the dollar hit an eight-month low, as investors focused on bets that the U.S. Federal Reserve could offer further hints of imminent interest rate cuts. With the data calendar relatively light across major economies this week, all eyes are on Wednesday's release of the Fed's July meeting minutes and Chair Jerome Powell's speech at Jackson Hole on Friday for clues on the outlook for U.S. rates. Fed policymakers have in recent days signalled possible easing in September, priming markets for a similar tone from Powell and other speakers at the annual meeting of global central bankers in Jackson Hole, Wyoming.

"Markets believe that once the Fed starts cutting rates it will pursue a predictable strategy of reducing them at every, or almost every, meeting over the next 12 months," said Nicholas Colas, co-founder of DataTrek Research LLC. "While that might sound like an aggressive, even worrisome, expectation, consider that eight 25 basis point reductions would only take Fed Funds to 3.25% – 3.50%. That's still above the Fed's own estimate of the neutral rate of interest," Colas said. Investors hope that monetary policy easing is in the offing to help support stock markets.

The S&P 500 shed modest gains earlier in the day to finish down 0.2%, the Nasdaq Composite lost 0.3%, and the Dow Jones Industrial Average eased 0.2%. That kept a MSCI index for global stocks unchanged near its strongest level in over a month. "Should they acknowledge the U.S. economy's

disinflation path, it will confirm a September rate cut," Thierry Wizman, a global currency and rates strategist at Macquarie, said about the Fed. "Markets will likely turn on the extent to which Powell opens the door for the possibility of a 50 basis point cut at one of the next three FOMC meetings."

In line with expectations of lower rates, the benchmark 10-year Treasury yield fell to 3.818%. Futures markets are fully pricing in a 25 basis point cut from the Fed in September, with around a 25% chance of a 50 basis point cut. In Europe, the STOXX 600 index lost 0.5%, having recovered most of the losses seen after a weak U.S. labour market report prompted worries about the health of the economy. "Since the report, we've had number after number after number suggesting that a recession in the U.S. economy is not around the corner," said Josephine Cetti, chief investment strategist at Nordea, citing strong U.S. retail sales, upbeat business surveys, improving jobless claims numbers and a benign inflation reading.

"The recession fears have been dampened over the last couple of weeks and the market has rebounded a lot," Cetti added. MSCI's broadest index of Asia-Pacific shares outside Japan hit a one-month high before giving up some gains to trade 0.3% higher. Japan's Nikkei 225 rose to its strongest level in over two weeks, closing up 1.8%, but Chinese blue-chips fell 0.7% on continued worries over the country's gloomy economic outlook. Hong Kong's Hang Seng Index edged down 0.3%. Expectations of a dovish Fed outcome this week left the dollar struggling at a near eight-month low against the euro, which peaked at \$1.12775 on Tuesday. Sterling briefly touched its highest in over a year and last bought \$1.30540.

The dollar index was last at 101.41, its lowest since January. Against the yen, the dollar was down 0.8% at 145.34, with traders looking to Bank of Japan Governor Kazuo Ueda's appearance in parliament on Friday, where he is set to discuss the central bank's decision last month to raise interest rates. The BOJ's hawkish tilt had injected huge volatility into markets as investors aggressively unwound yen-funded carry trades, rocking stocks globally. The market turmoil has since abated after BOJ Deputy Governor Shinichi Uchida earlier this month played down the chance of further rate hikes in the near term. "With markets calming, Ueda may change tack and return to talking about normalising interest rates," said Joseph Capurso, head of international and sustainable economics at Commonwealth Bank of Australia.

In commodities, oil prices extended earlier losses, with Brent crude last down 0.6% at \$77.21 a barrel. U.S. crude fell 0.7% to \$74.04 per barrel. Spot gold touched another record high of \$2531.60 an ounce, drawing support from a broadly weaker dollar and on expectations of imminent U.S. rate cuts.

Source: LSEG Thomson Reuters Refinitiv.



Domestic Markets

The South African rand weakened on Tuesday ahead of local inflation data, as markets awaited clues on both domestic and U.S. interest-rate paths this week. At 1514 GMT, the rand traded at 17.8625 against the dollar, 0.95% softer than its previous close. Investor focus on Wednesday will be on South Africa's July inflation print for hints on the future interest-rate path of Africa's most industrialised economy. Economists polled by Reuters expect South Africa's central bank to cut interest rates for the first time in more than two years on Sept. 19.

Central bank data earlier on Tuesday showed South Africa's leading indicator, which collects data on vehicle sales, business confidence, money supply and other factors, fell 0.4% month-on-month in June. Globally, markets will look to U.S. Federal Reserve minutes and Chair Jerome Powell's speech at the Jackson Hole symposium this week for indications on how much the Fed will cut interest rates this year. Like other risk-sensitive currencies, the rand often takes cues from global drivers including U.S. monetary policy alongside local data points.

On the stock market, the Top-40 index was little-changed. South Africa's benchmark 2030 government bond was marginally weaker as the yield gained 1 basis point to 9.285%.

Source: LSEG Thomson Reuters Refinitiv.

I divide all readers into two classes: those who read to remember and those who read to forget.

William Lyon Phelps

Market Overview

MARKET INDICATORS (LSEG Thomson Reuters Refinitiv)					21 August 2024
Money Market TB Rates %			Last close	Difference	Prev close Current Spot
3 months	⇒		8.40	0.000	8.40 8.20
6 months	⇒		8.55	0.000	8.55 8.35
9 months	↑		8.56	0.008	8.55 8.37
12 months	↑		8.44	0.016	8.42 8.25
Nominal Bond Yields %			Last close	Difference	Prev close Current Spot
GC24 (Coupon 10.50%, BMK R186)	↑		9.10	0.010	9.09 9.10
GC25 (Coupon 8.50%, BMK R186)	↑		9.00	0.010	8.99 9.00
GC26 (Coupon 8.50%, BMK R186)	↑		8.17	0.010	8.16 8.17
GC27 (Coupon 8.00%, BMK R186)	↑		8.47	0.010	8.46 8.47
GC28 (Coupon 8.50%, BMK R2030)	↑		8.55	0.010	8.54 8.55
GC30 (Coupon 8.00%, BMK R2030)	↑		8.77	0.010	8.76 8.77
GC32 (Coupon 9.00%, BMK R213)	↑		9.32	0.015	9.31 9.32
GC35 (Coupon 9.50%, BMK R209)	↑		10.06	0.035	10.03 10.06
GC37 (Coupon 9.50%, BMK R2037)	↑		10.63	0.050	10.58 10.63
GC40 (Coupon 9.80%, BMK R214)	↑		11.26	0.045	11.21 11.25
GC43 (Coupon 10.00%, BMK R2044)	↑		11.41	0.050	11.36 11.41
GC45 (Coupon 9.85%, BMK R2044)	↑		11.76	0.050	11.71 11.76
GC48 (Coupon 10.00%, BMK R2048)	↑		11.66	0.055	11.61 11.66
GC50 (Coupon 10.25%, BMK: R2048)	↑		11.71	0.055	11.66 11.71
Inflation-Linked Bond Yields %			Last close	Difference	Prev close Current Spot
GI25 (Coupon 3.80%, BMK NCPI)	⇒		3.10	0.000	3.10 3.75
GI27 (Coupon 4.00%, BMK NCPI)	⇒		4.60	0.000	4.60 4.57
GI29 (Coupon 4.50%, BMK NCPI)	⇒		4.97	0.000	4.97 4.82
GI33 (Coupon 4.50%, BMK NCPI)	⇒		5.62	0.000	5.62 5.42
GI36 (Coupon 4.80%, BMK NCPI)	⇒		6.07	0.000	6.07 5.78
Commodities			Last close	Change	Prev close Current Spot
Gold	↑		2,514	0.39%	2,504 2,514
Platinum	↓		946	-0.79%	954 953
Brent Crude	↓		77.2	-0.59%	77.7 77.0
Main Indices			Last close	Change	Prev close Current Spot
NSX Overall Index	↓		1,830	-0.01%	1,830 1,830
JSE All Share	↓		83,783	-0.02%	83,799 83,783
SP500	↓		5,597	-0.20%	5,608 5,597
FTSE 100	↓		8,273	-1.00%	8,357 8,273
Hangseng	↓		17,511	-0.33%	17,570 17,348
DAX	↓		18,358	-0.35%	18,422 18,358
JSE Sectors			Last close	Change	Prev close Current Spot
Financials	↓		20,396	-0.60%	20,518 20,396
Resources	↑		61,225	1.51%	60,315 61,225
Industrials	↓		112,289	-0.44%	112,782 112,289
Forex			Last close	Change	Prev close Current Spot
N\$/US dollar	↑		17.81	0.63%	17.70 17.81
N\$/Pound	↑		23.21	0.93%	22.99 23.20
N\$/Euro	↑		19.82	1.04%	19.62 19.80
US dollar/ Euro	↑		1.113	0.41%	1.109 1.112
			Namibia		RSA
Interest Rates & Inflation			Aug 24	Jul 24	Aug 24 Jul 24
Central Bank Rate	↓		7.50	7.75	8.25 8.25
Prime Rate	↓		11.25	11.50	11.75 11.75
			Jul 24	Jun 24	Jun 24 May 24
Inflation	⇒		4.6	4.6	5.1 5.2

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
- NSX is the Overall Index, including dual listed

Source: Thomson Reuters Refinitiv

Important note: This is not a solicitation to trade and CAM will not necessarily trade at the yields and/or prices quoted above. The information is sourced from the data vendor as indicated. The levels of and changes in the yields need to be interpreted with caution due to the illiquid nature of the domestic bond market.



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