

Daily Market Update



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Financial Markets

The USD-ZAR failed to launch higher yesterday. While it showed signs that a larger correction higher was possible, the news of the day prevented that from happening. Today, Fed Chairman Powell will testify before Congress and its Senate Banking Committee again, so the potential for more comments is high. However, more hawkish comments such as those heard yesterday will not be enough to persuade investors that the Fed is not close to done with its tightening. The market has a high probability of another 25bp hike pencilled in for July, but beyond that, investors are anticipating a short-lived pause before the Fed starts cutting again.

This contrasts with how investors anticipate the SARB will act. The result is that some of the headwinds the ZAR has faced this year will turn into tailwinds and assist the ZAR stage in a deeper recovery. The higher rates will slow the SA economy through H2 2023, but history shows us that the ZAR tends to perform better in a slow domestic economy where imports are curtailed, especially if foreign demand for SA's mineral exports still holds up well.

Locally, the BWP-USD remains just below 0,0750, running into a bit of resistance after the recent gains. The BWP-ZAR, meanwhile, has steadied near 1,3760 according to Reuters data. With some of the expected SARB rate hike premium priced out after yesterday's SA CPI figures, the outlook for the BWP-ZAR is turning less bearish. However, we still expect it to weaken from current levels, given the undervaluation of the ZAR in general.

Corporate Foreign Exchange

	CUSTOMER BUY	CUSTOMER SELL	CUSTOMER BUY	CUSTOMER SELL
	CASH	CASH	TT	TT
BWPZAR	1.321248	1.332096	1.34670955	1.429228
BWPUSD	0.071904	0.093496	0.07328965	0.077868
GBPGBP	17.567056	17.71328	17.1869995	16.69136
BWPEUR	0.070928	0.071448	0.0670065	0.070074
JPYBWP	11.0448	11.1384	10.43415	10.897425
USDZAR	17.639616	19.114368	18.0530445	18.700836
EURUSD	1.05456	1.142856	1.07927625	1.11813075
GBPUSD	1.224288	1.326728	1.25298225	1.29802475

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Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-1.82325	-3833.98206
3m	-5.343	-5242.21376
6m	-10.515375	-7604.9786
12m	-20.421375	-12374.3737

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	10.72	-0.105
US 10y	3.723	-0.004
German 10y	2.429	0.023
SA vs Bots 5y spread	271	0



DOMESTIC AND REGIONAL NEWS

World Bank approves Botswana loan

The World Bank, in a statement on Wednesday, said it had approved a \$150mn budget-support loan for Botswana. According to Botswana's finance minister, "the development policy financing provides important fiscal space and support to the government." The loan follows a \$250mn budget-support disbursement in 2021. Both loans represent rare policy-linked credit for Botswana, which over the years has shied away from hard-currency debt, preferring to spend its diamond revenue-backed reserves.

Meanwhile, in a move that gives the country a stake in the development of an industry that is expected to supply Europe with green fuel, state-backed firms from the Netherlands have agreed to back the creation of two \$1bn green hydrogen funds in Namibia and South Africa. According to statements, Climate Fund Managers BV, a Hague-based company owned by Netherlands's development bank FMO and South African insurer Sanlam Ltd., and Invest International BV will help run and finance the initiatives. The region's abundant wind and solar resources, which would be used to provide the energy to split water, and South Africa's deep capital markets have positioned it to potentially become a major producer of green fuel, which is expected to ultimately replace natural gas.

GLOBAL NEWS

Powell signals more hikes to come

Federal Reserve Chairman Jerome Powell indicated that further interest rate increases are likely in order to address inflation concerns. Despite the recent decision to hold rates steady, Powell stated that most Federal Open Market Committee (FOMC) participants expect rate hikes by the end of the year. The FOMC projects a total increase of 50 bps through 2023, implying two additional 25 bps hikes. While inflation has moderated from its peak, it remains above the Fed's 2% target, necessitating continued action. Powell mentioned the need to observe the impact of previous policy tightening, as the effects of monetary restraint on inflation and the economy take time to materialise. He also acknowledged the need for a more measured approach to rate increases compared to the aggressive pace seen in the past. Powell emphasised that decisions will be data-driven and made on a meeting-by-meeting basis, while ensuring appropriate supervisory and regulatory practices. He was speaking yesterday on the first day of his semi-annual appearance on Capitol Hill where he briefs lawmakers on the Fed's view of the economy and outlook for monetary policy.

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

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Chart Pack

