

late on a friday

20 May 2016: "Shifting expectations..."

Until late last week, investors were assigning only a very small probability to the US Fed hiking interest rates next month. But it all changed this past week as a drastic re-pricing caused the dollar to appreciate, US bond prices to fall and emerging market assets to sell off. The main trigger was the Fed's minutes from their last meeting which indicated policy makers' willingness to raise rates in June if economic momentum continued to improve. Other data released this past week supported a potential rate hike. Consumer price inflation experienced its biggest month on month increase in more than 3 years when it rose by 1.1% from a year earlier in April. US retail sales also woke up from a slumber and showed significant growth – a sign that the consumer is benefitting from the strong employment backdrop.

The South African Reserve Bank will cast a close eye on the US Fed's next move as it has the potential to weaken the rand significantly in the absence of any action on their own part. The rand started the week on the back foot as news reports of the potential arrest of Finance Minister Pravin Gordhan created shockwaves through the investment community. The rand then depreciated further as the market readjusted to the increased probability of a US rate hike. The Reserve Bank did find some reprieve from a temporary moderation in inflation figures which allowed them to keep domestic interest rates unchanged at 7%. Consumer price inflation moderated to 6.2% in April from 6.3% the previous month, but it was mostly caused by base effects and inflation will rise again towards year-end. The Reserve Bank maintained a hawkish tone which indicated a potential July rate hike cannot be ruled out. The Reserve Bank also lowered their growth forecast for this year to 0.6%, but at the same time they were concerned over the upside risks to inflation as well further currency weakness.

DOMESTIC EQUITY		WEEK CHANGE	YTD CHANGE
JSE ALL SHARE	52,895.13	2.50%	4.34%
JSE FIN 15	14,772.48	2.23%	-3.04%
JSE IND 25	71,642.48	2.44%	-0.16%
JSE RES 20	31,667.72	4.56%	24.70%
JSE GOLD	2,114.33	-4.00%	99.97%
JSE ALL SHARE 40	46,762.28	2.99%	2.11%
INTERNATIONAL EQUITY			
DOW JONES (USA)	17,435.40	-0.57%	0.06%
NASDAQ (TECH USA)	4,712.53	-0.11%	-5.89%
FTSE (LONDON)	6,134.16	-0.07%	-1.73%
NIKKEI (TOKYO)	16,736.35	1.97%	-12.07%
GLOBAL EQUITY	1,627.62	-0.51%	-2.12%
EMERGING MARKET EQUITY	781.84	-1.79%	-1.55%
OTHER			
ALL BOND INDEX	488.81	-1.35%	5.79%
3 MONTH NCD YIELD	7.38	0.41%	8.53%
R/DOLLAR	15.75	2.23%	1.88%
R/EURO	17.67	1.46%	5.20%
R/POUND	22.94	4.71%	1.74%
GOLD	1,256.92	-0.71%	18.33%
OIL (BRENT)	48.73	1.88%	30.71%

The possibility of a US Fed rate hike as soon as next month weighed on stock as concerns grew that it could burden a struggling global economy. Most global stock indices ended the week in negative territory, but the Japanese Nikkei bucked the trend as GDP growth for the first quarter surprised to the upside and showed the economy bounced back to 1.7% growth. The dollar strengthened against the euro and other emerging market currencies, but the pound sterling's appreciation was more pronounced as surveys showed a slimmer possibility of a "Brexit" next month. The rand briefly touched its weakest level in 3 months following the Reserve Bank's meeting, but settled back to R15.75 against the dollar. Local bonds struggled amidst currency weakness.

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