TRADER TALK

Global Markets

Better than expected US productivity and job reports eased concerns that the world’s largest economy will fall into recession, resulted in a strengthening of the US Dollar against all major currencies. Over the last few weeks global demand, coupled with pessimistic US economic forecasts, has sent the oil price to all-time highs peaking just short of the $100 per barrel mark. Nonetheless, OPEC, which controls more than a third of the world's supply, decided on Wednesday not to increase its oil output. The oil price still remained relatively stable, hovering just below the $90 mark at mid-week and pulling back slightly on Thursday and Friday. The price decrease also reflects the firmer dollar.

The London FTSE 100 share index, led by banking stocks, jumped 2.8% on Wednesday and continued to climb on Thursday in anticipation of a rate cut by the Bank of England (BoE). Prayers were answered as the BoE cut interest rates by 25 basis points to 5.5% on Thursday which caused the Dollar, already stronger on the day against most other currencies, to strengthen further against the Pound. The European Central Bank left rates unchanged at 4% and the Euro dipped to a three-week low against the Dollar. On Thursday, the Bush Administration announced a plan to slow the wave of home loan foreclosures in the US, by offering many sub prime borrowers a five-year mortgage-rate freeze. Over half a million Americans are at risk of losing their homes as $367 billion worth of mortgages reset to higher interest rates over the next two years.

The Dow and the S&P 500 rallied on the back of the “sub prime bail out” plan, gaining 1.3 and 1.5% respectively. Europe also edged higher, helped by the strong finish on Wall Street and by positive gains from rate-sensitive stocks in the UK. The FTSE gained 1% while the CAC-40 and the DAX rose 0.9 and 0.6 % respectively. Asia also followed the band-wagon, with the Nikkei climbing 1% and the Hang Seng advancing 0.6%.

SA Markets

The TOP40 was very volatile this week, trading 2.8% down at mid-week but recovering to around the 27600 mark by Friday on the back of a positive US finish. However, Thursday’s 50 basis point interest rate hike took centre stage in the local market news. Many analysts feel that this will bring an end to the tightening cycle, but one more increase in January would not come as a surprise.

In addition to higher interest rates, local consumers were hit hard by Wednesday’s 6.1% fuel price increase. On the back of the negative outlook, South African business confidence has fallen to its lowest level in more than three years, as reported by the South African

Chamber of Commerce and Industry.

Kind Regards,
The Global Trader Team

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