

# Daily Market Update



A daily publication of Treasury Unit of Access Bank Botswana.

## Financial Markets

In the FX markets, the euro gains evaporated overnight as robust US data once again resulted in a rethink of how aggressive the Fed can be in terms of rate cuts this year. A surprise cut from the Swiss National Bank and a very dovish Bank of England now placing the spotlight squarely on the European Central Bank going forward. Currently, the single currency is quoted just below the EUR-USD1.0850 mark as we head into the EU open.

Sterling fell sharply yesterday following a dovish hold by the Bank of England with investors now bringing forward the likelihood of a rate cut from August to June. The currency dropped from a high of GBP-USD1.2803 to GBP-USD1.2647 yesterday and is currently marking time just below GBP-USD1.2645 into the local open. The yen has weakened in tandem with other majors this morning hitting fresh 32-year lows once again. Investors will however be wary of potential intervention by the Bank of Japan.

The ZAR has traded with heightened volatility over the last few sessions. More broadly, however, it remains within its broader trading range seen since mid-2023, and will likely remain within this range until the May elections have passed. Although the ZAR is significantly undervalued (10%-15%) on a PPP-adjusted basis, it is unlikely to recover until investors have a clear view of the political (and fiscal) landscape going forward. Volatility within a set range is thus likely to remain the order of the day in the meantime, providing plenty of opportunities for traders on both sides of the market. It is currently trading near the middle of its range versus the USD, pointing to plenty of two-way risk in the near term. However, momentum is currently with the ZAR bears, with no support expected until the market trades closer to the R19.0000/\$ mark.

### Corporate Foreign Exchange

|        | CUSTOMER BUY | CUSTOMER SELL | CUSTOMER BUY | CUSTOMER SELL |
|--------|--------------|---------------|--------------|---------------|
|        | CASH         | CASH          | TT           | TT            |
| BWPZAR | 1.332192     | 1.336032      | 1.35786445   | 1.433451      |
| BWPUSD | 0.070368     | 0.093496      | 0.07172405   | 0.075911      |
| GBPGBP | 17.883736    | 17.942496     | 17.49682825  | 16.907352     |
| BWPEUR | 0.070408     | 0.070512      | 0.06651525   | 0.069156      |
| JPYBWP | 11.5544      | 11.5856       | 10.915575    | 11.33495      |
| USDZAR | 18.174528    | 19.692608     | 18.6004935   | 19.266566     |
| EURUSD | 1.039968     | 1.12684       | 1.06434225   | 1.10246125    |
| GBPUSD | 1.213344     | 1.315184      | 1.24178175   | 1.2867305     |

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### Forward Foreign Exchange

|     | BWPUSD    |
|-----|-----------|
| 1m  | -2.0085   |
| 3m  | -5.85     |
| 6m  | -11.20275 |
| 12m | -23.4195  |

### Local Fixed income

| Yield curve | Close | Change |
|-------------|-------|--------|
| 6m          | 4.069 | 0      |
| 3y          | 6.00  | 0.00   |
| 20y         | 8.3   | 0      |

### International Fixed Income

|                       | Close  | Change |
|-----------------------|--------|--------|
| SA 10y                | 10.425 | -0.055 |
| US 10y                | 4.271  | -0.025 |
| German 10y            | 2.435  | -0.014 |
| SA vs Bots 20y spread | 441.5  | 0      |



## DOMESTIC AND REGIONAL NEWS

### Zim currency slump suggests new currency on the cards

The Zimbabwean dollar has depreciated sharply since the start of the year as authorities appear to have lost interest in defending it. The currency has lost more than 69% of its value against the USD year-to-date, leading to a significant decline in purchasing power in a country that has a history of hyperinflation. This depreciation suggests that Zimbabwean authorities are likely considering introducing a new currency, potentially backed by gold.

Recall that Finance Minister Mthuli Ncube said last month that Zimbabwe was considering backing its currency with gold and establishing a currency board as potential solutions to exchange-rate instability. "In order to manage growth of liquidity, we may link the exchange rate to a hard asset such as gold," the finance minister stated, adding that "to do that you have to have some sort of currency board type system in place where the growth of the domestic liquidity is constrained by the value of the asset that is backing the currency."

Just a week earlier, President Emmerson Mnangagwa said authorities were looking to introduce a "structured currency", without explaining how that would work. More announcements are expected in due course as Zimbabwean authorities look for a lasting solution to currency volatility. For now, the US dollar remains the dominant currency in Zimbabwe as the value of the Zimbabwean dollar, which was reintroduced in 2019, has been eroded by high inflation. According to data from the National Statistics Agency, 80% of all economic transactions in Zimbabwe are done in the US currency

## GLOBAL NEWS

### Busy week of central bank announcements comes to an end

It has been a busy week for central banks. The BoJ lifted rates for the first time in 17 years and exited its negative interest rate policy. The RBA left rates unchanged but warned that more work would be done. The Fed, for its part, kept rates unchanged but signalled that three rate cuts were still on the cards, which was a little more than what markets had priced in ahead of the meeting, while the BoE also left rates unchanged and hinted that inflation was moving in the right direction for rate cuts. The SNB finally, cut rates by 25bp, becoming the first DM central bank to do so.

Investors interpreted the Swiss decision as a significant event and started placing strong bets on rate cuts by the European Central Bank (ECB) and the Bank of England (BoE) in June. Some analysts even suggest that these central banks might risk inflationary currency weakness in a strong-dollar environment by acting before the Fed. Money markets quickly adjusted to reflect these expectations, with a 90% chance of an ECB rate cut by June and a roughly 70% chance of a BoE rate cut.

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

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## Chart Pack

