

Botswana Market Watch

16 March 2022



| GMT | Country | Data event or release | Period | Market Exp | Previous |
|-------|-----------|-------------------------------|--------|------------|----------|
| | BW | Nothing on the cards | | | |
| 11:00 | US | MBA mortgage applications | Mar 11 | | 8.50% |
| 12:30 | US | Import price index y/y | Feb | | 10.80% |
| 12:30 | US | Advance retail sales m/m | Feb | 0.40% | 3.80% |
| 12:30 | US | Retail sales ex. auto and gas | Feb | 0.60% | 3.80% |
| 14:00 | US | Business inventories m/m | Jan | 1.10% | 2.10% |
| 14:00 | US | NAHB Housing market index | Mar | 81,00 | 82,00 |
| 18:00 | US | FOMC rate decision | Mar 16 | 0.50% | 0,25% |

| Factors Overnight | What happened? | Relevance | Importance | Analysis |
|----------------------------|--|--|---|--|
| Ukraine - Russia | Ukraine indicated that it must conclude that it will never join NATO in what appears to be a major compromise | It is an indication that progress is being made in ongoing peace talks | 5/5 (geopolitics, economy, markets) | Membership of NATO was a big issue for Russia. What concessions are made in Donbas and Crimea will determine if Russia retreats |
| Commodity prices | Whether it be oil, precious metals, industrial metals or softs, there has been a retreat in commodity prices in recent days | Great news from an inflation perspective and will ease the pressure on CBs | 4/5 (economy, markets) | Oil prices, in particular, reversed back to levels seen just before the start of the war. Any indication that the war might end could see prices retreat further |
| Chinese Covid cases | The Covid spike in China has worsened, with new cases rising above 3,500. Although still tiny relative to the population, the government is locking down | The result is that there could be disruptions to productive capacity and supply chains | 4/5 (economy, pandemic) | On Tuesday, Dongguan city in the province of Guangdong ordered employees to work from home and locked down residential areas on a sign of what might follow if Covid spreads |

| Factors on the Radar | What happened? | Relevance | Importance | Analysis |
|-------------------------|--|---|---|---|
| Ukraine - Russia | Russia and Ukraine continue their talks that have now been labelled as more realistic by Ukrainian president Zelensky | Investors are still looking at these talks with the hope that they prove successful | 5/5 (geopolitics, Economy, markets) | A successful resolution to these negotiations will see financial markets rally strongly, although Russia will be left with the consequences of the sanctions |
| Central banks | This week the Fed's FOMC and the BoE's MPC will be meeting to decide on monetary policy. In both instances, a further rise of 25bp is anticipated | High inflationary pressures have forced the central banks' hands, and they will respond | 4/5 (economy, monetary policy, markets) | The guidance offered will turn less hawkish than initially anticipated as investors position for a challenging economic climate that will require central banks to remain cautious |
| Russian default | Concerns have arisen that Russia will default on its debt and spark contagion. Such fears are, however, wide of the mark and unlikely to generate volatility | Holdings have already been written down, and the size of default is not big enough | 4/5 (economy, markets) | Quite aside from the fact that the default is not a sign of broader emerging market troubles, the amount in question is not systemically big enough to trigger the contagion feared |



Highlights news vendors

CNBC - [Russia could be about to default on its debt: Here's what you need to know](#)

ALL AFRICA - [Nigeria's Inflation Rises to 15.70% As Fuel Scarcity Effects Prices](#)

FT - [Eastern European leaders arrive in Kyiv as Russian shelling continues](#)

SOUTH CHINA POST - [China reports another 3,000 Covid-19 cases as latest surge continues](#)

REUTERS - [Peace talks more 'realistic', says Ukraine president; Biden to visit NATO](#)

Local and regional talking points

Corporate Foreign Exchange

| | CUSTOMER | | CUSTOMER | |
|--------|-----------|-----------|-----------|------------|
| | BUY | SELL | BUY | SELL |
| | CASH | CASH | TT | TT |
| BWPZAR | 1.245696 | 1.255392 | 1.2697016 | 1.346931 |
| BWPUSD | 0.082464 | 0.093496 | 0.0840532 | 0.088992 |
| GBPWP | 15.6806 | 15.791256 | 15.341356 | 14.880222 |
| BWPEUR | 0.081328 | 0.081952 | 0.0768315 | 0.080376 |
| JPYWP | 10.5768 | 10.6496 | 9.992025 | 10.4192 |
| USDZAR | 14.501376 | 15.723136 | 14.841252 | 15.382972 |
| EURUSD | 1.053696 | 1.14192 | 1.078392 | 1.117215 |
| GBPUSD | 1.251744 | 1.356888 | 1.2810818 | 1.32753225 |

Interbank Spot Foreign Exchange

| | Close | | Change | |
|--------|--------|--------|--------|-----------|
| | | | | |
| BWPUSD | 0.0859 | -1E-04 | 1m | -29.91525 |
| BWPGBP | 0.0661 | 0.0001 | 3m | -7.34175 |
| BWPEUR | 0.0785 | 0.00 | 6m | -14.61525 |
| BWPZAR | 1.2991 | 0.0105 | 12m | -31.58025 |

Forward Foreign Exchange

| | Close | | Change | |
|--------|----------|-----------|--------|--|
| | | | | |
| BWPUSD | 2.91525 | -25.96872 | | |
| BWPGBP | 7.34175 | -47.36885 | | |
| BWPEUR | 14.61525 | -94.3123 | | |
| BWPZAR | 31.58025 | -221.0931 | | |

| | Close | Change |
|--------------|---------|---------|
| Dollar Index | 98.868 | -0.131 |
| EURUSD | 1.0976 | 0.0037 |
| GBPUSD | 1.3041 | 0.0041 |
| USDJPY | 118.34 | 0.16 |
| USDNGN | 415.3 | 0 |
| USDZAR | 15.1036 | -0.0202 |

Local Fixed income

| Yield curve | Close | Change | Close | Change |
|-------------|-------|--------|------------------------------|--------|
| 6m | 1.549 | 0.001 | SA 10y | 9.855 |
| 3y | 3.6 | -1.15 | US 10y | 2.1419 |
| 5y | 5.75 | -0.1 | German 10y | 0.373 |
| 20y | 8.48 | -0.02 | Spread SA 5y vs Bots 5y bpts | 270 |
| 22y | 8.53 | -0.02 | | 21 |

International Fixed Income

| | Close | Change |
|------------------------------|--------|--------|
| SA 10y | 9.855 | 0.115 |
| US 10y | 2.1419 | 0.1449 |
| German 10y | 0.373 | 0.103 |
| Spread SA 5y vs Bots 5y bpts | 270 | 21 |

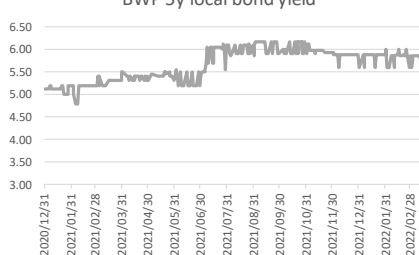
Equities

| | Close | Change | Commodities | Close | Change |
|---------------|----------|---------|---------------|------------------|----------|
| VIX | 31.77 | 1.02 | Gold | 1951.115 | -34.1735 |
| Dow Jones | 32945.24 | -229.88 | Brent Crude | 106.9 | -5.77 |
| FTSE | 7193.47 | 56.55 | 3m Copper | 9935 | -248.5 |
| JSE All share | 71903.72 | -203.52 | LME Index | 5194.8 | -134.2 |
| Bots DCIBT | 7204.33 | 0 | 1 carat index | Invalid field(s) | #VALUE! |
| Nigeria Index | 47428.67 | 73.5 | | | |

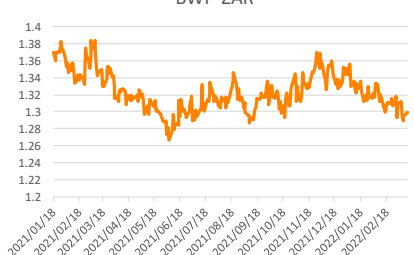
Spot BWP



BWP 5y local bond yield



BWP-ZAR

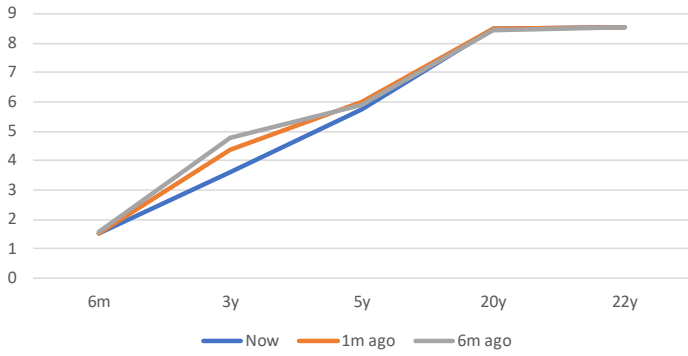


- Statistics Botswana released the February CPI reading yesterday. The annual inflation rate remained unchanged on the January print coming in at 10.6%. Transport was the largest contributor to the overall basket with specific categories driving the overall number to 27% versus 12 months ago. In terms of the subcategories, the operation of personal transport is up some 12.5% on a quarter on quarter basis, or 43.8% on year on year while the purchase of vehicles is up some 15.9% year on year.
- Core inflation increased mildly from 6.7% year on year to 6.8%.
- Moving over to a regional topic which is always top of mind is whether or not there is liquidity and opportunity that exists in the financial markets. Once again, African bonds have been significantly more resilient to the shift in paradigm from major central banks. While emerging market bonds have lost in excess of 12% since September, African bonds have provided a return of almost 2% over the comparable period. This is partly due to the fact that African bonds, for the most part, are relatively sheltered to fast money as investors generally hold these bonds through to maturity.
- Looking ahead, we remain of the view that African bonds will continue to outperform emerging market bonds, especially if the Fed is more hawkish than what the market had anticipated. That said, tighter global monetary policy conditions will undoubtedly have an impact on the more fiscally vulnerable countries, particularly those that need to fund themselves in the international Eurobond market.

Financial Market commentary

- The focus shifts from the war in Ukraine to the FOMC interest rate decision today. It is widely expected that the FOMC will kick off its rate hiking cycle this evening as policymakers look to reign in decade-high inflation. In line with consensus expectations, we expect the FOMC to hike rates by 25bps this evening. It is worth noting that some analysts are betting on a bolder 50bps rate hike. Moreover, notwithstanding the inflation pressures relating to supply concerns over Russia's invasion of Ukraine, we expect the dot plot, the Fed's projections for interest rates, to signal a less aggressive path for rates for the year than the seven rate hikes the market has priced in amid mounting growing concerns. That said, we anticipate that Fed Chair will continue to sound a hawkish tone in a bid to cool inflation expectations.
- Much of the focus is expected to rest on how the FOMC interprets the current macroeconomic conditions and the impact of the Ukraine crisis on the US's economy and its inflation outlook, which could have a significant impact on the path for interest rates in the US. We expect that policymakers will remain highly sensitive to incoming data and remain fluid in its forward guidance given all the uncertainty pertaining to the war in Ukraine and its impact on global energy and food supply. Regarding the fixed income market, options traders are betting that a hawkish FOMC decision tonight will drive US Treasuries higher, which would trigger a broad-based bearish bias across global bond markets as global dollar liquidity begins to moderate. Bloomberg data shows that demand for 1-month put options for 5yr US Treasuries has surged relative to call options over the past week as traders continue to bet that the Fed will still hike rates seven times this year.
- While the professional market is positioned toward a possible further increase in US Treasury yields amid expectations for a hawkish Fed outcome, we are of the view that the market is overly aggressive in how much rate hike risk is being built in. From an emerging market perspective, much of the hawkish shift in policy from the Fed is already priced into EM assets. EM bond began to sell off in September last year, when the Fed and other major central banks shifted to a more hawkish stance. Since September, the JP Morgan EMBI Global Total Return Index, which we use as a proxy for emerging market bonds, has lost more than 12%, mainly due to expectations for tighter global monetary policy conditions.

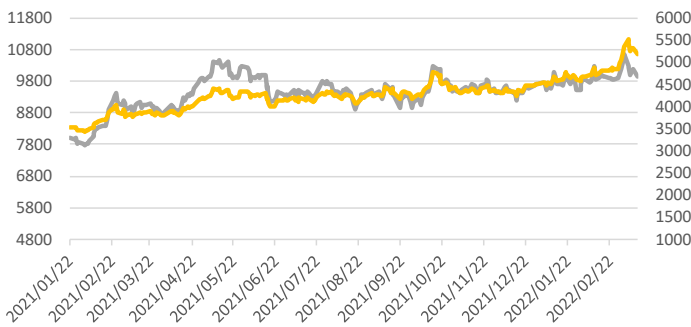
Botswana Yield Curve



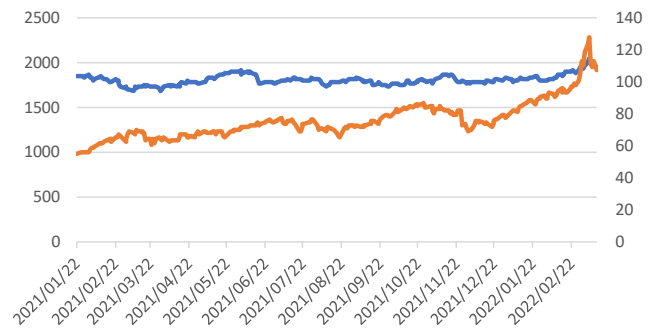
USD Index



Base metals - Copper L_Hand axis LME Index R_Hand axis

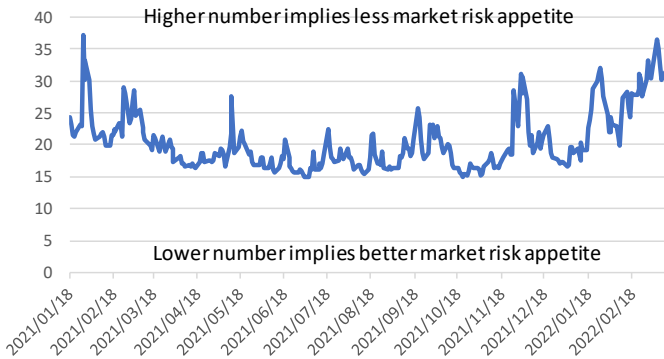


Oil R_Hand Axis - Gold L_Hand Axis



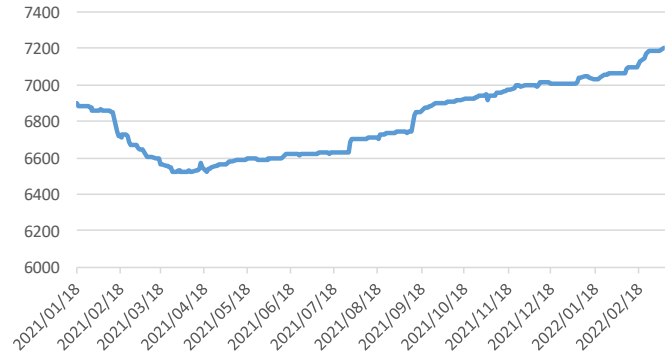
VIX Index - Risk appetite measure

Higher number implies less market risk appetite



Lower number implies better market risk appetite

Local stockmarket performance



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