

# Daily Market Update



A daily publication of Treasury Unit of Access Bank Botswana.

## Financial Markets

Currency movements are subdued this morning, with the US dollar pausing its recent decline ahead of the U.S. inflation report, which would offer insights into the timing of potential rate cuts by the Federal Reserve this year. The USD/JPY consolidated its position yesterday following the sharp losses seen in the currency pair. USD-JPY147.00 remains the pivot with the market focused on the Bank of Japan's message of exiting the negative yield environment currently in force. That said, the Finance Minister has refused to comment on a March move to end negative yields just yet..

A softer-than-expected US CPI print today could pile pressure on the USD after some consolidation at the start of the week. Of course, the opposite also holds true, especially given that the USD index (DXY) is trading in slightly oversold territory according to technical momentum indicators. Similarly, the USD-ZAR, which is by and large finding directional cues from broader USD moves at the moment, is also slightly oversold. However, when pulling the lens back slightly, both remain unsustainably overvalued and due for a correction. Traders thus face plenty of two-way risk today, with the CPI print set to determine whether a continuation of recent USD selling will occur, or whether current levels will prove to be an attractive entry point for buyers.

In the fixed income market, according to a Reuters poll, a majority of economists predict that the U.S. Federal Reserve will cut its key interest rate in June, as the central bank awaits further data to confirm if inflation is moving towards its target of 2%. However, if there are changes to rate projections at the March meeting, it's more likely that the median view would signal fewer rate cuts this year, rather than more.

### Corporate Foreign Exchange

	CUSTOMER BUY	CUSTOMER SELL	CUSTOMER BUY	CUSTOMER SELL
	CASH	CASH	TT	TT
BWPZAR	1.30992	1.32192	1.33516325	1.41831
BWPUSD	0.070176	0.093496	0.07152835	0.075705
GBPBWP	18.08924	18.247632	17.69788625	17.194884
BWPEUR	0.069472	0.070096	0.065631	0.068748
JPYBWP	11.2008	11.2944	10.581525	11.05005
USDZAR	17.91984	19.430528	18.33983625	19.010156
EURUSD	1.049952	1.137656	1.07456025	1.11304325
GBPUSD	1.230624	1.333904	1.25946675	1.3050455

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### Forward Foreign Exchange

	BWPUSD
1m	-1.8525
3m	-5.31375
6m	-8.6385
12m	-8.74575

### Local Fixed income

Yield curve	Close	Change
6m	3.995	-0.004
3y	6.00	1.00
20y	8.3	0

### International Fixed Income

	Close	Change
SA 10y	10.065	-0.03
US 10y	4.092	-0.012
German 10y	2.295	-0.035
SA vs Bots 20y spread	410	-2



## DOMESTIC AND REGIONAL NEWS

### Drought hitting Southern African nations

Southern Africa faces adverse weather conditions, with reports suggesting that large parts of Zambia, Botswana and Zimbabwe experienced the driest February in decades. This has been due to the El Niño weather phenomenon. At the beginning of the month, Zambian President Hakainde Hichilema declared the drought a national disaster as approximately 45% of corn crops (a food staple) died due to a lack of rainfall when the crop should be maturing. As a result, the average cost of corn rose 76% y/y in February. In Zimbabwe, USD prices for cereals have risen sharply. The government expects the harvest in 2024 to be less than half of what it was in 2023.

Further exacerbating the effect of food shortages on inflation is the need to increase food imports to meet local demand. Weak currencies, particularly in the case of Zimbabwe, will intensify the effect on domestic food prices. The country can ill-afford increases in food prices, with inflation currently over 80% y/y in that country. Botswana has not been spared from El Niño. In the current season, government-supported farmers have planted less than half of what they did in the previous season.

The drought has not only affected crops but also electricity generation. Electricity supply has been negatively affected in Zambia and Zimbabwe as water flows into the Zambezi River to power turbines are reportedly less than a quarter of what they were a year ago. Flows from the Zambezi River feed into the Kariba Lake which is currently at only 15% of its storage capacity, according to the Zambezi River Authority (ZRA). 85% of electricity produced in Zambia is from hydropower, highlighting the heightening risks to the Zambian economy due to the drought.

El Niño weather patterns are wreaking havoc on crops in Southern Africa. The result is that food inflation will likely rise substantially in coming months. The need to import food staples will weigh on these countries' trade balances and put their currencies under further pressure, exacerbating the cost of imports..

## GLOBAL NEWS

### US CPI data in focus today

The February US CPI print will provide insight into price pressure on consumer goods and services in the US. According to Bloomberg consensus expectations, headline inflation is expected to come in at 3.1% y/y, on par with the January reading of 3.1% y/y. In January, the headline figure lowered as price pressure on energy and core goods dropped. Additionally, core inflation will remain above the headline figure, with the core print expected to lower to 3.7% y/y from 3.9% y/y the month prior. This week's CPI print comes the week after Fed Chair Jerome Powell's testimony to US Congress, where Powell came across as less hawkish-than-expected and suggested that rate cuts were on the card this year. Powell stated that FOMC was not far from having sufficient confidence in falling inflation to begin rate cuts, which will draw added focus to the upcoming inflation print.

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

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## Chart Pack

