Daily Market Update

A daily publication of Treasury Unit of Access Bank Botswana.

Friday, June 2, 2023

Financial Markets

Risk aversion has dissipated. Inflation in the US appears to be surprising to the downside. Investors now anticipate that the Fed will not have to hike rates as much. Another distraction removed from the markets has also been the negotiations around the US debt ceiling and the theatre around whether the US would default. With this now behind us and the US Senate ratified the bill, the US will not default, and the market will price out any related risk.

Without the safe-haven bid, the USD has lost a little more ground. Investors will now turn their attention to economic fundamentals, which generally look good for the US. Inflation is moderating, and the labour market remains resilient. That is the Goldilocks scenario the Fed will have aimed for, which may cause the Fed to pause. There is no reason to upend this trend if inflation is moderating back to target. At the very least it should knock some of the momentum out of the USD.

While external risks have been easing, there is no quick resolution to SA's idiosyncratic risks. Another week of negative news flow highlighted this, with the most significant being the Auditor-General's damning report on the state of SA's municipalities and local government. All the while, question marks hanging over SA's non-aligned stance with regard to the Russia-Ukraine war also remain a significant risk. The ZAR thus remains extremely vulnerable, and although it was able to capitalise on USD weakness yesterday, it depreciated against other majors such as the GBP and EUR.

The BWP-ZAR remains stable at higher levels around 1,425. The cross is marginally offered in early trade this morning, but likely to remain fairly elevated. Forward points will be looking attractive to local importers as a result.

Corporate Foreign Exchange

	CUSTOMER BUY	CUSTOMER SELL	CUSTOMER BUY	CUSTOMER SELL
	CASH	CASH	TT	TT
BWPZAR	1.3536	1.372896	1.379685	1.473003
BWPUSD	0.06912	0.093496	0.070452	0.07519
GBPBWP	17.852432	18.106088	17.4662015	17.061506
BWPEUR	0.069472	0.070512	0.065631	0.069156
JPYBWP	10.4	10.5456	9.825	10.31745
USDZAR	18.799392	20.373704	19.24000275	19.93292675
EURUSD	1.033824	1.120392	1.05805425	1.09615275
GBPUSD	1.202976	1.30364	1.23117075	1.27543625

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Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-1.6965	-3053.31592
3m	-5.148	-4787.96943
6m	-9.97425	-7054.52807
12m	-23.35125	-11850.3675

Local Fixed income

Yield curve	Close	Change
6m	5.34	0.005
3y	5.23	0
5y	6.65	0
20y	8.85	0.04
22y	9	0

International Fixed Income

	Close	Change
SA 10y	11.23	-0.01
US 10y	3.618	0.01
German 10y	2.264	0.004
SA vs Bots 5y spread	310	-2

DOMESTIC AND REGIONAL NEWS

PMIs show South African economy under pressure

South Africa's seasonally adjusted Absa Purchasing Managers' Index (PMI) declined slightly from 49.8pts in April, to 49.2pts in May 2023. May's outcome was exactly in line with consensus forecasts. The ABSA PMI has remained in contractionary territory (i.e., a level below 50) for four consecutive months, more accurately reflecting the headwinds facing the country (most notably load-shedding). A contractionary reading points to the likelihood that economic activity is set to slow sharply in 2023. The 'new sales orders index' remained in contractionary territory in May, at 47.5pts even though this was up on the 44.3pts recorded in April. Respondents observed a notable deterioration in exports in May. This may have been a function of slowing global growth and port inefficiencies which outweighed improved competitiveness due to the weakening rand. While input prices have declined in recent months, they remain elevated. In fact, the 'purchasing price index' rose to 77.0pts in May from 75.0pts in April. The weaker rand poses a significant risk to the outlook for prices. Respondents turned significantly more negative about business conditions going forward. The 'expected business conditions in six months' declined from 51.0pts in April to 43.7pts in May, its lowest level since the CV19 pandemic.

GLOBAL NEWS

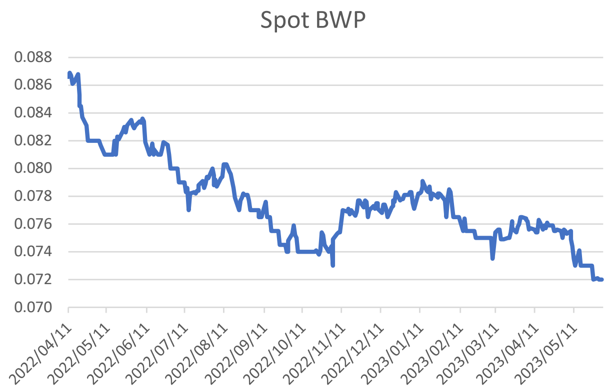
US nonfarm payrolls number to hold focus into the weekend

Looking at the day ahead, there is nothing slated for release on the economic front locally, but the all-important US Non-Farm Payrolls will take centre stage this afternoon.

The May employment report will likely reflect a slowdown in the pace of hiring in the US economy. Consensus expectations, as per Bloomberg, are for nonfarm payrolls growth to drop from 253k to 180k. It will also be interesting to see whether the bumper print for April will be revised lower, as was the case for the February and March prints. If this occurs, it will raise questions over whether the US labour market is as strong as the April data implied. Economic headwinds are on the rise, and it is only a matter of time before the US labour market comes under significant pressure. In turn, an easing labour market would point to stronger disinflationary pressures down the line, which would support the case for the Fed to pause its rate hike cycle in June.

Sources: ETM Analytics, Access Bank Treasury Team, Bloomberg, Reuters

Chart Pack



Spot BWP
0.088
0.086
0.084
0.082
0.080
0.078
0.076
0.074
0.072
0.070
2022/04/11
2022/05/11
2022/06/11
2022/07/11
2022/08/11
2022/09/11
2022/10/11
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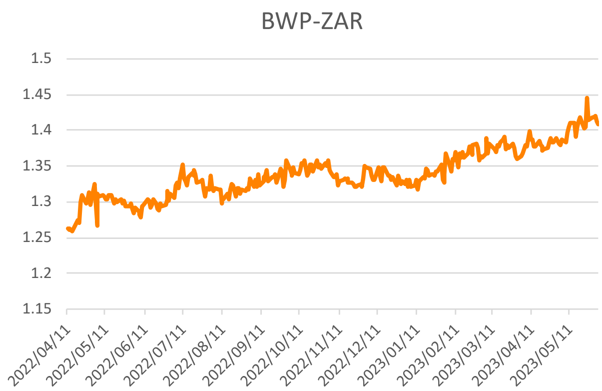
2023/04/11
2023/05/11



BWP-ZAR
1.5
1.45
1.4
1.35
1.3
1.25
1.2
1.15
2022/04/11
2022/05/11
2022/06/11
2022/07/11
2022/08/11
2022/09/11
2022/10/11
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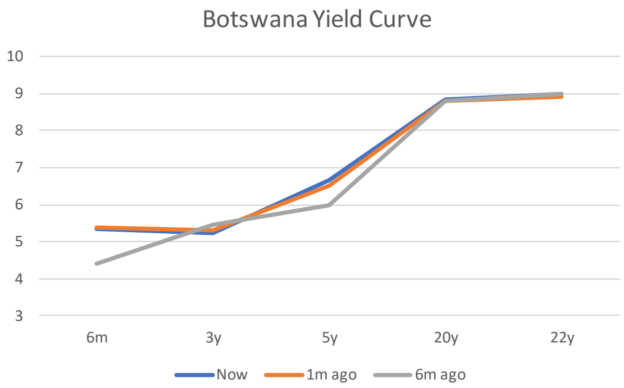
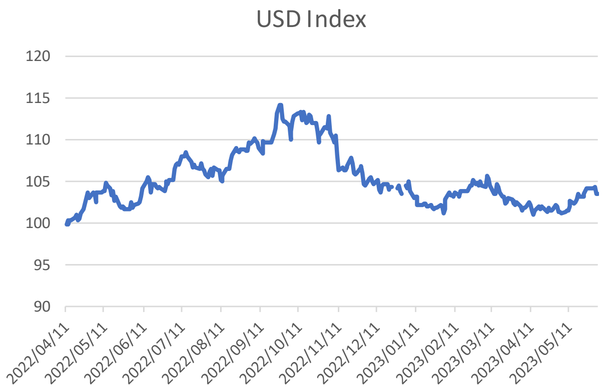
2023/04/11
2023/05/11



Botswana Yield Curve
10
9
8
7
6
5
4
3
6m
3y
5y
20y
22y
Now
1m ago
6m ago



USD Index
120
115
110
105
100
95
90
2022/04/11
2022/05/11
2022/06/11
2022/07/11
2022/08/11
2022/09/11
2022/10/11
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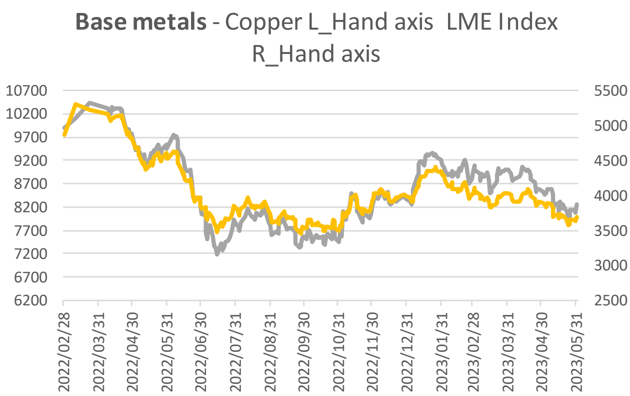
2023/04/11
2023/05/11



Base metals - Copper L_Hand axis LME Index R_Hand axis
10700
10200
9700
9200
8700
8200
7700
7200
6700
6200
5500
5000
4500
4000
3500
3000
2500
2022/02/28
2022/03/31
2022/04/30
2022/05/31
2022/06/30
2022/07/31
2022/08/31
2022/09/30
2022/10/31
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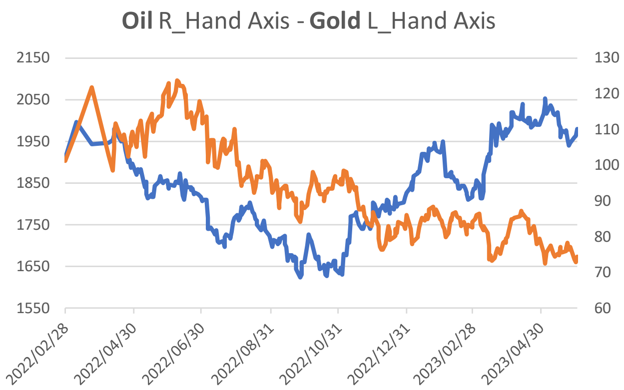
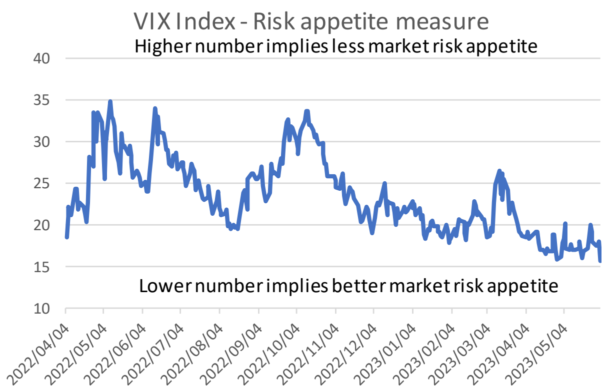
2023/04/30
2023/05/31



Oil R_Hand Axis - **Gold** L_Hand Axis
2150
2050
1950
1850
1750
1650
1550
130
120
110
100
90
80
70
60
2022/02/28
2022/04/30
2022/06/30
2022/08/31
2022/10/31
2022/12/31
2023/02/28
2023/04/30



VIX Index - Risk appetite measure
Higher number implies less market risk appetite
40
35
30
25
20
15
10
Lower number implies better market risk appetite
2022/04/04
2022/05/04
2022/06/04
2022/07/04
2022/08/04
2022/09/04
2022/10/04
2022/11/04
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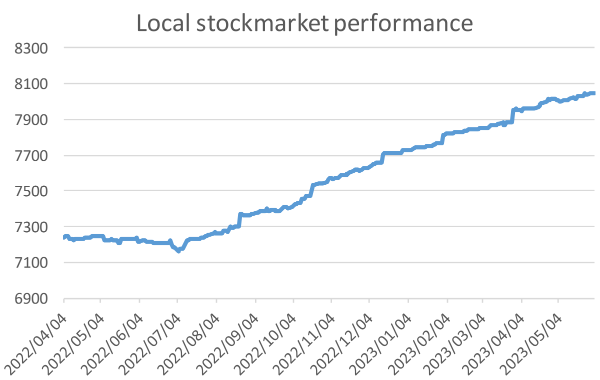
2023/04/04
2023/05/04



Local stockmarket performance
8300
8100
7900
7700
7500
7300
7100
6900
2022/04/04
2022/05/04
2022/06/04
2022/07/04
2022/08/04
2022/09/04
2022/10/04
2022/11/04
2022/12/04
2023/01/04
2023/02/04
2023/03/04
2023/04/04
2023/05/04