

Botswana Market Watch

11 February 2022



GMT	Country	Data event or release	Period	Market Exp	Previous
	BW	Nothing on the cards			
07:00	GB	Industrial production y/y	Dec	0.60%	0.10%
07:00	GB	Manufacturing production y/y	Dec	1.90%	0.40%
07:00	GB	Visible trade balance (GBP)	Dec		-11337mn
07:00	GB	Total trade balance (GBP)	Dec		626mn
07:00	GB	Industrial production y/y	Dec	0.60%	0.10%

Factors Overnight	What happened?	Relevance	Importance	Analysis
US inflation	US inflation rose more than anticipated to reach 7.5% y/y, the highest inflation reading in forty years. Core inflation also gained 0.6% m/m to rise to 6.0% y/y	Investors moved quickly to price in a rate hike of as much as 50bp at the next meeting	4/5 (monetary policy)	Although an unpleasant surprise, it may be very close to the top of this spike. With M2 money supply growth falling rapidly, headline inflation will drop quickly in the coming months
US yield Curve	There has been a bull flattening that has unfolded with short-term rates rising more rapidly than the longer-term rates	A flattening this aggressive might concern the Fed in its bid to support growth	4/5 (economy)	As a business cycle indicator, the flattening of the curve suggests that an economic slowdown will be in store within the next two years
Oil prices	Oil prices have stalled and might even register a weekly drop, especially after the latest US inflation data that has sparked speculation of faster rate hikes	Oil prices contributed to inflation and the rate hikes that will follow will detract from demand	4/5 (market)	This is a self-correcting mechanism in practice and highlights why it might have been wiser for OPEC+ to try and limit the degree of oil price increases through an attempt to raise production quicker

Factors on the Radar	What happened?	Relevance	Importance	Analysis
ECB	ECB Chief Lagarde has indicated that lifting rates from now would do little to combat the rise in inflation and would not solve any of the current problems	Lagarde expressed her confidence that inflation would retreat and that oil prices would cease surging	3/5 (economy, monetary policy)	That being said, Lagarde also added that the ECB was edging closer to its goal that would allow it to gradually remove some of the interventions and start normalising policy
Ukraine stand-off	Russia has held drills in Belarus while Ukraine staged war games in what has been described by Boris Johnson as "the most dangerous moment." Germany has urged de-escalation	Tensions are at their highest point and presently there are no signs of this geopolitical risk abating soon	5/5 (geopolitics)	On the contrary, America has urged all Americans in Ukraine to leave immediately. A multitude of discussions is taking place on the side lines and the situation remains tense with neither side prepared to compromise
China trade dispute	Canada is the latest country to Join the US and Australia in joining the EU's dispute with China at the WTO over trade curbs China placed on Lithuania	This has less to do with Lithuania and more to do with pushing against China to reform	3/5 (markets, politics)	The concern from the West is that China used economic coercion to bully Lithuania to bar Taiwan from opening an embassy in Lithuania. China views the move as interfering in EU-Sino relations

Highlights news vendors

CNBC - [U.S. inflation data is like a 'punch in the stomach' for the Fed, says Citi economist](#)

ALL AFRICA - [WHO Chief Visits mRNA Vaccine Technology Transfer Hub](#)

FT - [SoftBank's plans for Arm IPO hit by legal battle over renegade China unit](#)

SOUTH CHINA POST - [Chinese Covid-19 test kits 'able to screen 51 million people daily'](#)

REUTERS - [U.S. consumer prices post largest annual gain in 40 years as inflation becomes widespread](#)

Corporate Foreign Exchange

	CUSTOMER BUY		CUSTOMER SELL	
	CASH	TT	CASH	TT
BWPZAR	1.273728	1.278528	1.2982738	1.371754
BWPUSD	0.083616	0.093496	0.0852274	0.090125
GBPWP	16.098576	16.155256	15.75029	15.223222
BWPEUR	0.07956	0.079872	0.0751613	0.078336
JPYWP	10.5144	10.556	9.933075	10.327625
USDZAR	14.623392	15.847624	14.966128	15.50476675
EURUSD	1.09296	1.184144	1.1185763	1.1585255
GBPUSD	1.298784	1.40712	1.3292243	1.3766775

Interbank Spot Foreign Exchange

	Close		Change	
	BWPUSD	BWPZAR	BWPUSD	BWPZAR
BWPUSD	0.0871	0.0008	1m	-2.64225
BWPGBP	0.0642	0.0004	3m	-8.4045
BWPEUR	0.0762	0.0007	6m	-16.692
BWPZAR	1.3206	-0.0117	12m	-35.73375

	Close	Change
Dollar Index	95.982	0.429
EURUSD	1.1385	-0.0042
GBPUSD	1.3529	-0.0026
USDJPY	116.1	0.1
USDNGN	416.37	0
USDZAR	15.2257	0.0643

Forward Foreign Exchange

	Close		Change	
	BWPUSD	BWPZAR	BWPUSD	BWPZAR
SA 10y	9.17	-0.065		
US 10y	2.0433	0.0981		
German 10y	0.292	0.072		
Spread SA 5y vs Bots 5y bpts	215.5	5.5		

Local Fixed Income

Yield curve	Close	Change
6m	1.55	0.001
3y	4	-0.75
5y	5.6	-0.25
20y	8.45	-0.05
22y	8.5	-0.05

International Fixed Income

	Close	Change
SA 10y	9.17	-0.065
US 10y	2.0433	0.0981
German 10y	0.292	0.072
Spread SA 5y vs Bots 5y bpts	215.5	5.5

Equities

	Close	Change
VIX	23.91	3.95
Dow Jones	35241.59	305.28
FTSE	7672.4	76.35
JSE All share	76585.19	600.4
Bots DCIBT	7097.25	20.19
Nigeria Index	47286.34	99.99

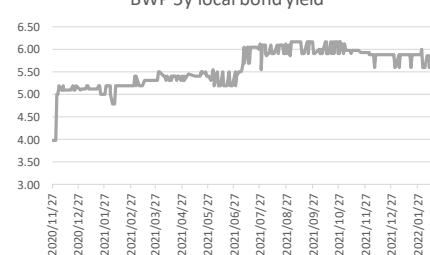
Commodities

	Close	Change
Gold	1826.5701	-5.8554
Brent Crude	91.41	-0.14
3m Copper	10254	195
LME Index	4877.5	55.9
1 carat index	6953	234

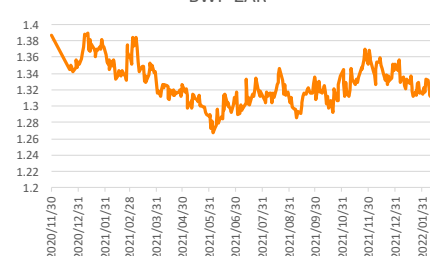
Spot BWP



BWP 5y local bond yield



BWP-ZAR



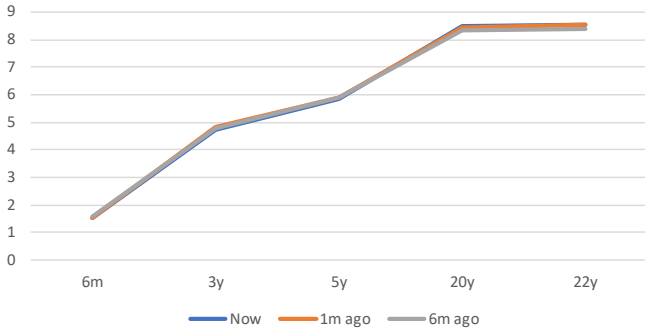
Local and regional talking points

- The macro backdrop is all about inflation at the moment with the US CPI release being the focal point for yesterday's trading session. Inflationary pressures remained entrenched in the U.S. economy at the start of the year. Specifically, headline inflation accelerated further to 7.5% y/y in January from 7.0% y/y in the month prior. This was the fastest pace of price growth in the economy since 1982 and surpassed consensus expectations of a rise to 7.3% y/y. On a month-on-month basis, prices climbed 0.6%.
- Note that a shortage of supplies, workers, massive stimulus, ultra-low interest rates, and robust consumer spending have combined to fan inflationary pressure in the US.
- Given the expectation of a more aggressive Fed, and the fact that the South African Reserve Bank has hiked rates and looks to tighten further, we expect the Bank Of Botswana to come under increasing pressure to tighten as inflation remains well out of the target band.

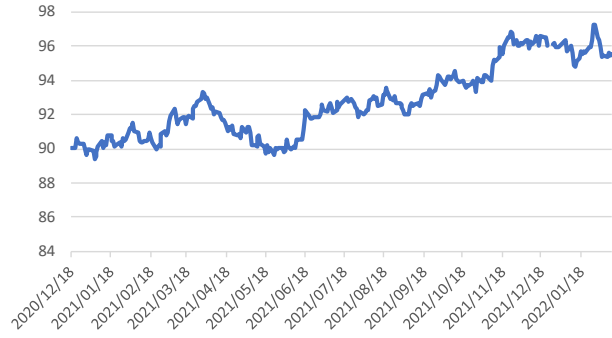
Financial Market commentary

- Oil is set for its first weekly loss since December, with Brent crude trading around the \$91.20 per barrel mark. The drop has come amid an easing of global geopolitical tensions this week and some progress on the US-Iran talks that have led to speculation that the Middle-Eastern nation could resume oil exports soon. Yesterday's strong US inflation figures also pressured the market to some degree, given that bets increased that the Fed could need to hike rates by 50bp at its March meeting. We are still of the view that the Fed will only hike by 25bp, but the greater-than-expected inflation figures do suggest that the rising price pressures could see the US economy struggle a bit further down the line.
- This outlook coupled with expectations that US producers could continue to ramp up oil production suggests that oil may not have all that much room to rally further, barring some geopolitical or other supply shock. Demand has been stronger than many expected for some time now, but it may have topped out while supply levels still have some significant upside to them. The market is, therefore, likely to shift back into a surplus through the coming months.
- Following on from the comments above, Headline inflation jumped by more than expected to 7.5% y/y while core inflation rose to 6.0% y/y. It is the highest inflation reading forty years and prompted speculation that the Fed may hike rates by 50bp in March. The rise of such speculation is to be expected. Still, it is probably not realistic when one considers that this inflation print might also signal that the worst is now behind us and that inflation will likely decelerate sharply in the coming months. Money supply growth has moderated sharply and will reduce the amount of monetary space that inflation has to take hold.
- Predictably, the USD has found some support following the higher than expected CPI print as investors position for a quicker rise in interest rates than was first anticipated. As US Treasury yields rise, so the USD will again benefit from the monetary policy divergence with its trading partners that will keep the USD well bid. This could prove to be the catalyst for a more bullish week ahead for the USD.

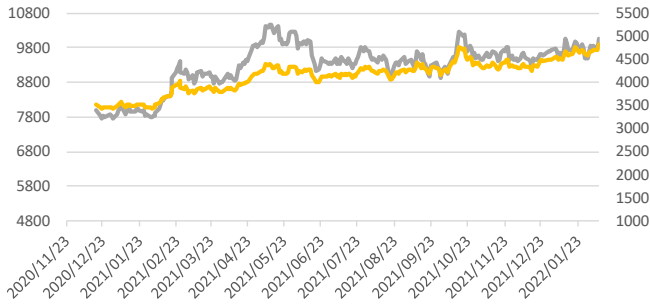
Botswana Yield Curve



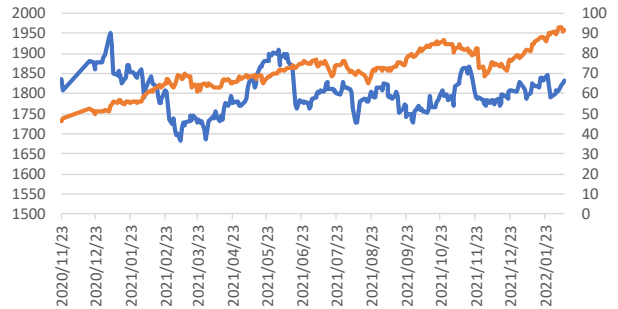
USD Index



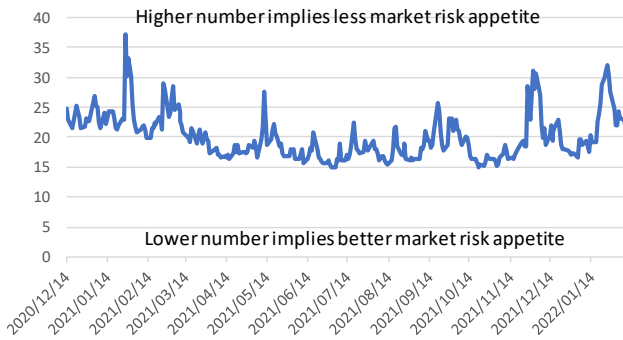
Base metals - Copper L_Hand axis LME Index R_Hand axis



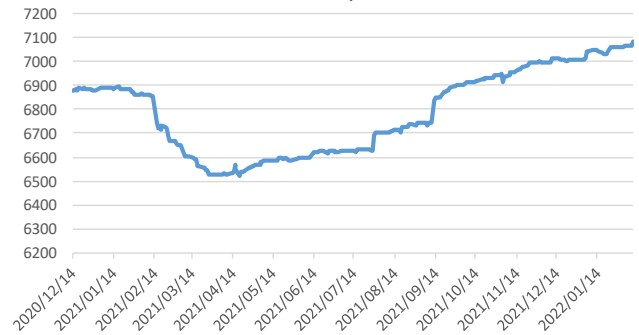
Oil R_Hand Axis - Gold L_Hand Axis



VIX Index - Risk appetite measure



Local stockmarket performance



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