

late on a friday

29 April 2016: "The US Fed – caught in a Goldilocks environment?"

The US Fed meeting on Wednesday was one of the key financial market events of the week. The Fed's December rate hike was followed up with decidedly more dovish rhetoric at the March meeting and investors were anxious over any modification in the wording to signal a change in policy. Fed Chair Janet Yellen played it safe. She removed the reference over global growth concerns, but reiterated that the Fed will move cautiously in hiking rates. The Fed's focus returned to the US which they noted have slowed during the first quarter, but they highlighted that strong hiring and income gains have the potential to reignite consumer spending and propel economic growth over coming months. Hence the door for a June rate hike was kept firmly open.

The US economy indeed stalled during the first quarter as GDP growth slowed down from 1.4% in the final quarter of last year to 0.5%. This was the third year in a row that first quarter growth showed a seasonal slowdown. The deceleration could largely be explained by weak business investment, a slowdown in exports due to the stronger dollar and lower government spending. The UK economy also reported disappointing first quarter results. GDP expanded by a mere 0.4% during this period. The services sector, which accounts for more than ¾ of growth showed resilience, but output in construction, agriculture and construction all contracted.

It was widely anticipated that the Bank of Japan would announce further stimulus measures at their meeting on Thursday to combat the recent strength in their currency and the subsequent slowdown in economic activity. But the BoJ surprised by sitting on their hands, causing the yen to appreciate further and the stock market to tumble.

DOMESTIC EQUITY		WEEK CHANGE	YTD CHANGE
JSE ALL SHARE	53,032.52	0.20%	4.61%
JSE FIN 15	15,549.51	-0.71%	2.06%
JSE IND 25	70,064.54	0.54%	-2.36%
JSE RES 20	31,986.36	-0.43%	25.96%
JSE GOLD	2,103.85	1.80%	98.98%
JSE ALL SHARE 40	46,558.91	0.11%	1.66%
INTERNATIONAL EQUITY			
DOW JONES (USA)	17,830.76	-0.96%	2.33%
NASDAQ (TECH USA)	4,805.29	-2.06%	-4.04%
FTSE (LONDON)	6,269.67	-0.65%	0.44%
NIKKEI (TOKYO)	16,666.05	-5.16%	-12.44%
GLOBAL EQUITY	1,677.34	-0.52%	0.87%
EMERGING MARKET EQUITY	844.06	-0.14%	6.29%
OTHER			
ALL BOND INDEX	498.63	0.16%	7.91%
3 MONTH NCD YIELD	7.38	0.41%	8.53%
R/DOLLAR	14.16	-1.58%	-8.41%
R/EURO	16.15	-0.13%	-3.85%
R/POUND	20.73	1.07%	-8.06%
GOLD	1,279.19	2.89%	20.42%
OIL (BRENT)	48.35	7.18%	29.69%

Global equity markets had a lacklustre week as US earnings reports and GDP data from both the US and UK disappointed. The Japanese Nikkei took the biggest tumble as the Bank of Japan failed to announce any further monetary policy stimulus measures. The soft US GDP growth and relatively dovish US Fed rhetoric caused the dollar to weaken and in turn, commodity prices appreciated. The price of gold rose by nearly 3% and the price of Brent oil spiked to its highest level in 5 months. The rand started the week on the back foot, but appreciated to trade at R14.16 against the greenback. It did, however, depreciate by little bit more than 1% against the pound. The local bond market benefitted from rand strength and ended the week in the green.

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