

Botswana Market Watch

27 January 2022



GMT	Country	Data event or release	Period	Market Exp	Previous
	BW	Nothing due for release			
07:00	GE	GfK consumer confidence	Feb	-8,50	-6,80
13:30	US	Durable goods orders m/m	Dec P	-0.40%	2.60%
13:30	US	GDP q/q annualised	4Q A	5.70%	2.30%
13:30	US	Personal consumption	4Q A	2.60%	2.00%
13:30	US	Initial jobless claims	Jan 22		286k
15:00	US	Pending home sales y/y	Dec		0.20%
16:00	US	Kansas City manufacturing activity	Jan		24,00

Factors Overnight	What happened?	Relevance	Importance	Analysis
FOMC	The Fed confirmed in last night's FOMC statement that it would finish its taper in Mar and would start hiking while it also released a paper outlining the principles to reduce bond holdings	This met with all market expectations, with the Fed adding its commitment to a sustained inflation fight	5/5 (economy, monetary policy)	Both data and earnings were also strong confirming that the economy was in a strong position to be able to absorb the tighter monetary policy without derailing the economy. Wall St digested the news reasonably well, all things considered
Oil prices	While central banks may be tightening into the future, the global economy is still doing well enough to sustain higher oil prices, with the front-month Brent contract rising through \$90 pb	This raises the spectre of inflation the world over and will drive some of the central bank response to inflation	5/5 (economy, markets)	Furthermore, there is talk that the oil price could breach \$100pb. Low inventory levels, minimal spare capacity to produce and the unfolding geopolitical tensions concerning Ukraine are all supporting higher prices
Stock markets	The Dow has fallen another 130 points, while Asian stocks are lower this morning as the world digests the remarks from the Fed and unpacks its hiking stance	Investors now look to price in up to 5 rate hikes this year and possible balance sheet reduction	4/5 (markets)	It is a bold stance by the Fed and one aimed at confirming its commitment to reducing inflation over the medium to longer term. It is also a stance that might affect asset prices.

Factors on the Radar	What happened?	Relevance	Importance	Analysis
Vaccines	Some good news around vaccines is that companies like Moderna are starting their clinical trial of a booster shot aimed at tackling the Omicron variant	What the take-up will be given Omicron's milder symptoms is unknown, but it will assist at the margin	4/5 (economy, virus)	Unfortunately, although the vaccine will initially be effective, its efficacy will decline faster than the previous vaccines. The solution to Omicron may still be natural immunity
Financial market volatility	Asian stocks are down, Wall St futures are well down, US Treasury yields are rising, and the USD is finding strong support on a trade-weighted basis	Emerging markets may experience a bout of volatility as tighter Fed policy is fully priced in	5/5 (markets)	A bout of uncomfortable volatility will now follow, and a dreaded correction could see a rotation back to safe-haven investments. EMs and commodities could be hard hit
Ukraine conflict	Secretary of State Blinkin has laid out a serious path to diplomacy should Russia choose to back away from invading Ukraine	For now, tensions remain high as Russia stations more troops on the border	5/5 (geopolitics, markets)	NATO has again warned that Russia continues to build its military presence. Thus far, all threats have had limited impact on dissuading Russia's action

Highlights news vendors

CNBC - [Asia markets fall as investors digest Fed remarks; Japan and South Korea both down 3%](#)

ALL AFRICA - [Coup in Burkina Faso Bodes Ill for Stability in West Africa](#)

FT - [Fed's Jay Powell refuses to rule out string of aggressive rate rises](#)

SOUTH CHINA POST - [EU to launch WTO case against China over Lithuania row](#)

REUTERS - [U.S. responds to Russia security demands as Ukraine tensions mount](#)

Corporate Foreign Exchange

	CUSTOMER BUY	CUSTOMER SELL	CUSTOMER BUY	CUSTOMER SELL
	CASH	CASH	TT	TT
BWPZAR	1.282272	1.292832	1.3069825	1.387101
BWPUSD	0.083136	0.093496	0.0847381	0.08961
GBPWP	16.029312	16.141632	15.682524	15.210384
BWPEUR	0.080184	0.080808	0.0757508	0.079254
JPYBWP	10.3272	10.4	9.756225	10.175
USDZAR	14.80656	16.061448	15.153589	15.71396475
EURUSD	1.0776	1.167504	1.1028563	1.1422455
GBPUSD	1.29024	1.397864	1.32048	1.36762175

Interbank Spot Foreign Exchange

	Close	Change		BWPUSD	BWPZAR
BWPUSD	0.0866	0.0004	1m	-2.79825	-8.756321
BWPGBP	0.0643	0.0005	3m	-7.8	-30.80857
BWPEUR	0.077	0.0007	6m	-16.926	-63.48708
BWPZAR	1.3271	0.0154	12m	-38.40525	-187.3491

Forward Foreign Exchange

	Close	Change		BWPUSD	BWPZAR
Dollar Index	96.612	0.664			
EURUSD	1.1225	-0.0012			
GBPUSD	1.344	-0.0021			
USDJPY	114.62	-0.01			
USDNGN	414.82	0			
USDZAR	15.4267	0.0956			

Local Fixed Income

Yield curve	Close	Change		Close	Change
6m	1.549944	0.000944	SA 10y	9.35	-0.01
3y	4.25	-0.58	US 10y	1.8727	0.0967
5y	5.89	0	German 10y	-0.071	0.01
20y	8.46	0	Spread SA 5y vs Bots 5y bpts	183	-2
22y	8.53	0			

International Fixed Income

Equities

	Close	Change		Close	Change
VIX	31.96	0.8	Gold	1818.1171	-29.4429
Dow Jones	34168.09	-66.77	Brent Crude	89.96	1.76
FTSE	7469.78	74.31	3m Copper	9916.5	115.5
JSE All share	73797.33	150.79	LME Index	4715.1	46.5
Bots DCIBT	7058.78	0	1 carat index	6258	0
Nigeria Index	46529.99	11.24			

Commodities

Local and regional talking points

- News24 is reporting that the country has some 3 million COVID-19 vaccinations stockpiled which will enable the country to go beyond community immunity, as well as administer booster shots. "Botswana currently has more than three million doses of various Covid-19 vaccines in hand for vaccination of all Batswana and residents in the country aged 12 and above," said ministry of health and wellness permanent secretary Christopher Nyanga. "All eligible Batswana and residents of this country, therefore, are urged to come forward for vaccination or if vaccinated, for booster shots."

- Regionally, the undoubtedly highlight of today's trading session is the South African Reserve Bank decision on interest rates which comes a day after the US Fed met. The SARB will likely hike 25bp today and signal that there is more to come, but the risk here is that it does less than what it has signalled in its Quarterly Projection Model (QPM).

- While in the QPM, the SARB forecasts the repo rate back up to 6%, a sluggish economy and a weak credit cycle together with high unemployment and inflation that remains somewhat contained, could still convince the SARB not to press the brakes too aggressively. Much will, of course, depend on the assumptions for oil, the ZAR and global growth. In the previous forecast, the oil price assumption was around the mid-70s. Adjusting that and assuming a weaker ZAR will likely see the SARB persist with a more hawkish message and signal that there will be more to come.

Financial Market commentary

- The FOMC announcement overnight has shaken investors. After the announcement, the USD surged stronger, U.S. Treasury yields shifted higher, and risk markets, including emerging market currencies, are now on the defensive. The USD index is now looking to re-test the November and December highs as investors once again focus on the monetary policy divergence that will manifest between the U.S. and its major trading partners.

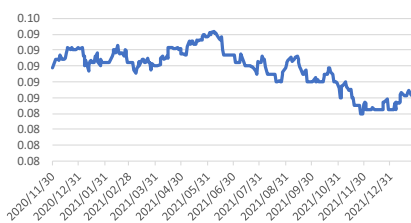
- Chairman Powell confirmed that the Fed would likely end their Q.E. programme in March and look to lift rates if the conditions were appropriate. After that, he confirmed that the Fed had released a paper that unpacked a set of principles that would allow the Fed to "significantly reduce" their bond holdings over time. This is a bold step indeed and gives the impression that efforts to reduce the balance sheet could be more robust than was the case in the previous instance when the Fed simply allowed maturing bonds to roll off its balance sheet. Furthermore, the Brent crude oil price briefly broke through the \$90 pb mark, and Fed Chairman Powell spoke of the Fed's commitment to a sustained fight against inflation. As a result, Asian stocks are ending their session lower, and Wall St futures are trading deep in the red.

- Keeping with oil, tight supplies keeping the commodity bid and taking it to a high not seen since 2014. However, the break above \$90.00/bbl was not sustained following Fed Chair Powell's comments last night, which are being deemed as fairly hawkish by the market. This has seen the front-month Brent contract drop back down to around \$89.10 per barrel at the time of writing. Despite this drop, the bias for oil remains bullish as supply levels remain tight, and some focus remains on the tension between Russia and Ukraine, which remains high despite several warnings issued to the Kremlin from Western nations.

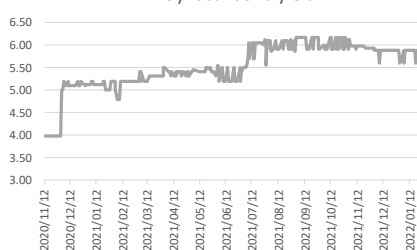
- This will keep the inflation narrative front and centre with global food prices and logistical issues adding to the external price pressures experienced by economies across the globe.

- Moving over to FX, Ahead of the FOMC, some believed that the dollar was fully priced. However, it is now clear that there is still some lagging support for the dollar which has placed some pressure on emerging markets. We expect this to manifest at the start of the local open and we could see lower BWP-USD levels as a result.

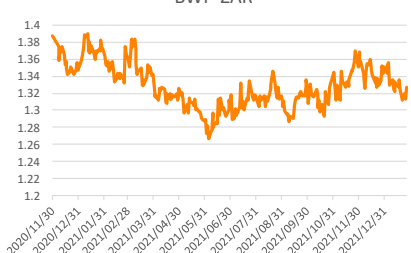
Spot BWP



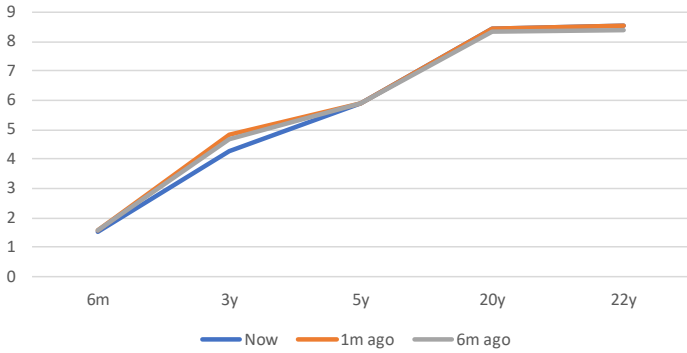
BWP 5y local bond yield



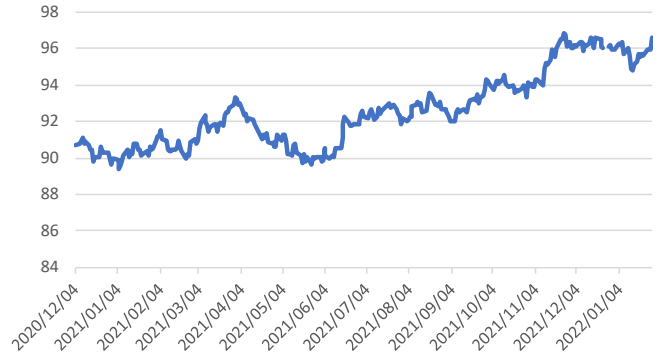
BWP-ZAR



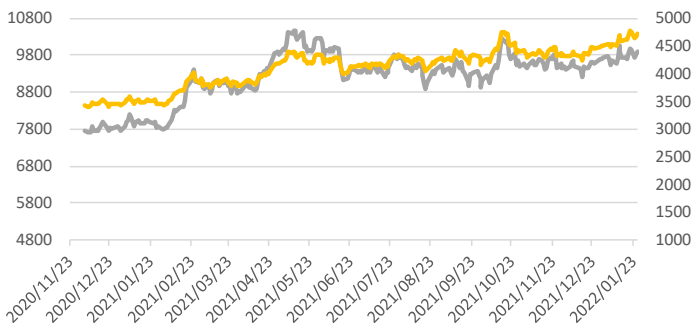
Botswana Yield Curve



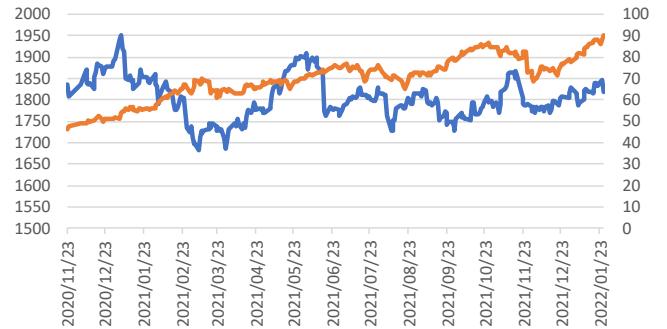
USD Index



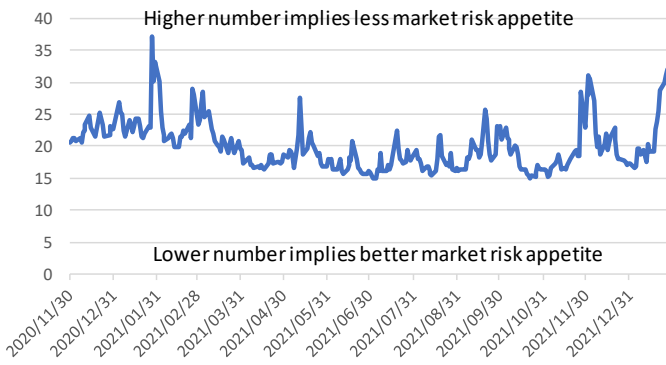
Base metals - Copper L_Hand axis LME Index R_Hand axis



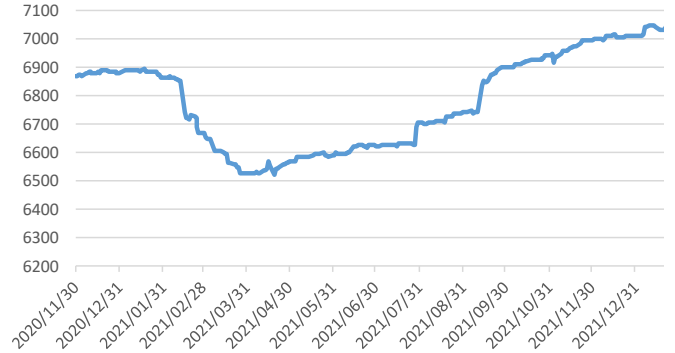
Oil R_Hand Axis - Gold L_Hand Axis



VIX Index - Risk appetite measure



Local stockmarket performance



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