

# Daily Market Update



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## Financial Markets

Yesterday was an interesting day on FX markets. The EUR surged after the ECB opted to lift rates again for the eighth consecutive time to take the policy rate up to 3.5%, the highest it has been in twenty-two years. It added that stubbornly high inflation just about guaranteed a further rate hike at the next meeting, which all contributed to a surge in the EUR-USD back up to 1.0940.

In stark contrast, the BoJ kept interest rates unchanged and maintained its pledge to patiently keep monetary policy ultra-accommodative. The JPY was already on the defensive with the market anticipating this response from the central bank, leaving the JPY to consolidate back above 140.60.

US Treasuries, meanwhile, rallied yesterday, with yields down between 4bp and 7bp on the session following some weaker-than-expected labour data out of the US, while traders report that a large block trade added to the bullish momentum on the day. Meanwhile, traders marginally reduced their bets for further Fed rate hikes, pencilling in a 66% chance of a 25bp hike at the July FOMC meeting and trimming their expected peak rate by 2bp on the day. For the session ahead, the main release out of the States will be the University of Michigan survey figures, where investors will closely watch the inflation expectation components. Any signs of moderation there could see the bullish momentum for USTs continue into the weekend

Locally, the BWP-USD held steady at 0,0750 but further gains are likely instore. The BWP-ZAR, meanwhile, declined further and is nearing the 200DMA at 1,3656 as yesterday's hold by the Bank of Botswana will contrast against further rate hikes by the SARB which should keep the bias for the cross to the downside for now.

### Corporate Foreign Exchange

	CUSTOMER BUY	CUSTOMER SELL	CUSTOMER BUY	CUSTOMER SELL
	CASH	CASH	TT	TT
BWPZAR	1.312896	1.319232	1.3381966	1.415426
BWPUSD	0.072	0.093496	0.0733875	0.077559
GBPGBP	17.659304	17.732728	17.27725175	16.709686
BWPEUR	0.07124	0.071552	0.06730125	0.070176
JPYBWP	10.972	11.024	10.365375	10.7855
USDZAR	17.505408	18.979272	17.915691	18.56866275
EURUSD	1.050336	1.13828	1.07495325	1.11365375
GBPUSD	1.227456	1.329952	1.2562245	1.301179

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### Forward Foreign Exchange

	BWPUUSD	BWPZAR
1m	-1.7355	-3697.68993
3m	-5.27475	-5105.94285
6m	-10.569	-7421.49821
12m	-20.631	-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	10.74	0.035
US 10y	3.728	-0.07
German 10y	2.505	0.06
SA vs Bots 5y spread	281	3.5



## DOMESTIC AND REGIONAL NEWS

### Bank of Botswana keeps rates unchanged, inflation slowed sharply in May

The Bank of Botswana left rates unchanged at 2.65% for the fifth consecutive meeting due to its assessment of a continued downward trend in inflation. The monetary policy committee anticipates that inflation will temporarily return to the target range of 3% to 6% by the third quarter of this year and then remain within that range from the second quarter of 2024 onwards. Data released yesterday showed that inflation slowed to 5,7% y/y in May from 7,9% y/y the month earlier.

The MPC said in its statement that the mining sector is projected to experience stagnant growth due to a bleak outlook for diamonds. The country, which is heavily reliant on diamond mining, is facing challenges such as lower demand and decreasing diamond prices. While other sectors, such as coal and copper, may see some growth, it is unlikely to compensate for the downturn in the diamond industry. This dim outlook for the mining sector raises concerns about Botswana's economic performance. This is likely to be a factor that will support the BoB's decision to leave rates unchanged.

Going forward, the BoB could turn more hawkish in the coming months if inflation pressures prove to be more sticky than expected. One of the main risks to the inflation outlook is currency weakness. The BoB is expected to remain cautious in the coming months, and the policy path is expected to remain highly data-dependent.

## GLOBAL NEWS

### ECB hikes, BoJ stands pat

The ECB elected to raise rates by 25bps, consistent with market pricing and consensus expectations. The central bank increased all three policy rates, as monetary authorities see inflation as being 'too high for too long'. Despite cooling consumer price growth, core inflation has remained fairly sticky, illustrating resilient demand in the Eurozone. The hawkish tone at the meeting follows the latest global bias seen by central banks, such as the Reserve Bank of Australia and Bank of Canada. While there are some signs of softening price pressures, consumptive demand is anticipated to remain resilient in the coming months, suggesting the ECB may hold rates higher for longer than initially thought.

The BoJ delivered no surprises at its MPC meeting today, keeping interest rates and its yield curve control parameters unchanged. The central bank also maintained its view that inflation will slow over the coming months. The decision underlines the BoJ as an outlier amongst global central banks, with Governor Ueda sticking to his view the cost of hiking too early would be more damaging than not acting now if inflation does continue to slow. Even after today's meeting, however, speculation is still high that the July MPC meeting will yield some tweaks to the bank's yield control measures

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

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## Chart Pack

