

Botswana Market Watch

9 December 2021



GMT	Country	Data event or release	Period	Market Exp	Previous
13:30	BW	Nothing on the cards			
15:00	US	Initial jobless claims	Dec 4		222k
15:00	US	Wholesale inventories m/m	Oct F		2.20%
15:00	US	Wholesale sales m/m	Oct		1.10%

Factors Overnight	What happened?	Relevance	Importance	Analysis
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Covid-19 (Omicron)	While investors await clear data and research on the virulence of Omicron, some encouraging information from Pfizer BioNTech is that the booster will offer protection from Omicron	This all adds to the arsenal of factors that can help keep hospitalisations low and assist countries in staying open	4/5 (economy)	Furthermore, the company added that a vaccine specifically targeted at Omicron could be ready by March 2022, giving hope that vaccination drives through 2022 will further contribute to mitigating severe illness for the vulnerable
US labour market	JOLTS data released on Wed showed a steady decline in layoffs, while job openings rose to 1.1mn by the last day of October, the second-highest on record	Demand for labour is strengthening all the time, although finding suitable labour is proving difficult	3/5 (economy, market)	Although positive that demand for labour is strong, it also implies that there could be a shortage of appropriate labour that in turn will boost the probability of wage inflation
BoC decision	The Bank of Canada decided on Wednesday to keep its key overnight rate unchanged amid the increased uncertainty created by the Omicron variant	Conspicuous by its absence was any reference to an imminent rate hike despite inflation	3/5 (monetary policy, economy)	The central bank dropped reference to the temporary inflation narrative and focused on the uncertainty that has escalated since the finding of the new Covid variant. BoC to remain supportive

Factors on the Radar	What happened?	Relevance	Importance	Analysis
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Omicron - latest	While we still await an official response from SA scientists, early indications are that Omicron symptoms are mild. Pfizer has confirmed lower vaccine efficacy	High levels of infection with low virulence could mean the beginning of the end of the pandemic	5/5 (economy, market)	Travel bans may well be reversed, pandemic restrictions eased, and economies allowed to enjoy a more festive end of the year, allowing for a strong recovery in risk appetite
DM bond yields	Expectations that vaccine boosters will offer protection against the Omicron variant and that its symptoms are mild has given hope that GDP growth will not be derailed	Bond yields have nudged higher and reflect the potential for more normalised monetary policy and stronger GDP growth	3/5 (market, economy)	It ultimately comes down to whether governments feel comfortable not imposing further economic restrictions. The UK has already resorted to implementing a "Plan B", but it is far from a full lockdown
Ukraine- Russia tensions	In a move that will help de-escalate tensions, US President Biden would not station US troops on the border of Ukraine	Tensions in the region will de-escalate, which is something to cheer	3/5 (geopolitics)	Biden will speak to the Ukrainian president today, while Moscow has signalled its willingness to add the US to its peace group

Highlights news vendors

CNBC - [Powell's fourth major shift raises questions about the Fed's policy credibility](#)

ALL AFRICA - [Kigali to Renovate Key Roads in Major Infrastructure Upgrades](#)

FT - [Biden makes diplomatic concession to Russia with Nato talks plan](#)

SOUTH CHINA POST - [China to 'reconsider' bilateral relations if Japan takes action on Taiwan](#)

REUTERS - [Bank of England now expected to raise rates in Q1, but Dec a close call - Reuters poll](#)

Corporate Foreign Exchange

	CUSTOMER BUY		CUSTOMER SELL	
	CASH	CASH	TT	TT
BWPZAR	1.2745	1.2972	1.2991	1.3917
BWPUSD	0.0811	0.0935	0.0827	0.0884
GBPGBP	16.0073	16.2560	15.6610	15.3182
BWPEUR	0.0775	0.0787	0.0732	0.0772
JPYBWP	0.0000	0.0000	9.4320	9.9206
USDZAR	15.0831	16.3784	15.4366	16.0241
EURUSD	1.0881	1.1788	1.1136	1.1533
GBPUSD	1.2678	1.3736	1.2975	1.3439

Interbank Spot Foreign Exchange

	Close	Change		BWPUSD	BWPZAR
BWPUSD	0.0845	0	1m	-2.75925	-7.912084
BWPGBP	0.064	0	3m	-7.839	-17.78877
BWPEUR	0.0745	0.0000	6m	-17.50125	-44.95439
BWPZAR	1.3279	-0.0141	12m	-40.053	-152.2794

Forward Foreign Exchange

	Close	Change
Dollar Index	96.011	0.117
EURUSD	1.1334	-0.0008
GBPUSD	1.3206	-0.0003
USDJPY	113.66	0
USDNGN	409.74	0
USDZAR	15.7134	0.0186

Local Fixed Income

Yield curve	Close	Change		Close	Change
6m	1.394	-0.002	SA 10y	9.455	-0.02
3y	4	-0.83	US 10y	1.5281	0.0462
5y	5.6	-0.29	German 10y	-0.309	0.066
20y	8.4	-0.05	Spread SA 5y vs Bots 5y bpts		
22y	8.5	-0.03		225.5	25.5

International Fixed Income

	Close	Change
VIX	19.9	-1.99
Dow Jones	35754.75	492.4
FTSE	7337.05	107.62
JSE All share	72403.88	1922.62
Bots DCIBT	6992.37	-0.5
Nigeria Index	42435.16	10.32

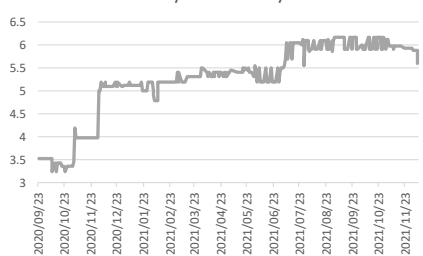
Commodities

	Close	Change
Gold	1782.06	-1.982
Brent Crude	75.82	0.38
3m Copper	9652.5	57.5
LME Index	4392.1	34.7
1 carat index	5836	-398

Spot BWP



BWP 5y local bond yield



BWP-ZAR



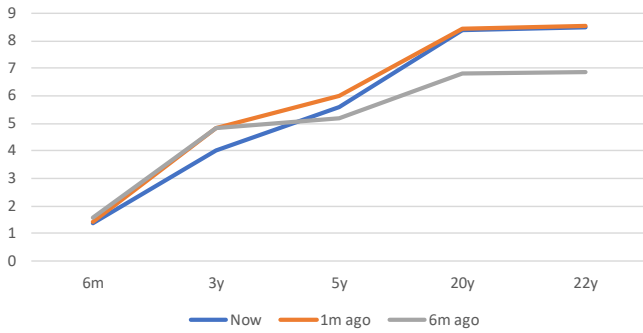
Local and regional talking points

- The next major release we have for Botswana is the inflation reading for November which is pencilled in for release next week. The October reading came in at 8.8% year on year and we still view the risk to the upside especially given that the likes of oil remained elevated over the measurement period only falling towards the back end of the month. It is worth noting that the Brent oil price averaged \$80.85 a barrel over Nov and this will most certainly feed into the numbers.
- All of that said, the Bank of Botswana has reset its inflation expectations, pushing out its forecast of when inflation will return to the 3-6% target band to the third quarter of 2022 from the second quarter initially. The bank has been loath to raise rates as domestic demand is weak and most of the inflationary pressures are external which the bank has no control over.
- Regionally, the depreciation of the trade-weighted USD, coupled with a surge in commodity prices, has translated into a further appreciation of the ZAR without much in the way of significantly positive news for SA to justify it. While one could argue that the early reports and data on the Omicron variant are encouraging in that they reflect only mild symptoms for infected people, an IMF report on SA is a wake-up call to policymakers to focus on reforms and fiscal prudence if growth and employment are ever to be achieved.
- The powerful message to the government, was not to waste the opportunity that high commodity prices and benign global financing conditions have generated. The IMF warns that both these supporting factors of the SA economy are cyclical and, therefore, temporary. They have also done very little to assist in tackling unemployment, with the reasons for the joblessness being more structural in nature and reflected in reductions in investment and productivity.

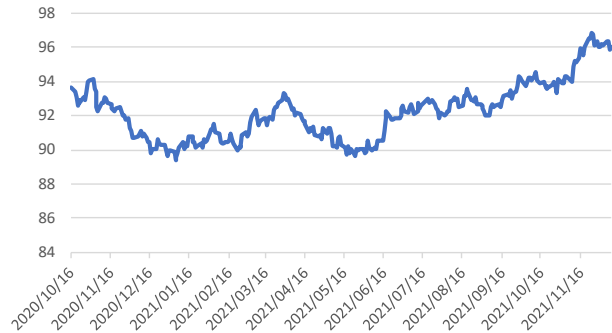
Financial Market commentary

- The gold market is always significant given its strong correlation with global macro developments, and the metal is currently fixated with the buzzword namely "inflation" which is both the tactical and medium term driver for now. As we head into all-important US CPI reading tomorrow, we have the yellow metal underpinned above the \$1780.00/oz mark, next week will however be potentially more important as we have the two-day Fed meeting where Chairman Powell is likely to trim the monetary policy sails once again.
- The Fed is expected to double its pace of the bond purchase taper while potentially hinting at a more aggressive rate hike cycle in 2022. This all as the Fed changed its tone towards inflation, stating that "transitory" was not the correct term for inflation as it stands now.
- In the short term we may see gold under pressure given the potential for a rise in US Treasuries should inflation prove to be resilient and the Fed become more hawkish, longer term gold still provides excellent hedge characteristics against these very factors, namely inflation and economic uncertainty.
- Moving over to the FX markets, yesterday's trading action was not unexpected and needs to be looked at against the backdrop of improving risk appetite. Although the USD's strength can to some degree be justified by monetary policy differentials with the U.S.'s main trading partners, there has been much of that already priced in. Fundamentally speaking, the USD is at least fully priced if not slightly expensive. A decline in risk aversion would elevate the probability that the USD could correct lower, not to establish a trend but rather to generate a healthy correction.
- This narrative will likely be supportive of emerging markets including the BWP which remains anchored just below the 0.0850 level in the interbank market as we head into the local open.

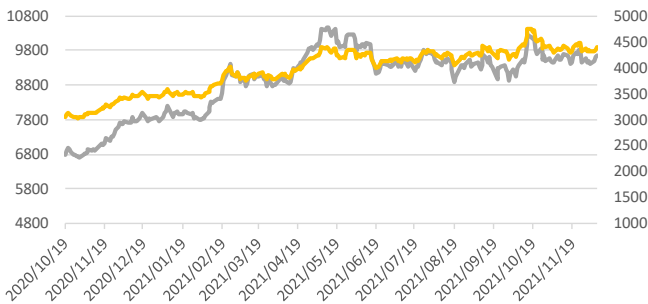
Botswana Yield Curve



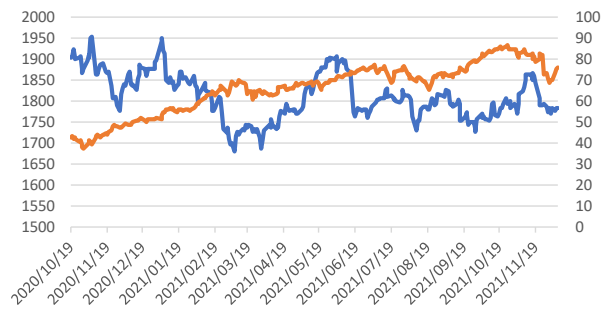
USD Index



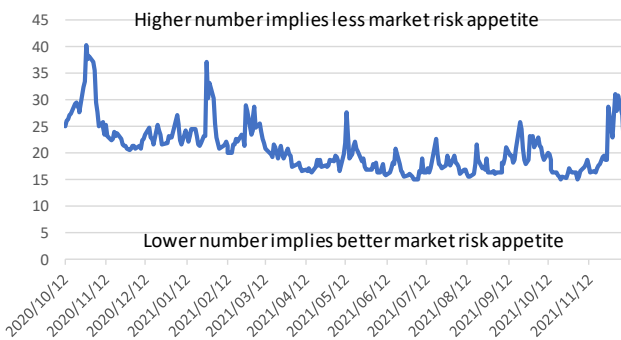
Base metals - Copper L_Hand axis LME Index R_Hand axis



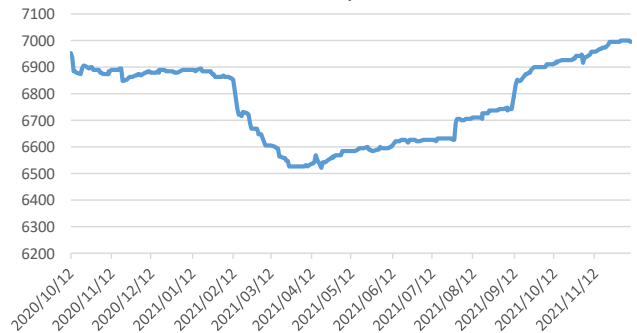
Oil R_Hand Axis - Gold L_Hand Axis



VIX Index - Risk appetite measure



Local stockmarket performance



Contacts

nkatem@accessbankplc.com
masalilap@accessbankplc.com
kebaetsek@accessbankplc.com
keseabetswem@accessbankplc.com
thembaa@accessbankplc.com
bogalet@accessbankplc.com
davidp@accessbankplc.com

Mogamisi Nkate
Phillip Masalila
Kefentse Kebaetse
Mompoloki Keseabetswe
Amogelang Themba
Tshwanelo Bogale
Pearl David

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