E-A-R©'s

Market Perspective

September 2017

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If spring comes, can winter be far behind? The past few years have been characterised by false dawns in which some optimism at the start of the year/trading season has been undone – whether by wobbles in key asset prices, political events or fears of a meltdown in one of the mega and thus key markets. Perhaps, if we accept joys, we have to accept sorrows also. Similarly, if we accept returns, we have to accept some degree of losses!

Here is the market perspective for September 2017:

- Developed market currencies such as the Canadian Dollar and Japanese Yen were negatively correlated to both the spot and futures Gold Price, whilst the local equity market moved in tandem with other major stock market indices such as the Dow Jones Industrial, UK FTSE, DAX and the Nikkei 225; at least 63% per cent of the time over this period. This further highlights the "identity" of the local bourse. Are local equity investors properly hedged? Is the rand hedge story sufficient?
- At EAR, we apply our term structure models to help predict the likelihood of an economy sliding into a recession. This however, is approached from a fixed income perspective. In the note, though, we share some ideas on commodities as most emerging markets depend on such. Further, this asset class is made up of layers that are worth peeling! It is difficult to ignore the "noisiest" asset class (forex) as it feeds directly through other asset classes, more so in an open financial market system such as SA's.
- Additionally, growth expectations in the US have continued to weigh on the US curve, by some 6%. Expectedly, inflation expectations have been moving the US curve upward, by some 91%. On the other side of Developed Markets (DMs); Australian markets are pricing in relatively higher growth and interest rate expectations and these could, in our view, trigger some re-pricing of SA bonds, the rand and other emerging currencies. Thus, Japanese investors may once again look favourably upon Australian bonds. The relevance of it all is hidden somewhere in the vagaries of "carry trade". Will investors continue to settle for SA bonds whereas Argentina offers yields north of 26% whilst Egypt allures investors with rates of more 10%?

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