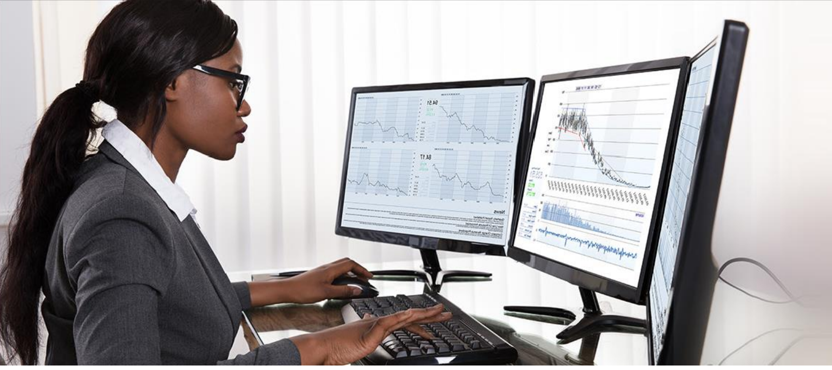


Botswana Market Watch

17 February 2022

GMT	Country	Data event or release	Period	Market Exp	Previous
	BW	Nothing on the cards			
13:30	US	Initial jobless claims	Feb 12		223k
13:30	US	Building permits	Jan	1747k	1873k
13:30	US	Housing Starts	Jan	1700k	1702k
13:30	US	Philadelphia Fed index	Feb	20,00	23,20

Factors Overnight	What happened?	Relevance	Importance	Analysis
UK inflation	At 5.5%, UK's inflation has now risen to the highest levels since 1992, with households facing a serious attack on their disposable incomes	This will have the effect of acting like another tax and will go some way towards slowing GDP growth	4/5 (economy, monetary policy)	It also implies that the BoE will continue to hike rates in an attempt to contain inflation expectations and drive home the message that such high levels of inflation will not be tolerated
FOMC	No new surprises were contained in the latest FOMC minutes, which pointed to a measured rise in interest rates that could begin as early as March	No indication of a stronger 50bp increase in line with recent James Bullard comments	3/5 (economy, monetary policy)	The Fed will be mindful of the negative blowback of normalising too quickly. The risk is that the Fed steps on the brakes and induces financial market volatility, which could sap confidence levels
Japanese trade account	Japan's trade deficit has soared to an eight-year high on the back of surging commodity imports and a smaller than expected rise in exports	Exports constrained by supply chain logistics, imports surge to detract from GDP outlook	4/5 (economy)	This neatly represents the headwinds to the global economy and highlights how current market dynamics will take some time to overcome and holds implications for monetary policy, both good and bad

Factors on the Radar	What happened?	Relevance	Importance	Analysis
G20	Aside from the obvious discussions around Ukraine, the G20 will also discuss the fallout of tightening economic policies, most notably monetary policy	G20 will likely urge central banks not to turn overly hasty in their policy stance against inflation	4/5 (economy, economic policy)	The G20 is concerned about unclear policy positions on monetary policy, which detract from overall price stability. They will also be fearful of the negative fallout of over-zealous tightening
Ukraine standoff	Amid the Russians showing troop withdrawals, the US warns that the number of troops is growing, not shrinking, while Ukraine suffers its worst cyber-attack to date	It is clear that the situation is far from stable, which will play a key role in keeping the likes of the EUR on the defensive	5/5 (geopolitics)	The situation remains tense, and there is no evidence of a sustained withdrawal of troops to de-escalate the situation. Furthermore, the cyber-attack that took out Ukraine's banks potentially saw the threat move into a different realm
German Covid restrictions	Germany has eventually eased some of its Covid restrictions to unshackle the economy with more relaxation of restrictions to materialise in the Spring	With the peak in the 4th wave now behind us, Europe's economy will start performing better	4/5 (economy)	Great news all around that Europe's economic powerhouse is looking to open up and resume more normalised function to help lift aggregate demand across the bloc

Highlights news vendors

CNBC - Global investors snap up Chinese stocks despite market declines
ALL AFRICA - Angola Recovers Looted Assets Worth Over U.S.$11 Billion
FT - White House says Russian troop withdrawal claims are ‘false’
SOUTH CHINA POST - As China stands firm on zero-Covid, will it work for Hong Kong?
REUTERS - How the Ukraine crisis tests Europe's reliance on Russian gas

Corporate Foreign Exchange

	CUSTOMER BUY	CUSTOMER SELL	CUSTOMER BUY	CUSTOMER SELL
	CASH	CASH	TT	TT
BWPZAR	1.25088	1.259136	1.2749855	1.350948
BWPUSD	0.083232	0.093496	0.084836	0.089713
GBPBWP	16.1928	16.287336	15.842475	15.347682
BWPEUR	0.079456	0.079872	0.075063	0.078336
JPYBWP	10.3896	10.452	9.815175	10.225875
USDZAR	14.427936	15.64316	14.766091	15.30472625
EURUSD	1.089408	1.180608	1.114941	1.155066
GBPUSD	1.303392	1.412112	1.3339403	1.3815615

Interbank Spot Foreign Exchange

	Close	Change
BWPUSD	0.0867	0.0002
BWPGBP	0.0638	-0.0001
BWPEUR	0.0762	0.00
BWPZAR	1.2994	-0.0185
Dollar Index	95.957	0.256
EURUSD	1.1349	-0.0024
GBPUSD	1.3577	-0.0006
USDJPY	115.24	-0.22
USDNGN	415.31	0
USDZAR	15.0287	0.0409

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-2.6325	-10.82151
3m	-8.034	-37.24127
6m	-16.17525	-76.21237
12m	-34.71975	-203.6623

Local Fixed income

Yield curve	Close	Change
6m	1.551	0.001
3y	4.75	0.4
5y	5.85	-0.15
20y	8.5	0
22y	8.55	0

International Fixed Income

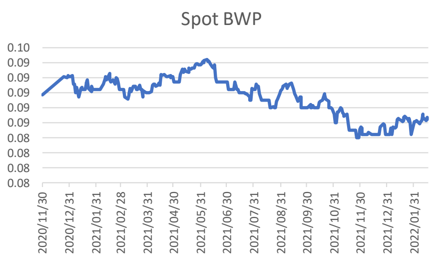
	Close	Change
SA 10y	9.1	-0.105
US 10y	2.0399	-0.0035
German 10y	0.272	-0.039
Spread SA 5y vs Bots 5y bpts		
	181	2

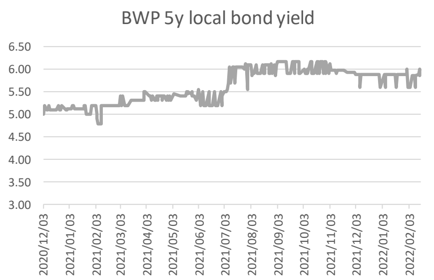
Equities

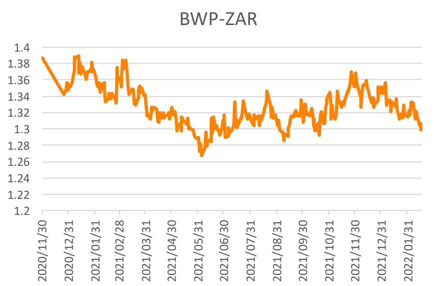
	Close	Change
VIX	24.29	-1.41
Dow Jones	34934.27	422.67
FTSE	7603.78	77.33
JSE All share	76502.59	88
Bots DCIBT	7099.5	2.25
Nigeria Index	47109.25	-1.95

Commodities

	Close	Change
Gold	1868.3674	15.3074
Brent Crude	94.81	1.53
3m Copper	9992.5	24
LME Index	4801.9	28.7
1 carat index	7081	245





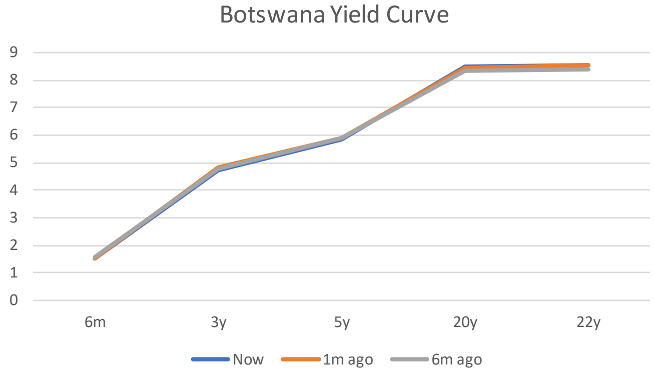


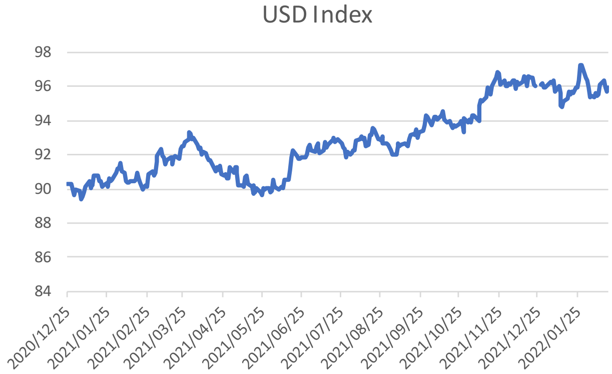
Local and regional talking points

- The FOMC minutes overnight have set the tone for the trajectory of monetary policy for the world's largest economy. We are heading for a period of tightening and Fed balance sheet reduction which is going to result in US treasury yields rising as well as dollar funding costs.
- Given that the US 10yr is the global risk free bond, any rise here will directly influence how other markets need to respond. This will undoubtedly result in local bond yields having to rise accordingly in order to compensate investors for the risk premium associated with holding local debt and will certainly make funding for the government more expensive.
- These factors coupled with the January inflation reading sets the backdrop for the Bank of Botswana meeting next week and the bond auction which follows on the 25^{th} February. Our view is that the Bank may be forced to become more hawkish in its approach to monetary policy even though it stated at the last meeting that it expects inflation to return to its target band of 3-6% by 3Q 2022. We expect this outlook to be revised as commodities remain stubbornly high, and there are additional threats to the supply chain now that the Eastern Europe tensions have magnified.

Financial Market commentary

- Given the global inflation issues and the impact of energy on price pressures we would like to draw the reader's attention to developments in the oil markets.
- The oil markets are down this morning with the prospect of faster Fed policy normalisation and news that an Iran deal may be announced soon, pressuring the commodity. The front-month Brent contract touched a low of $92.15 this morning before paring some of the losses to currently trade around $94.15. Iran's top negotiator tweeted yesterday that a deal is closer than ever, while Tehran has continued to make provisions for its return to the oil markets by meeting with key Asian buyers. If a deal is reached soon, Iran could end up pumping around 900k to 1mn barrels a day by December, as well as unleash the stockpiles that it has built up over the last four years. This will help to ease some of the significant tightness we have in the market at the moment.
- Base metals closed higher led by aluminium yesterday with market participants digesting the FOMC minutes and the fact that the West was less than convinced about Russia's announcement of a partial withdrawal of troops.
- Aluminium has since given up some of those gains and is currently marking time just below the $3250.00/tonne, while 3m LME copper is currently trading just north of $9950.00/tonne after trading north of the $10000.00/tonne mark at some point during yesterday's session.
- Price action for metals is likely to be volatile in the coming days and weeks as the headlines surrounding the Ukraine cause adjustments of both tactical and strategic interests. Implied volatilities on options contracts will spike driving up hedging costs.
- Moving over to the FX markets, the USD remains on the defensive. The VIX has dropped further, and overall risk appetite has improved considerably. The safe-haven bid has lifted, and the USD is struggling to hold on to its gains now that the FOMC alluded to a measured approach to tightening. EM currencies appear to be on the front foot this morning, and equity markets look a little more stable. All eyes remain on Ukraine, but for now, there is no definitive news to trade on, and investors continue to believe that the geopolitical tensions will eventually be resolved.
- Given this backdrop we expect a rather measured start for the local market. The ZAR is pivoting around the R15.00 handle and we expect the Pula to hold above the 0.0860 mark in the interbank market.


Botswana Yield Curve
9
8
7
6
5
4
3
2
1
0
6m
3y
5y
20y
22y
Now
1m ago
6m ago


USD Index
98
96
94
92
90
88
86
84
2020/12/25
2021/01/25
2021/02/25
2021/03/25
2021/04/25
2021/05/25
2021/06/25
2021/07/25
2021/08/25
2021/09/25
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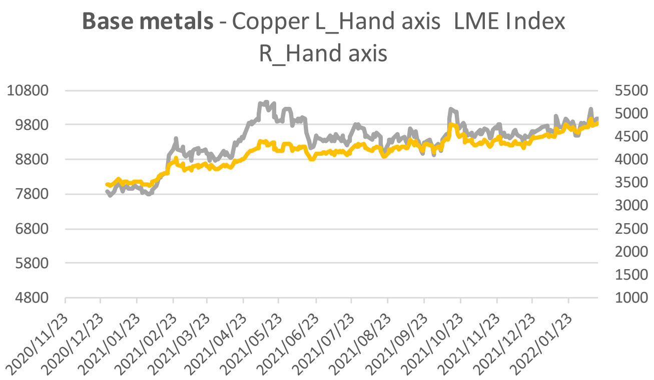
2021/11/25
2021/12/25
2022/01/25


Base metals - Copper L_Hand axis LME Index R_Hand axis
10800
9800
8800
7800
6800
5800
4800
5500
5000
4500
4000
3500
3000
2500
2000
1500
1000
2020/11/23
2020/12/23
2021/01/23
2021/02/23
2021/03/23
2021/04/23
2021/05/23
2021/06/23
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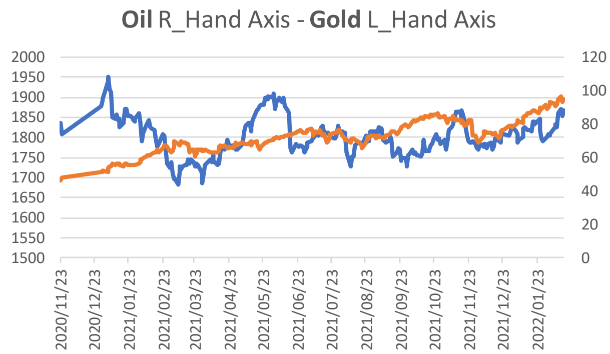
2021/12/23
2022/01/23


Oil R_Hand Axis - **Gold** L_Hand Axis
2000
1950
1900
1850
1800
1750
1700
1650
1600
1550
1500
120
100
80
60
40
20
0
2020/11/23
2020/12/23
2021/01/23
2021/02/23
2021/03/23
2021/04/23
2021/05/23
2021/06/23
2021/07/23
2021/08/23
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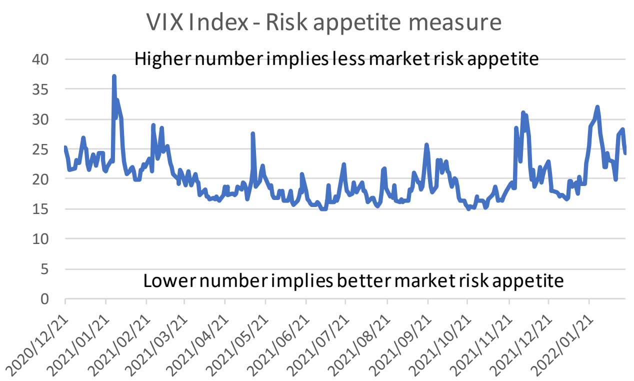
2021/12/23
2022/01/23


VIX Index - Risk appetite measure
Higher number implies less market risk appetite
Lower number implies better market risk appetite
40
35
30
25
20
15
10
5
0
2020/12/21
2021/01/21
2021/02/21
2021/03/21
2021/04/21
2021/05/21
2021/06/21
2021/07/21
2021/08/21
2021/09/21
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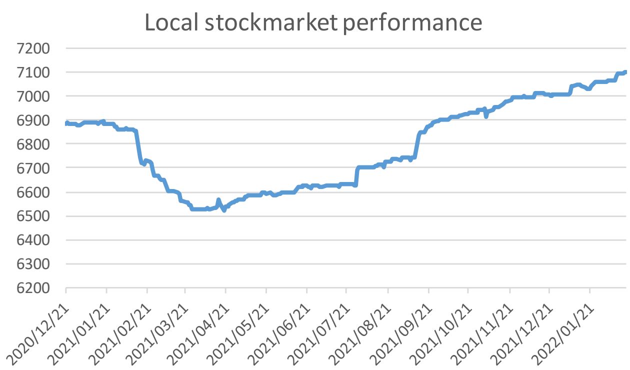
2021/12/21
2022/01/21


Local stockmarket performance
7200
7100
7000
6900
6800
6700
6600
6500
6400
6300
6200
2020/12/21
2021/01/21
2021/02/21
2021/03/21
2021/04/21
2021/05/21
2021/06/21
2021/07/21
2021/08/21
2021/09/21
2021/10/21
2021/11/21
2021/12/21
2022/01/21

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