

Botswana Market Watch

31 January 2022



GMT	Country	Data event or release	Period	Market Exp	Previous
10:00	BW	Nothing on the cards			
13:00	EZ	GDP sa y/y	4Q A	4.50%	3.90%
14:45	GE	CPI y/y	Jan P	4.20%	5.30%
	US	Chicago PMI	Jan	62,00	63,10

Factors Overnight	What happened?	Relevance	Importance	Analysis
US Treasuries	US Treasury yields are off their recent peaks, although most importantly, the curve is now flattening very aggressively	A flattening yield curve points to an economic slowdown in the future	4/5 (economy, monetary policy)	The pace of flattening is what will be disturbing the Fed. Its very hawkish stance on monetary policy is breeding expectations of a slowdown
China factory activity	The official manufacturing PMI in Jan slowed to 50.1 in Jan from 50.3 in Dec. Although still above the 50.0 breakeven, activity has clearly slowed	Omicron surges and the government response is the main culprit behind the slowing activity	4/5 (economy)	A private survey of the coastal regions showed that activity slumped to the lowest levels in 23 months as the regions were affected by the property slump and the Omicron restrictions
UK growth	According to the latest CBI monthly growth index, business activity slowed to its slowest levels since April 2021, falling to +12 in Jan from +21 in Dec	Omicron has impacted heavily, although mobility has bounced back and restrictions lifted	3/5 (markets)	The impact is likely to be temporary, and not much should be read into this. As restrictions have now been lifted through Jan, the economy is likely to perform far better

Factors on the Radar	What happened?	Relevance	Importance	Analysis
US Labour data week	As we head into the new month of Feb, the latest round of the US labour data will be released. The labour market overall appears to be improving	Although the labour market is tightening, the data still holds the potential to disappoint	4/5 (economy)	The trend in the labour market is an improving one. It will likely support the argument for rate hikes, although just how supportive will likely determine the strength of USD's performance
Oil prices	Oil prices have surged approximately 17% on the month amid ongoing geopolitical tensions in Europe and OPEC's strict production quotas	Oil prices are now at nearly 7-yr highs and will play a material role in bolstering inflation	4/5 (markets)	With OPEC unlikely to raise its output levels to the point where it contains the rise in oil prices, central banks will be forced down the road of further monetary tightening and slow demand
Ukraine conflict	Very little has changed, with both sides still posturing. The UK has indicated that Russia is very likely looking to invade Ukraine, while NATO has added that the EU is too reliant on one energy supplier	Pressure on Russia is building. Pressing ahead with invasion will prove very damaging for the economy	5/5 (geopolitics, markets)	Canada has now also opted to withdraw non-essential personnel from its Ukraine embassy in yet another sign that the risk of invasion is high. Although still not the core scenario, it will serve to keep risk aversion levels well elevated

Highlights news vendors

- CNBC - [China's Covid lockdown rules are sending prices higher, says Chinese EV start-up](#)
- ALL AFRICA - [How Life Has Become Miserable for Residents of North-West Nigeria](#)
- FT - [World's largest wealth fund warns 'permanent' inflation will hit returns](#)
- SOUTH CHINA POST - [As the West pushes them together, Xi and Putin show up for each other](#)
- REUTERS - [Oil rises, heads for best month since Feb 2021 on supply concerns](#)

Corporate Foreign Exchange

	CUSTOMER		CUSTOMER	
	BUY	SELL	BUY	SELL
	CASH	CASH	TT	TT
BWPZAR	1.264032	1.280256	1.288391	1.373608
BWPUSD	0.08112	0.093496	0.0826833	0.088065
GBPWP	16.311568	16.50584	15.958674	15.55358
BWPEUR	0.078728	0.079664	0.0743753	0.078132
JPYWP	10.1504	10.2752	9.5892	10.0529
USDZAR	14.95728	16.2162	15.307841	15.86536875
EURUSD	1.071264	1.160952	1.0963718	1.13583525
GBPUSD	1.28736	1.394744	1.3175325	1.36456925

Interbank Spot Foreign Exchange

	Close	Change	Forward Foreign Exchange	
BWPUSD	0.0845	0	BWPUSD 1m	-2.5935
BWPGBP	0.063	0	BWPUSD 3m	-8.37525
BWPEUR	0.0757	-1E-04	BWPUSD 6m	-16.9065
BWPZAR	1.3165	-0.0106	BWPUSD 12m	-36.7965

Dollar Index	Close	Change
EURUSD	1.1159	0.0016
GBPUSD	1.341	0.0006
USDJPY	115.48	0.24
USDNGN	415.16	0
USDZAR	15.58	-0.0004

Local Fixed Income

Yield curve	Close	Change
6m	1.549	-0.002
3y	4.83	0.58
5y	5.89	0
20y	8.46	0
22y	8.53	0

International Fixed Income

	Close	Change
SA 10y	9.425	0.09
US 10y	1.7784	-0.0241
German 10y	-0.047	0.01
Spread SA 5y vs Bots 5y bpts	190.5	6

Equities

	Close	Change
VIX	27.66	-2.83
Dow Jones	34725.47	-7.31
FTSE	7466.07	84.53
JSE All share	73454.96	-293.29
Bots DCIBT	7059.82	1.04
Nigeria Index	46205.05	-520.76

Commodities

	Close	Change
Gold	1791.0336	-5.476
Brent Crude	90.03	0.69
3m Copper	9507.5	-274.5
LME Index	4600.6	-80.2
1 carat index	6743	447

Local and regional talking points

- Friday saw the market squarely focused on the massive amount of issuance coming to market. Appetite for Botswana debt was certainly evident with the near dated 2027 paper recording a bid to cover ratio of 2.41 times, while the 2031 was covered 1.83 times and the longer dated 2040 bonds by 1.53 times.
- The bid to cover ratios showed that investors were certainly more interested in remaining short duration which given the broader macro risks currently embedded in the market makes sense.
- The question that investors will be asking is when the government will tap the hard currency bond market. International investor appetite for a hard currency bond is evident and the window to issue at favourable rates may be closing given that the US is heading into a rate hike cycle.
- On the news front, MMEGI reported the following - *Property hunters can expect the residential sales market to recover this year, following a downtrend in prices driven by the COVID-19 pandemic, BusinessWeek has established. This week, Real Estate Institute of Botswana (REIB) president, Sethebe Manake said the recovery would likely be driven by the hunger for investment, as opportunities are plenty in the market. "The housing market will remain competitive as there is increased homeownership appetite from the youth and Generation Z," she said in response to BusinessWeek enquiries. "Demand from these young households will keep the market competitive and fast-paced."*

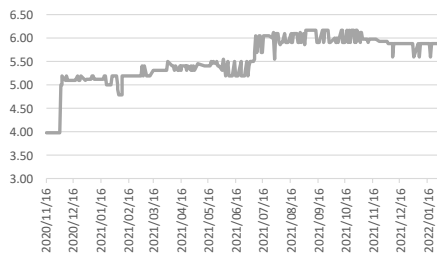
Financial Market commentary

- Developments in the energy markets remain front and centre as we start the new week given its impact on inflation. Brent crude closed out last week above the \$90 handle, when looking at the front-month contract, and we see that it has punched higher again this morning, trading near \$91.20 per barrel at the time of writing. The European benchmark is on track for its best January in 30 years as a result, as traders focus on the resilient demand outlook, as well as continued tensions in Ukraine. Reports from the US suggest that Russia further bolstered its troop numbers at the Ukraine border over the weekend, increasing the possibility of an invasion that would provide a sharp boost to oil prices. The crisis will be discussed at a UN Security Council meeting today, which will surely spark more bets that sanctions are coming against Russia, which will disrupt the energy markets.
- Meanwhile, OPEC+ will be holding its latest ministerial meeting this week, with expectations that we will see another 400k barrel per day increase to output from March. A bigger increase is clearly needed to help stabilise the market, but members of the cartel have no more space to increase output further, suggesting that there is very little that can be done to cool the run of price gains. As overstretched as the bull run seems at the moment, it is likely that we will continue to see oil rise over the coming sessions.
- Of interest this week will be the unfolding negotiations over the tensions in the Ukraine. There are some indications that an agreement of sorts could be reached this week on a Russia sanctions bill, including actions that could impact on Russia even before any invasion took place. The West is ramping up its pressure on Russia making it abundantly clear that any invasion of Ukraine would hold significant economic consequences for Russia.
- After surging last week in the wake of the FOMC decision and guidance, the USD ran into some headwinds on Friday and appears to be retreating slightly this morning. The catalyst for the retreat appears to be some good earnings results, a positive close on Wall St on Friday and some good equity market performances this morning in Asia. The VIX has retreated sharply and risk aversion levels have subsided. This suggests that we could be in for a better start for the local FX markets as risk appetite underpins the BWP.

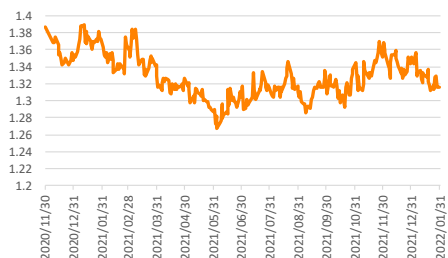
Spot BWP



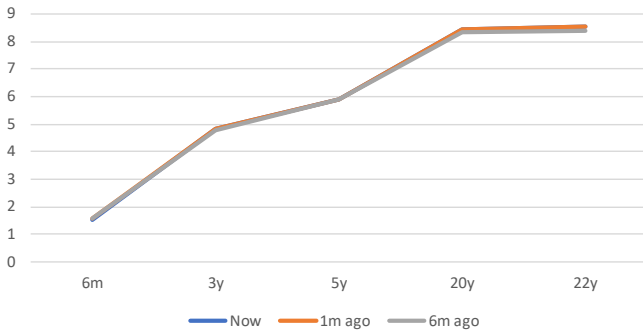
BWP 5y local bond yield



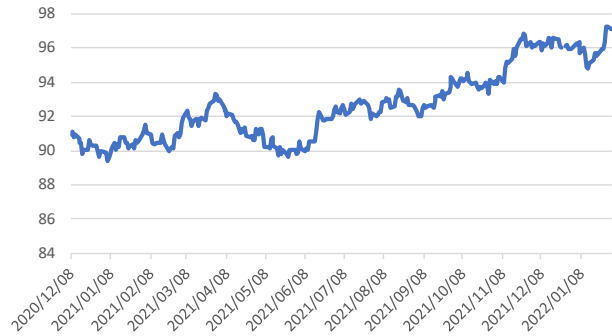
BWP-ZAR



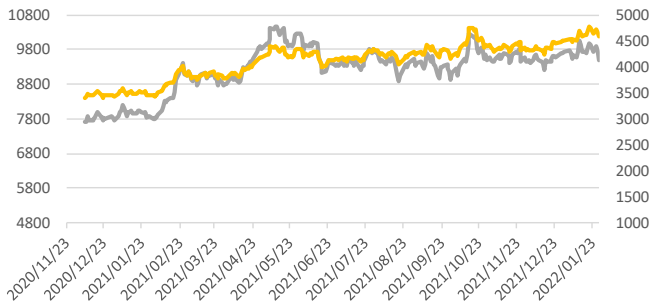
Botswana Yield Curve



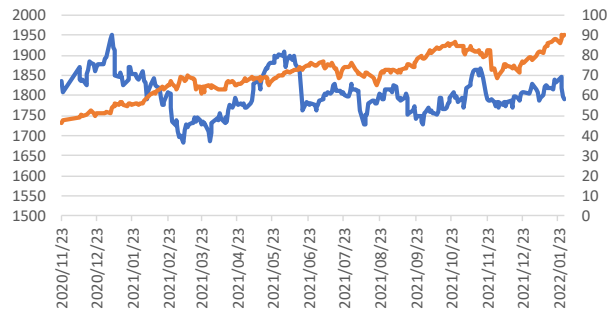
USD Index



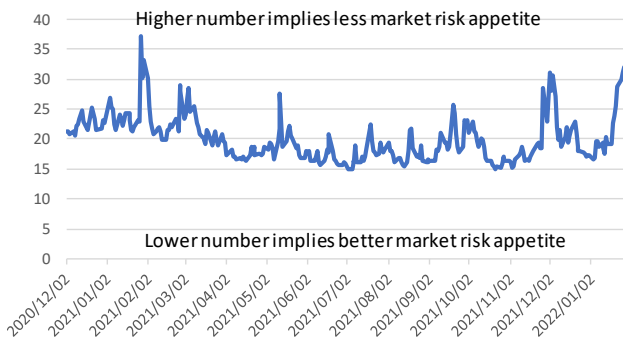
Base metals - Copper L_Hand axis LME Index R_Hand axis



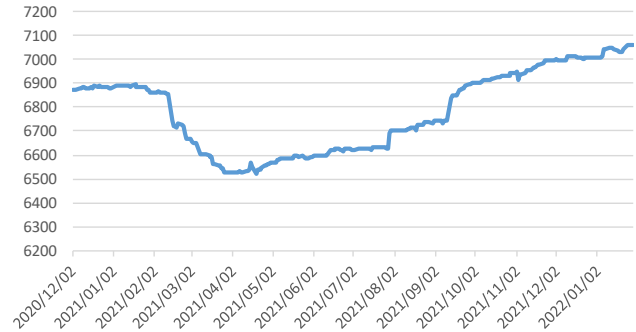
Oil R_Hand Axis - Gold L_Hand Axis



VIX Index - Risk appetite measure



Local stockmarket performance



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