

Daily Market Update



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Financial Markets

Fed Chairman Powell delivered the Fed's decision and statement yesterday, described by most as a hawkish pause. In leaving the door open for more rate hikes, the Fed has assisted the USD in regaining some support, and on a trade-weighted basis, it has recovered from its recent lows.

Looking at the day ahead, some focus will turn to the Philly Fed business index for June, which is expected to deteriorate, and the retail sales for May, which will offer perspective on demand-pull pressures on prices and the industrial production data. The combination could have market-moving effects on the USD.

Technically, the USD-ZAR is ripe for a breather, and the combination of the USD's recovery from its lows and the latest "non-aligned" comments from the SA government could help that happen. Levels below 18.30 proved difficult to sustain and have likely formed a base for now. That is not to say that further ZAR gains are not possible later this year, just that the moves seen in the past two weeks have been so big, that the market will need to take a breath at some point and consolidate the move as it awaits a fresh catalyst.

The BWP-USD rallied to over 0,0750 yesterday with the pair taking a slightly offered tone this morning but largely holding onto its gains. The BWP-ZAR, meanwhile, had a look below 1,38000 yesterday as the rand continued with its impressive rally. Below 1,38000, the level to watch will be the 200DMA at 1,3655. If the BoB keeps rates unchanged today, as we expect, it could pressure the pair lower as the SARB is expected to continue to hike by at least a further 25bp.

Corporate Foreign Exchange

	CUSTOMER BUY	CUSTOMER SELL	CUSTOMER BUY	CUSTOMER SELL
	CASH	CASH	TT	TT
BWPZAR	1.323168	1.33248	1.34866655	1.42964
BWPUUSD	0.072	0.093496	0.0733875	0.077662
GBPGBP	17.42104	17.54272	17.0441425	16.53064
BWPEUR	0.072072	0.072592	0.06808725	0.071196
JPYBWP	11.024	11.0968	10.4145	10.856725
USDZAR	17.642304	19.119256	18.0557955	18.70561825
EURUSD	1.038336	1.124968	1.062672	1.10062975
GBPUSD	1.214112	1.315704	1.24256775	1.28723925

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Forward Foreign Exchange

	BWPUUSD	BWPZAR
1m	-1.7355	-3697.68993
3m	-5.2845	-5105.94285
6m	-10.0815	-7421.49821
12m	-22.55175	-12217.1745

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	10.735	0.03
US 10y	3.8369	0.0389
German 10y	2.497	0.052
SA vs Bots 5y spread	279.5	2



DOMESTIC AND REGIONAL NEWS

Bank of Botswana set to keep rates unchanged

Monetary policy remains in focus today with the Bank of Botswana and the Bank of Mauritius set to announce their latest rate decisions. The Bank of Botswana has left rates unchanged at 2.65% since October last year, as the downtrend in inflation has continued since October 2022. Inflation peaked at 14.6% y/y in October and has since eased to 7.9% y/y in April. Inflation has decelerated due to the high base effects of 2022 coming into play. Moreover, international food and oil prices have corrected lower. Looking forward, inflation pressures are expected to ease further in the coming months, with the May edition of the data scheduled for release today.

Meanwhile, the Bank of Namibia hiked rates by 50bps, taking the key interest rate to 7.75%. The decision to hike rates comes on the back of elevated inflation. For context, inflation has averaged 6.8% y/y in the first five months of 2023, which compares to an average of 4.9% y/y in the same period in 2022.

The Monetary Policy Committee said in its policy statement that the decision was also taken to safeguard the currency peg between the Namibian dollar and the South African rand. Moreover, the MPC said that the decision to hike rates would help anchor inflation expectations, which remain elevated

GLOBAL NEWS

Fed delivers hawkish hike, market still diverges on expected rate path

The Fed kept rates unchanged at 5.00% - 5.25% at the June FOMC meeting, giving the central bank time to assess incoming data. The vote to hold was unanimous. However, it appeared to be a very hawkish pause going by the statement, with the forecasts released suggesting that there could be two more rate hikes before the end of the year. The median forecast from the Fed suggests that rates will rise to 5.6% by the end of the year and come down to 4.6% by the end of 2024.

However, Chair Powell struck a slightly less hawkish tone in his press conference. He noted that the June decision shouldn't be referred to as a "skip" and that the July FOMC meeting will be a "live" one, which implies that a hike is not a foregone conclusion. The dot plots may have been a case of jawboning to prevent a notable loosening of financial conditions post the announced pause. Incoming data releases, therefore, could take on added significance and keep volatility levels within rates markets elevated.

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

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Chart Pack

