

Daily Market Update



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Financial Markets

Notwithstanding the much stronger-than-expected US ADP data yesterday, it is notable that the USD did not surge stronger. US Treasury yields may have surged higher, and investors might've turned more convinced that the Fed could hike another two times, but it is far from a wholesale expectation. The Fed Funds futures market is yet to price in another full 25bp rate hike beyond July.

So much so that the EUR and the GBP still managed to eke out some gains vs the USD yesterday. That is surprising but highlights how little interest rate expectations in the US have changed and that investors do not fully believe the strength of the ADP figures this late in the cycle when there are plenty of indicators that point to the US economy heading into recession towards the end of the year and beginning of next.

The USD-ZAR broke back above the 19-handle yesterday as surging US Treasury yields on the back of a renewal of Fed rate-hike bets triggered a rotation away from relatively higher-risk markets. The market now faces plenty of two-way risk into the weekend, with the official US employment data set to provide directional inspiration today. Should the data reflect a softer labour market than recent prints, the ZAR may well recover as the market reprices Fed rate-hike risk. Conversely, more strong employment data will bolster the USD against EM currencies, and could open the door for a move towards 19.2500 in the near term.

The BWP-ZAR has risen to 1,4060 according to Reuters data, with yesterday's slump for the ZAR sending the cross to its highest since the start of June. These levels are likely to be unsustainable and a correction should take place over the coming weeks. .

Corporate Foreign Exchange

	CUSTOMER BUY	CUSTOMER SELL	CUSTOMER BUY	CUSTOMER SELL
	CASH	CASH	TT	TT
BWPZAR	1.34736	1.359072	1.37332475	1.458171
BWPUSD	0.070656	0.093496	0.0720176	0.076632
GBPBWP	17.8594	18.007808	17.47301875	16.968896
BWPEUR	0.070304	0.070824	0.066417	0.069462
JPYBWP	10.9928	11.0864	10.385025	10.84655
USDZAR	18.306432	19.842992	18.735489	19.4136965
EURUSD	1.045632	1.132872	1.070139	1.10836275
GBPUSD	1.223232	1.325376	1.2519015	1.296702

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Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-2.067	-1892.89512
3m	-6.474	-5586.52274
6m	-9.979125	-7998.14035
12m	-19.387875	-12767.3616

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	10.695	0.18
US 10y	4.041	0.096
German 10y	2.628	0.149
SA vs Bots 5y spread	270.5	18



DOMESTIC AND REGIONAL NEWS

Africa continues to lag behind in tax transparency

A report by the Africa Initiative, an African-focused program of the Global Forum on Transparency and Exchange of Information for Tax Purposes, found that five African countries identified EUR 76.6mn (\$83.4mn) in additional revenue last year due to improved tax transparency. According to the Head of the Secretariat of the Global Forum, as countries become more accustomed to the tools to increase tax transparency, there will be “great potential” for even more revenue. The report noted that Kenya, South Africa, Tunisia, Uganda, and Nigeria are benefitting from the exchange of information, but much of the continent lags behind. Total revenue gains from the exchange of information in Africa since 2009 totals more than EUR 1.69bn, according to the report.

GLOBAL NEWS

US labour market in focus after blowout ADP report

The labour market is a notoriously lagging variable. It is often looked at for clues on future Fed policy, but it is a lagging or, at best, a coincident indicator. Companies only employ when they absolutely must and, most of the time, when they have no choice but to. It is not a sign of what will come but how much pressure they have been under. As a result, focusing too squarely on the performance of the labour market could result in policy error and potentially push monetary tightening too far. Investors are urged not to fall into the trap and read too much into the ADP data released yesterday as a sign of how much further rates will rise.

That said, financial markets did respond powerfully. US Treasury yields surged higher, and stock markets came under intense pressure. Overall risk appetite fell sharply, and riskier investment destinations came under scrutiny. All eyes will now be on the US non-farm payrolls data today. Should the data beat expectations handsomely to the upside, US rates will rise again, the USD will enjoy a stronger bid tone, and stock markets may correct substantially further. Should today's data not corroborate what was seen in the ADP figures yesterday, then there is a high probability that much of yesterday's moves could be unwound. The payroll data is considered more influential and a better measure of the labour market than the ADP figures.

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

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Chart Pack

