Daily Market Update

A daily publication of Treasury Unit of Access Bank Botswana.

Monday, June 5, 2023

Financial Markets

Up until Friday's payrolls, the USD looked like it was ready to lose some ground. Some softer inflation data confirmed that the interest rate cycle in the US had probably topped out and that the next rate decision would revolve around when to cut. However, Friday's payroll data was strong, and investors quickly started to question whether the Fed had seen the peak in rates and might not hike rates by a further 25bp one last time.

The USD bounced, and the ZAR's recovery to trade back below 19.400 was short-lived. For the time being, the ZAR remains a passenger for a ride on the USD train and the USD is currently in the ascendancy. But that is just in the short term. The SARB still has more hiking to announce while the Fed is close to confirming the top of the interest rate cycle. When domestic bonds eventually attract foreign interest back to SA shores, the cycle will turn and it could turn quite dramatically. However, in the short term, some volatility is likely.

Locally, the BWP-USD remains flat around 0,0720 according to Reuters data, failing to hold any breaks above the 0,,0725 level that have occurred in recent sessions. The BWP-ZAR, meanwhile, is till steady near 1,4270 despite the ZAR's recovery from record lows last week. The outlook for the pair is still fairly bearish from here, with the SARB to hike rates further and the BoB looking unlikely to. Therefore, current attractive forwards rates could be locked in for importers.

Corporate Foreign Exchange

	CUSTOMER BUY	CUSTOMER SELL	CUSTOMER BUY	CUSTOMER SELL
	CASH	CASH	TT	TT
BWPZAR	1.34976	1.374432	1.375771	1.474651
BWPUSD	0.06912	0.093496	0.070452	0.075499
GBPBWP	17.616144	17.94	17.2350255	16.905
BWPEUR	0.069992	0.07124	0.06612225	0.06987
JPYBWP	10.504	10.6912	9.92325	10.4599
USDZAR	18.746304	20.313384	19.1856705	19.87391175
EURUSD	1.026624	1.112384	1.0506855	1.088318
GBPUSD	1.191936	1.29168	1.219872	1.263735

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Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-1.6965	-3053.31592
3m	-6.391125	-4787.96943
6m	-10.3545	-7054.52807
12m	-23.4	-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	11.245	-0.005
US 10y	3.7274	0.0344
German 10y	2.359	0.051
SA vs Bots 5y spread	310.5	0

DOMESTIC AND REGIONAL NEWS

Fitch affirms Namibia’s credit rating and outlook

Looking at developments in the region and on Friday we had a plethora of ratings updates throughout Africa. Fitch affirmed Namibia’s long-term and foreign currency rating at BB with a stable outlook. Fitch said in its report that the BB rating is supported by its strong governance indicators and institutional framework, and fiscal financing flexibility supported by the large non-banking financial sector. The agency added that this is balanced against elevated fiscal deficits, rigid fiscal structure, high government debt levels, and moderate medium-term growth prospects. Fitch noted that the stable outlook meanwhile reflects its view that the government's fiscal consolidation efforts will limit the rise in government debt and lead to its stabilisation over the medium term.

Meanwhile, Business Day this morning has chosen to highlight the risks to the South Africa bond market as contained in the SARB's Financial Stability Review released last week. It is a valid concern and one that should be taken seriously. But to be clear, this is not the fault of the SARB lifting rates so much as it is the government's inability to run the country effectively. A well-functioning government would be running a smaller budget deficit, issue less debt relative to the size of the economy, crowd out less of the private sector, collect more taxes and generate much higher levels of GDP growth. Higher interest rates are therefore needed to attract foreign capital back to SA shores

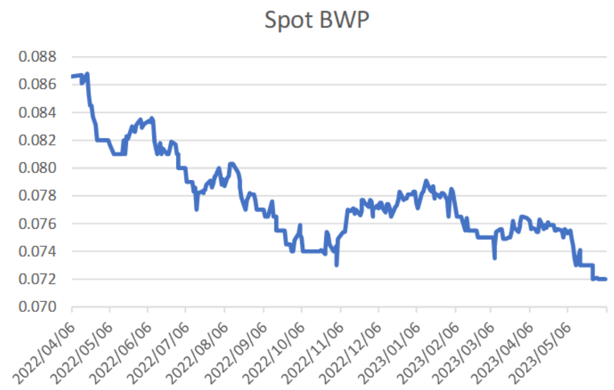
GLOBAL NEWS

China services PMI rises as sector continues its recovery

The Asian session has seen the release of China’s PMI Services reading. The services sector experienced a robust recovery, with strong growth in activity, new orders, and export business. The Index rose to 57.1 for the May reading versus 56.4 in April. This positive trend was attributed to improved market conditions and increased customer turnout. As a result, companies hired more employees and saw a rise in backlogged work. However, the rate of job creation slowed. While capacity pressures persisted, the rate of accumulation of outstanding business eased slightly. Input costs for service sector firms increased solidly, driven by higher labour and raw material prices. Consequently, service providers raised their prices at the fastest rate since February 2022. Despite some softening of sentiment compared to earlier in the year, companies remained optimistic about future business activity. They expected further growth in the next 12 months, driven by improving market conditions and increased customer demand as the sector continued to recover from the impact of the COVID-19 pandemic. .

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
2022/04/06
2022/05/06
2022/06/06
2022/07/06
2022/08/06
2022/09/06
2022/10/06
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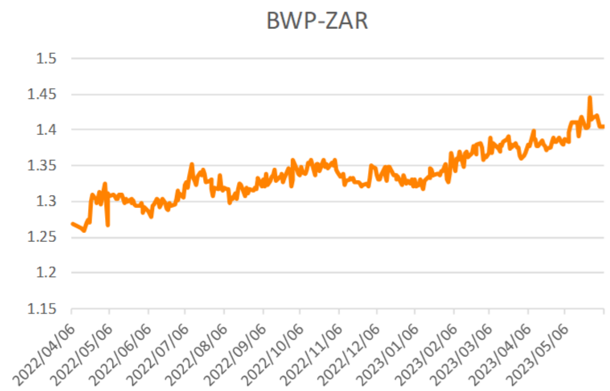
2023/05/06


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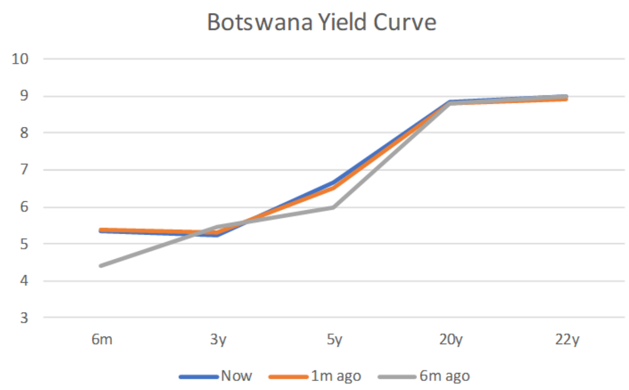
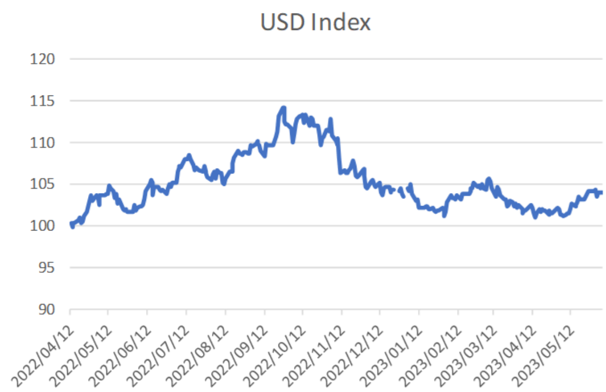
2023/04/06
2023/05/06


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
2022/04/12
2022/05/12
2022/06/12
2022/07/12
2022/08/12
2022/09/12
2022/10/12
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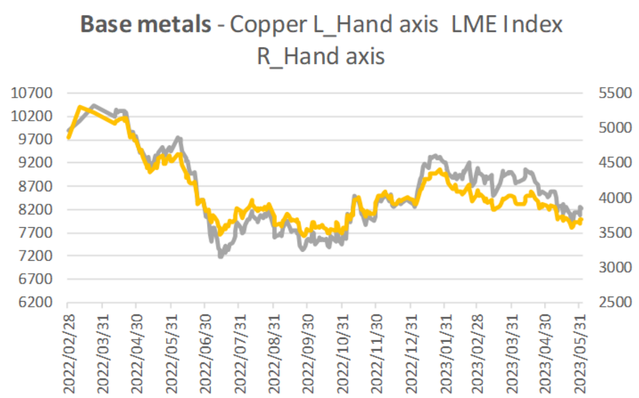
2023/04/12
2023/05/12


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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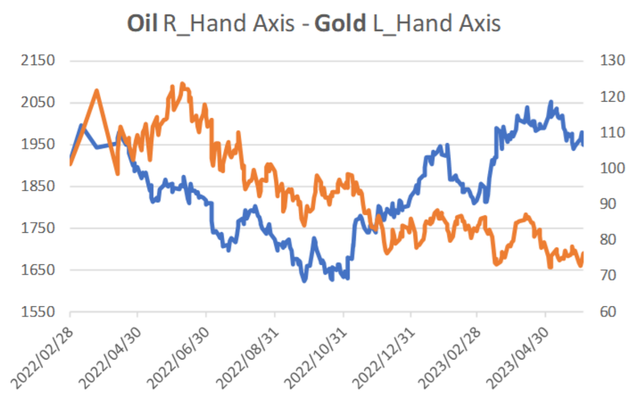
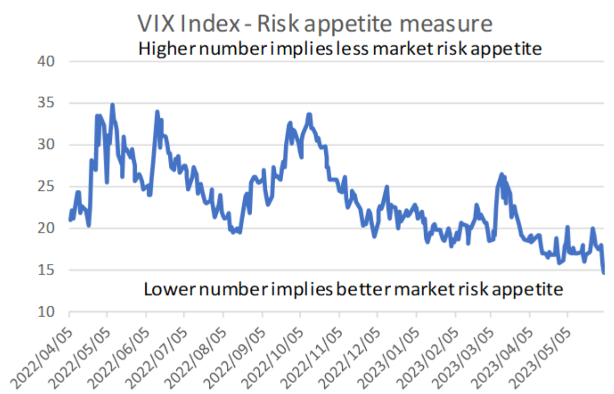
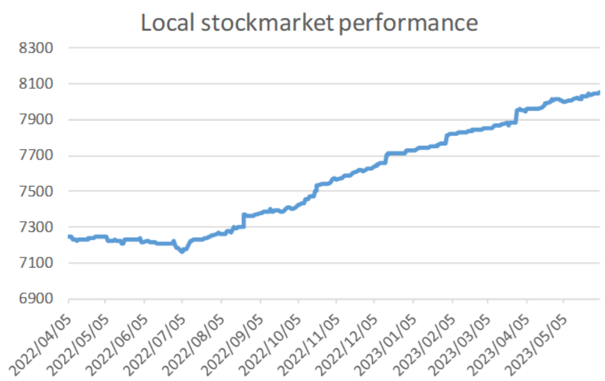
2023/04/30
2023/05/31


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
2022/04/05
2022/05/05
2022/06/05
2022/07/05
2022/08/05
2022/09/05
2022/10/05
2022/11/05
2022/12/05
2023/01/05
2023/02/05
2023/03/05
2023/04/05
2023/05/05


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