

Botswana Market Watch 24 February 2022



GMT	Country	Data event or release	Period	Market Exp	Previous
	BW	Benchmark Interest Rate decision	Feb 24		3.75%
13:30	US	Chicago Fed activity index	Jan		-0.15
13:30	US	GDP q/q annualised	4Q S	7.00%	6.90%
13:30	US	Personal consumption	4Q S		3.30%
13:30	US	Initial jobless claims	Feb 19		248k
15:00	US	New home sales	Jan	810k	811k
16:00	US	Kansas City manufacturing activity	Feb		24,00

Factors Overnight	What happened?	Relevance	Importance	Analysis
Ukraine - Russia	Reports on NBC and other news vendors confirm that Russia has attacked Ukraine with missile strikes and explosions heard in Kyiv	NATO, the UN and EU will now respond with more financial sanctions in a bid to cripple the economy	5/5 (geopolitics, economy, markets)	Russia's economy has always been run conservatively, and sanctions will take some time to take effect. Given current developments, it is unlikely to stop Russia's invasion of Ukraine
Ukraine	Ukraine has issued a state of emergency and closed its airspace to any civilian airlines due to the severe safety risk that has arisen	How Ukraine will respond is unknown at this point, given its inability to match Russia's military	5/5 (geopolitics, economy)	This holds the potential to trigger a humanitarian and refugee crisis if it forces Ukrainians to flee into neighbouring European countries as most seek to avoid conflict
Oil prices	Oil prices popped more than 4% at one point to punch through the \$100pb mark to now give the global economy a further headache to navigate	It also increases the pressure on OPEC to increase production to help offset any shortfalls	5/5 (geopolitics, economy, markets)	Russia remains a significant energy producer but will now face reduced revenues on the back of its decision to invade Ukraine. It is unclear what the full impact on prices and inflation will be

Factors on the Radar	What happened?	Relevance	Importance	Analysis
Stock markets	Dow futures have sold off hard and are pointing to significant losses through this morning's trade. Such volatility will have far-reaching consequences	Volatility across stock markets holds implications for risk appetite, fiscal and monetary policies	4/5 (markets, economy)	It will also come accompanied to higher levels of risk aversion volatility across higher-risk emerging markets and will at the margin detract from fragile business and household confidence levels
Ukraine - Russia	The EU, NATO, and UN will retaliate today but will likely do so through softer measures than all-out war with Russia. The stakes are too high for that	It is now clear that Russia will pursue its invasion of Ukraine regardless of the consequences	5/5 (geopolitics, economy, markets)	Putin has now called the West's bluff and pressed ahead with the invasion. A new post-cold-war era has begun that could significantly change the face of global geopolitics
Central banks	Geopolitical developments in Ukraine will likely significantly change the response of central banks that were looking to normalise their monetary policies	On the one hand, oil prices have spiked above \$100pb to fuel inflation. On the other this will dent GDP	4/5 (monetary policy, markets)	It is unclear exactly what this means for central bank policies, but it is likely that they will default to the protection of their economies above inflation and be more sensitive to growth

Highlights news vendors

CNBC - [Putin launches attack on Ukraine as U.S. and Europe move to hit Russia's economy](#)

ALL AFRICA - [Economists, Business Give a Cautious Thumbs-Up to Finance Minister's Maiden Budget](#)

FT - [Squeezed production capacity exposes energy to price shocks](#)

SOUTH CHINA POST - [China is still hooked on coal as power plants, steel mills stall cutbacks](#)

REUTERS - [Stocks dive, oil surges as Russia invades Ukraine](#)

Corporate Foreign Exchange

	CUSTOMER BUY	CUSTOMER SELL	CUSTOMER BUY	CUSTOMER SELL
	CASH	CASH	TT	TT
BWPZAR	1.262112	1.272	1.286434	1.36475
BWPUSD	0.082848	0.093496	0.0844446	0.089816
GBPWP	16.162536	16.278496	15.812866	15.339352
BWPEUR	0.079872	0.080392	0.075456	0.078846
JPYWP	10.2856	10.3584	9.716925	10.1343
USDZAR	14.624352	15.857712	14.96711	15.5146365
EURUSD	1.078944	1.16896	1.1042318	1.14367
GBPUSD	1.296576	1.404728	1.3269645	1.37433725

Interbank Spot Foreign Exchange

	Close	Change		BWPUSD	BWPZAR
BWPUSD	0.0863	-0.0006	1m	-2.691	-12.4032
BWPGBP	0.0639	-0.0003	3m	-8.5215	-39.55301
BWPEUR	0.0768	0.00	6m	-16.107	-80.52536
BWPZAR	1.3146	0.0034	12m	-34.58325	-208.1724

Forward Foreign Exchange

Dollar Index	96.626	0.436
EURUSD	1.124	-0.0069
GBPUSD	1.3506	-0.0036
USDJPY	114.62	-0.35
USDNGN	415.39	0
USDZAR	15.2307	0.1236

Local Fixed Income

Yield curve	Close	Change		Close	Change
6m	1.549	0.001	SA 10y	9.265	0.1
3y	4.75	0	US 10y	1.9982	0.054
5y	5.85	0	German 10y	0.225	-0.018
20y	8.5	0.02	Spread SA 5y vs Bots 5y bpts	190	6.5
22y	8.55	0			

International Fixed Income

Equities

	Close	Change		Close	Change
VIX	31.02	2.21	Gold	1907.5494	9.415
Dow Jones	33131.76	-482.57	Brent Crude	96.84	0
FTSE	7498.18	9.88	3m Copper	9866	-49
JSE All share	74987.05	125.38	LME Index	4811.4	-20.3
Bots DCIBT	7167.96	18.79	1 carat index	Invalid RIC.	#VALUE!
Nigeria Index	47207.27	12.99			

Commodities

Local and regional talking points

- Today we have the Bank of Botswana deciding on the trajectory of interest rates for the country. We have spoken at length earlier in the week about the increased inflation pressures with inflation hitting 10.6% for January 2022 a massive increase on the December reading of 8.7%.
- The major driver of this increase was an increase in fuel prices, we have yet to see the price of oil fall and the risk is that the increased energy costs keep the pressure to the top side.
- The Bank of Botswana stated that it expected inflation to return to the target band of 3-6% in the third quarter of 2022 at the December 2021 meeting of the MPC, we think that this could be revised at this meeting given the current inflation trajectory and embedded macro-economic risks
- It is worth mentioning that South Africa, the regional economic leader has increased its benchmark lending rate by 25 bpts recently, albeit in what was termed a dovish hike.
- We view the risk today as towards a hike and would not be surprised to see the Bank of Botswana hike by 25 bpts.

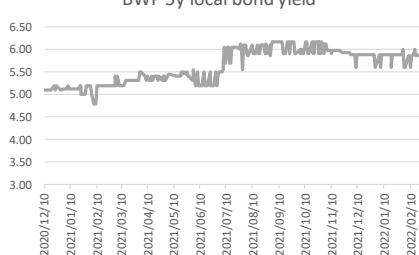
Financial Market commentary

- All bets are off. Just as the world started coming to terms with living with Covid 19, Russia has invaded Ukraine with reports of missile attacks and explosions heard in Kyiv, according to NBC news. In so doing, Putin is testing the resolve and the relevance of the EU, NATO and Western leaders to stand up and stop him. This will offer a clear perspective on the strength of leadership in the West and what could meaningfully be done in a scenario of an all-out war. There are serious questions over whether modern leaders have the stomach for this and whether their de-prioritisation of military spending has now left them vulnerable.
- This now holds a wide variety of implications for Europe's economy, fiscal policy, geopolitics, and commodity prices, especially oil. It appears as though a new post-Cold War era has now begun. This action by Russia could be a game-changer in that it directly challenges the status quo and will give world leaders something to focus on other than Covid-19.
- Stock markets have responded predictably and sold off aggressively, global levels of risk aversion have spiked, as has the oil price to over \$100pb. The world now has a real problem, and Russia's behaviour will be a catalyst to change the stance of central banks, oil producers and governments more broadly. In SA's case, the spike in oil prices has been matched by a rise in the gold price, which could render the ZAR more resilient than other EM currencies, but judging from the overnight move, the ZAR is still vulnerable. Much will depend on what happens next and the strength of retaliation. If the retaliation only comes in the form of sanctions, this will embolden Putin and render him more than just a "regional power", as described by the US recently.
- Given the local rate decision today, we need to draw the reader's attention to developments in the oil markets. Brent crude has breached the \$100 per barrel mark this morning with the front-month contract surging as news has broken that Russian President Putin has ordered his army into Ukraine, attacking cities within the country while calling missile strikes on key Ukrainian military sites. This has sent shockwaves across the markets, with risk assets selling off while havens are back in demand. Oil, however, is being supported by concerns that new sanctions are coming for Russia, which will curtail its energy exports at a time when supplies were already struggling to meet demand. Prices will continue to rise if the situation does not de-escalate, and spreads will widen as demand for delivery of oil now will surge given the supply concerns.
- The BWP-USD will remain anchored above the 0.0860 level in the interbank market with investors expressing a degree of caution given the international backdrop and the Bank of Botswana decision on rates today

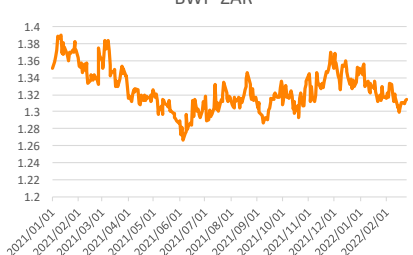
Spot BWP



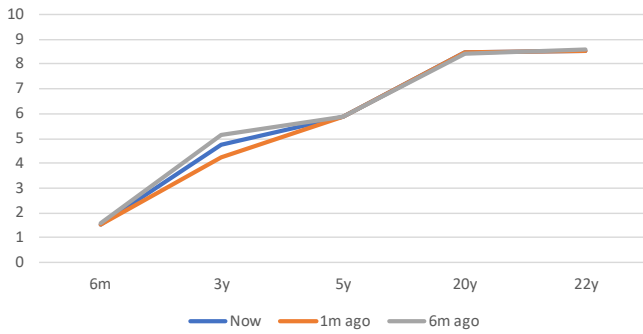
BWP 5y local bond yield



BWP-ZAR



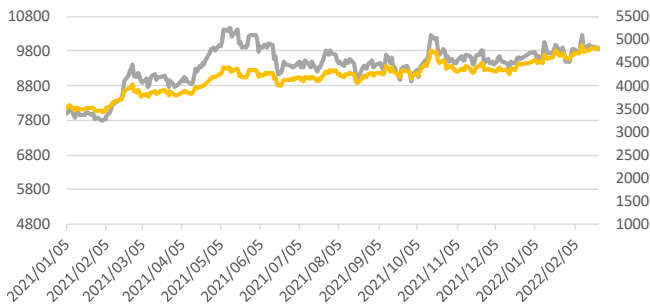
Botswana Yield Curve



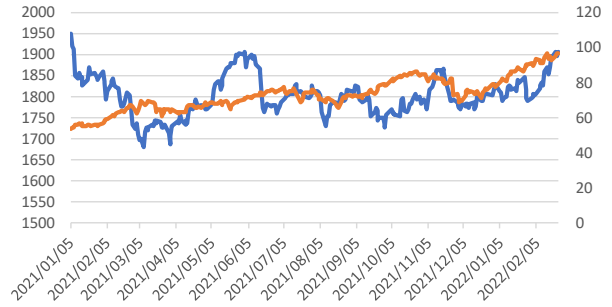
USD Index



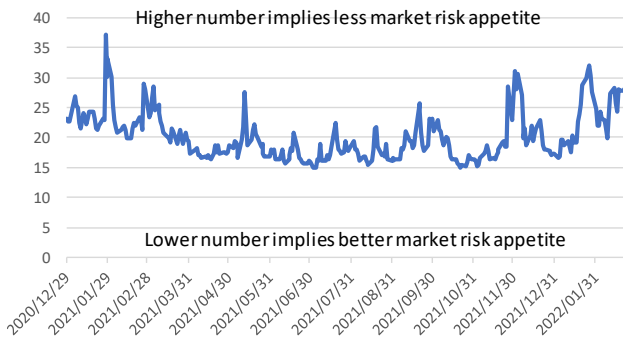
Base metals - Copper L_Hand axis LME Index
R_Hand axis



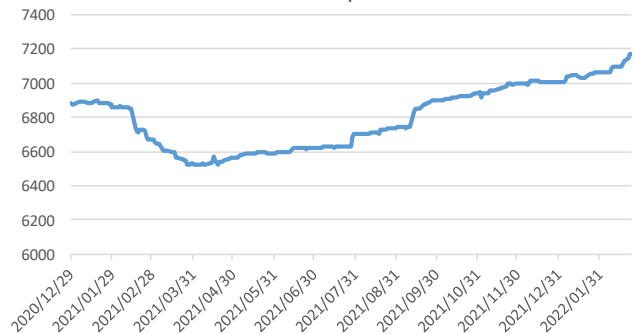
Oil R_Hand Axis - Gold L_Hand Axis



VIX Index - Risk appetite measure



Local stockmarket performance



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