

Daily Market Update



A daily publication of Treasury Unit of Access Bank Botswana.

Financial Markets

It was another uneventful trading session in the dollar yesterday with investors very much sidelined. The macro backdrop improves today with the Fed minutes slated for release and will provide further insight into the timing of the first rate cut by the Fed. Interest rate differentials remain a key driver of FX markets given the need for yield, and thus the market's focus on the Fed minutes is certainly warranted.

As the ZAR has extended gains due to both international and domestic factors, hedges that were bought many months ago, shielding portfolios against a worst-case election scenario, have also been unwound. The appreciation of the ZAR has pushed the market through important stop-loss barriers that have triggered a forced unwinding of these positions and built the momentum of the move. This dynamic could continue should the market break below the 18-handle, although it is worth noting that the USD-ZAR is running into some strong technical support at current levels, with momentum indicators suggesting that the pair might be due a slight bump in the immediate short-term. Cautious Fed speak and perhaps today's publication of the FOMC meeting minutes could be the catalyst, with the market now awaiting fresh directional impetus.

The recent ZAR gains against the USD have seen the BWP-ZAR cross continue its downward trend, currently trading at 1,3380 in the interbank market.

Corporate Foreign Exchange

	CUSTOMER BUY	CUSTOMER SELL	CUSTOMER BUY	CUSTOMER SELL
	CASH	CASH	TT	TT
BWPZAR	1.283616	1.302912	1.30835235	1.397916
BWPUSD	0.07104	0.093496	0.072409	0.077353
GBP/BWP	17.648176	17.917536	17.2663645	16.883832
BW/PEUR	0.070928	0.071968	0.0670065	0.070584
JPY/BWP	12.0328	12.2096	11.367525	11.94545
USDZAR	17.346144	18.79436	17.75269425	18.38775125
EURUSD	1.042176	1.129232	1.066602	1.1048015
GBPUSD	1.223424	1.325896	1.252098	1.29721075

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Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-0.970125	-425.356673
3m	-2.890875	-1707.04287
6m	-6.084	-4056.33355
12m	-9.711	-8978.52868

Local Fixed Income

Yield curve	Close	Change
6m	2.691	-0.006
3y	5.43	0.00
20y	8.2	-0.06

International Fixed Income

	Close	Change
SA 10y	10.27	-0.03
US 10y	4.414	-0.023
German 10y	2.508	-0.024
SA vs Bots 20y spread	428.5	0.5



DOMESTIC AND REGIONAL NEWS

Botswana broadens grain imports to secure food supply

In order to ensure adequate food supply after the El-Nino-related drought destroyed crops, Botswana is taking an unprecedented step of seeking grain imports from Australia and Brazil. Botswana's Agricultural Marketing Board said the state grain security agency responsible for maintaining strategic reserves was turning to seaborne trade for both corn and sorghum. The move comes as imports secured from neighboring Zimbabwe and South Africa were deemed insufficient. Botswana hasn't imported corn from Brazil, which is currently the world's biggest exporter since at least 2003, according to International Trade Centre data.

South Africa's May inflation report takes centre stage today. The marginal disinflation observed in March was driven by lower food inflation, but the risk of a renewed acceleration in food prices remains, given drought conditions in the northwest of the country. In addition, higher domestic fuel prices in April will exert pressure on the overall inflation print. South African-specific costs, such as medical aid, electricity tariffs, new vehicles, education, and insurance, remain stable. Despite slightly lower inflation in March, inflationary pressures will likely keep headline CPI above the SARB's target midpoint of 4.5%.

GLOBAL NEWS

FOMC meeting minutes to be released today

Markets will focus on the upcoming FOMC meeting minutes, although the market-moving ability of the release may have been diminished by recent soft labour and inflation data. Addressing reporters after the May FOMC meeting, where the central bank maintained the target range for the Federal Funds Rate at 5.25-5.50% , Fed Chair Powell was given several opportunities to put rate hikes on the table, but he suggested that the central bank's next move would not be a rate hike. The minutes of that FOMC meeting, due 22 May, may offer clues as to why. The main takeaway from recent Fedspeak is that the central bank will not pivot to easing until there is sufficient evidence that inflation is sustainably moderating toward the Fed's 2% target. However, recent indicators suggest that an economic slowdown is looming. Job gains have finally started to soften, and the last round of inflation data pleasantly surprised those looking for the Fed to begin cutting rates soon. Therefore, unless there are some major previously unknown takeaways from the minutes, the focus will remain on the upcoming labour market and inflation data..

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

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Chart Pack

