Daily Market Update

A daily publication of Treasury Unit of Access Bank Botswana.

Monday, June 26, 2023

Financial Markets

The USD has kicked off the new week on the back foot, reversing some of Friday's gains. The USD is trading in the red against almost all G10 currencies, with the most notable losses against the NZD, JPY and GBP.

While the situation has stabilized overnight, investors are keeping a close eye on Russia. The developments over the weekend exposed fresh cracks in the strength of Putin's leadership and supportership. Political analysts have flagged that Saturday's turmoil has weakened Putin in ways that could aid Ukraine's counteroffensive against Russian forces. While the reaction to the developments in Russia in the FX market has thus far been muted, a reescalation could provide some fresh impetus for global FX markets.

Looking at the week ahead, there is an abundance of central bank speak and some key data out of the US and Eurozone, including PCE Core and CPI, which have the potential to move markets, particularly given how sensitive markets are to inflation and monetary policy dynamics at the moment.

Locally, the BWP-USD has declined to near 0,0740, amid a strong performance for the USD in recent sessions. The BWP-ZAR, meanwhile, is bid this morning and rising toward 1,3883 according to Reuters data. Tetchy risk appetite could keep the USD favoured for now, while the ZAR may remain under a bit of pressure until general risk appetite levels stabilize.

Note that Botswana will be offering 7-day and 28 certificates today at auction.

Corporate Foreign Exchange

	CUSTOMER BUY	CUSTOMER SELL	CUSTOMER BUY	CUSTOMER SELL
	CASH	CASH	TT	TT
BWPZAR	1.333152	1.342656	1.35884295	1.440558
BWPUSD	0.071136	0.093496	0.07250685	0.076838
GBPBWP	17.74552	17.869488	17.3616025	16.838556
BWPEUR	0.070616	0.071136	0.06671175	0.069768
JPYBWP	11.0448	11.128	10.43415	10.88725
USDZAR	17.99088	19.497816	18.41254125	19.07598825
EURUSD	1.046784	1.134432	1.071318	1.109889
GBPUSD	1.221984	1.324128	1.25062425	1.295481

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Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-1.97925	-3879.41231
3m	-5.4015	-5287.63694
6m	-10.09125	-7631.18983
12m	-22.27875	-12426.7729

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	10.69	0.015
US 10y	3.7173	-0.0217
German 10y	2.352	-0.007
SA vs Bots 5y spread	270.5	1.5

DOMESTIC AND REGIONAL NEWS

BoB sees no scope for near-term rate cuts

According to the Bank of Botswana, there will be no interest rate cuts coming anytime soon. Despite projections of cooling inflation, BoB rate-setters have argued that numerous threats to the forecasts persist and that this will require higher rates to persist for the time being. The BoB last week said it expects inflation to remain within the three to six percent objective range going into the medium term. The central bank had previously expected inflation to revert on a sustained basis to the objective range from the second quarter of 2024. Note that at the MPC meeting on 15 June, the BoB noted that inflation could be higher than projected in the event international commodity prices were to increase beyond current forecasts; persistence of supply and logistical constraints, as well as reversal of global economic integration (geo-economic fragmentation). However, the BoB and our view is that disinflationary forces will be stronger over the coming months. These include the absence of upward adjustment of administered prices, subdued domestic demand, projected appreciation of the Pula against the South African rand and zero rating of a select number of items from value added tax.

GLOBAL NEWS

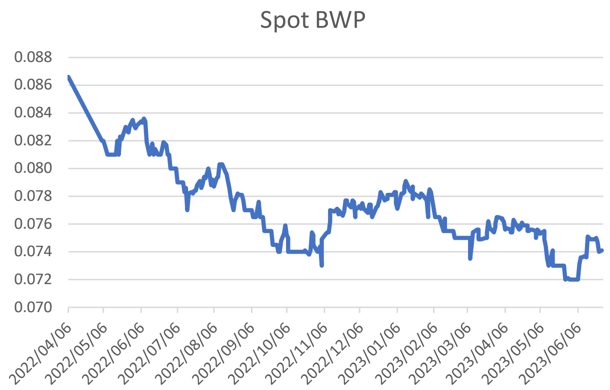
BIS calls for higher rates

The Bank for International Settlements (BIS), the world's central bank umbrella body, has called for more interest rate hikes, citing concerns about inflation and financial vulnerabilities. Despite previous rate increases, inflation in major economies remains high, leading to serious banking collapses. The BIS warns that the global economy is at a critical juncture and emphasizes the need to prioritize price stability and fiscal consolidation over short-term growth.
The BIS also highlights the unique challenges of the current situation, with a simultaneous surge in inflation and widespread financial vulnerabilities, which has not been observed since World War II. The report emphasizes that if inflation persists, a stronger and prolonged policy tightening will be necessary, with a material risk of further problems in the banking sector.

The BIS estimates that if interest rates reach mid-1990s levels, the overall debt service burden for top economies would be the highest in history. The report acknowledges that central banks have the task of controlling inflation but raises the question of the associated costs.

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
2022/11/06
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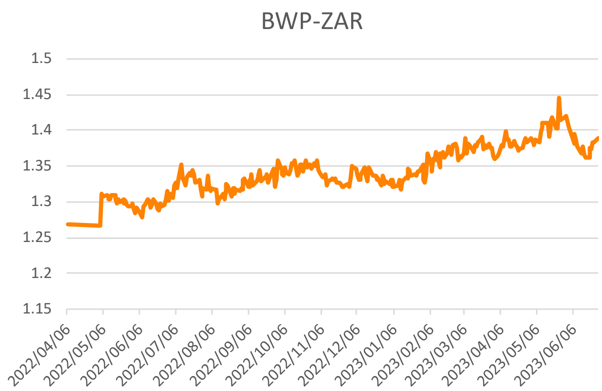
2023/06/06


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
2022/11/06
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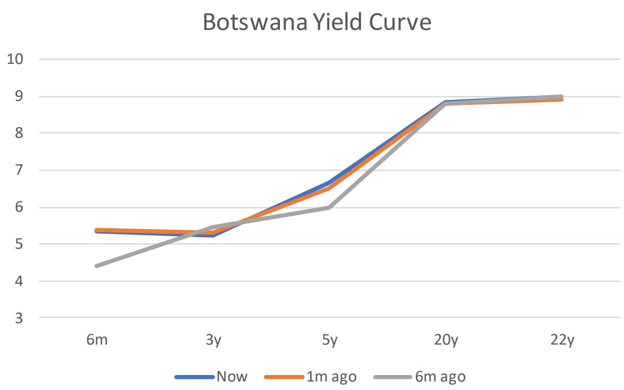
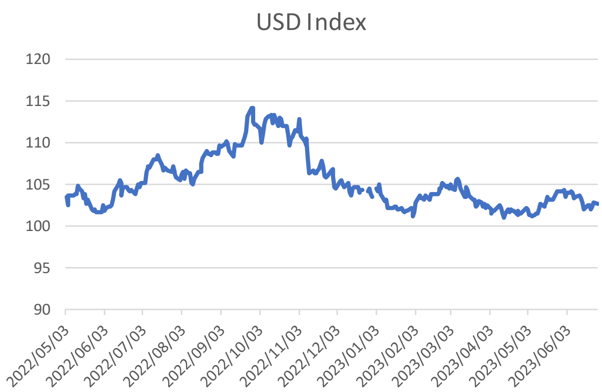
2023/05/06
2023/06/06


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
2022/05/03
2022/06/03
2022/07/03
2022/08/03
2022/09/03
2022/10/03
2022/11/03
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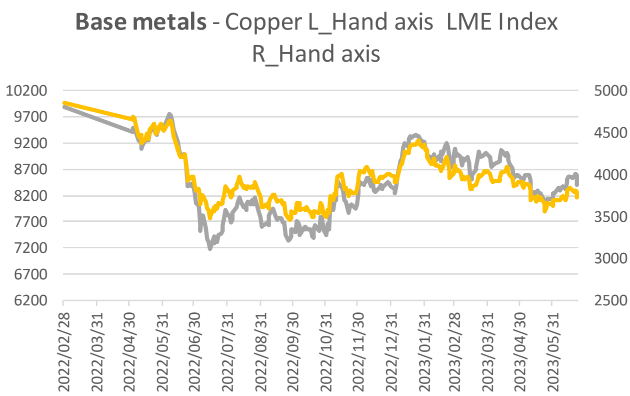
2023/05/03
2023/06/03


Base metals - Copper L_Hand axis LME Index R_Hand axis
10200
9700
9200
8700
8200
7700
7200
6700
6200
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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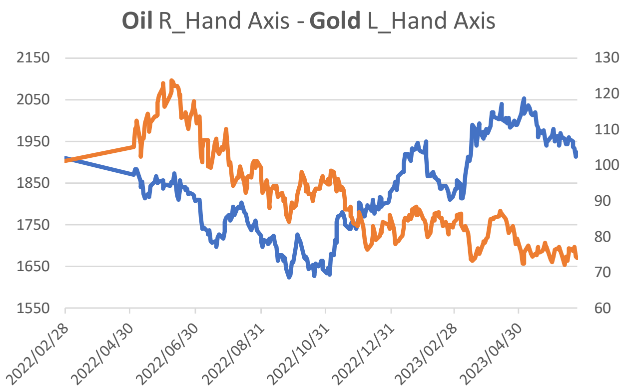
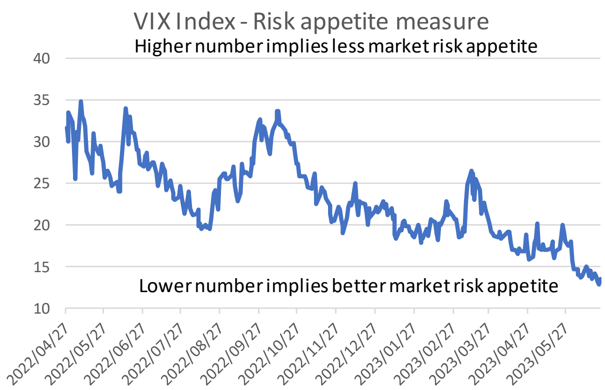
2023/04/30
2023/05/31


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
Lower number implies better market risk appetite
40
35
30
25
20
15
10
2022/04/27
2022/05/27
2022/06/27
2022/07/27
2022/08/27
2022/09/27
2022/10/27
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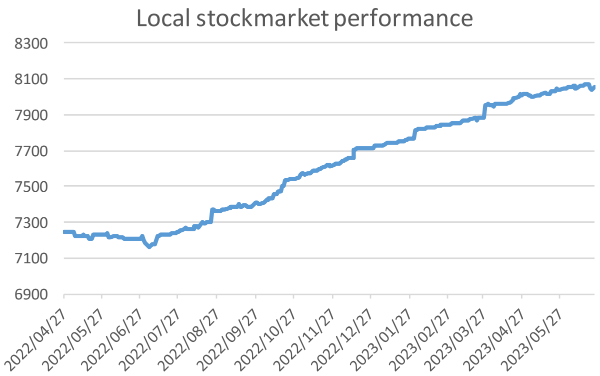
2023/04/27
2023/05/27


Local stockmarket performance
8300
8100
7900
7700
7500
7300
7100
6900
2022/04/27
2022/05/27
2022/06/27
2022/07/27
2022/08/27
2022/09/27
2022/10/27
2022/11/27
2022/12/27
2023/01/27
2023/02/27
2023/03/27
2023/04/27
2023/05/27