

Botswana Market Watch 5 May 2022



GMT	Country	Data event or release	Period	Market Exp	Previous
	BW	Potential for CPI release y/y	April		10.0%
01:45	CH	Caixin composite PMI	Apr		43,9
06:00	GE	Factory orders y/y	Mar	-0,8%	2,9%
08:30	GB	Markit services PMI	Apr F	58,3	58,3
11:00	GB	BoE bank rate	May 5	1.00%	0,75%
12:30	US	Initial jobless claims	Apr 30		180k
12:30	US	Nonfarm productivity	1Q P	-2,3%	6,6%

Factors Overnight	What happened?	Relevance	Importance	Analysis
FOMC decision	The Fed hiked 50bp to set the policy range to 0.75%-1.00% and will hike by 50bp at the next two meetings. Balance sheet roll-off of \$95bn will begin in Sep	It was a hawkish statement, but this expectation was fully priced in even before the announcement	4/5 (monetary policy, economy)	The Fed has now played its cards and adopted a hawkish stance. It has made its guidance unusually explicit in the hope that markets preemptively move to help with some of the heavy lifting
Equity markets	Amazingly, the Fed hiking and its hawkish guidance did not detract from equity sentiment. The Dow rallied over 930 points on the day	Investors are betting that the Fed will contain inflation and not hurt growth	3/5 (markets, economy)	The market has judged that sky-high inflation is more damaging to economic growth than a tightening in monetary policy
China services	China's services activity has fallen at the second sharpest rate on record through April. The PMI plummeted to 36.2 in Apr, down from 42 in March	Covid curbs have impacted the economy and, in turn, activity and employment	5/5 (economy)	These self-induced restrictions hurt the economy and impose unnecessary pressure on households and businesses. It remains an unsustainable response to the pandemic

Factors on the Radar	What happened?	Relevance	Importance	Analysis
EU Sanctions	Yesterday, the EU proposed a tough package of sanctions against Moscow, but some countries are concerned the oil embargo will impact heavily	Imposing sanctions on a country on which the EU depends impacts both countries severely	5/5 (economy, geopolitics)	Although the curbs will come into effect in six months, it is unclear that this will give countries enough time to adjust sufficiently to be able to build the necessary energy reserves for winter
UK local government elections	UK voters head to the polls for local elections today and are expected to hurt Johnson politically for all the scandals he has been involved in	The elections are widely regarded as a test for support and hold consequences for his political future	3/5 (politics)	A poor showing could hold severe consequences for Johnson's political tenure. He has been under pressure to step down for a while now, and a poor result might be the last straw
Central Bank decisions	The BoE will be the last of the major central banks to decide on monetary policy. It, too, is expected to lift interest rates	The BoE will need to be more sensitive to growth given the effects of the war	4/5 (monetary policy, markets, economy)	The process of normalising monetary policy is well underway. However, that will hold consequences for the certain sectors and global markets

Highlights news vendors

CNBC - [The Fed is expected to raise rates by a half point. Investors wonder if it will get more aggressive](#)

ALL AFRICA - [Use of Cryptocurrency Not Allowed - Bank of Uganda](#)

FT - [China's independent refiners start buying Russian oil at steep discounts](#)

SOUTH CHINA POST - [China's independent refiners start buying Russian oil at steep discounts](#)

REUTERS - [EU set to unveil sanctions on Russian oil as fighting rages in Ukraine](#)

Local and regional talking points

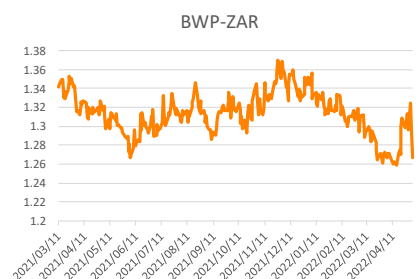
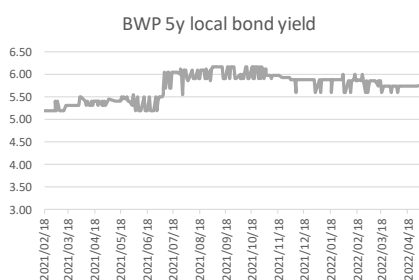
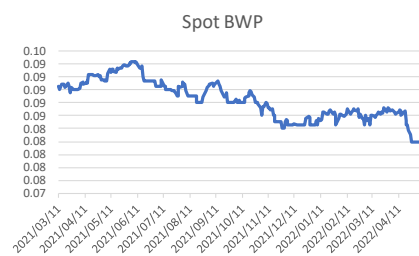
Corporate Foreign Exchange				
	CUSTOMER BUY		CUSTOMER SELL	
	CASH	CASH	TT	TT
BWPZAR	1.218144	1.229376	1.2416187	1.319018
BWPUSD	0.07872	0.093496	0.080237	0.085181
GBPBPW	15.808728	15.948816	15.466712	15.028692
BWPEUR	0.080392	0.081016	0.0759473	0.079458
JPYBWP	11.024	11.1176	10.4145	10.877075
USDZAR	14.851872	16.105128	15.199963	15.75669975
EURUSD	1.01856	1.103856	1.0424325	1.0799745
GBPUSD	1.206912	1.307592	1.235199	1.27930275

Interbank Spot Foreign Exchange			Forward Foreign Exchange		
	Close	Change		BWPUSD	BWPZAR
BWPUSD	0.082	0	1m	-2.4375	-19.25609
BWPGBP	0.065	-0.0006	3m	-7.137	-70.11274
BWPEUR	0.0772	0.00	6m	-14.064375	-128.2979
BWPZAR	1.2664	-0.0298	12m	-25.86675	-262.7235

	Close	Change
Dollar Index	102.618	0.031
EURUSD	1.0614	-0.0007
GBPUSD	1.2573	-0.0048
USDJPY	129.18	0.11
USDNGN	414.69	0
USDZAR	15.4623	0.019

Local Fixed Income			International Fixed Income		
Yield curve	Close	Change		Close	Change
6m	1.556	0.003	SA 10y	9.895	-0.06
3y	4.75	1.24	US 10y	2.9461	-0.0329
5y	5.76	0	German 10y	0.978	0.024
20y	8.5	0	Spread SA 5y vs Bots 5y bpts		
22y	8.55	0.01		256.5	-4

Equities			Commodities		
	Close	Change		Close	Change
VIX	25.42	-3.83	Gold	1880.9229	13.1379
Dow Jones	34061.06	67.29	Brent Crude	110.14	5.17
FTSE	7493.45	16.78	3m Copper	9473.5	63.5
JSE All share	70357.58	-1099.26	LME Index	4690.3	28.7
Bots DCIBT	7245.06	0	1 carat index	Invalid field(s)	#VALUE!
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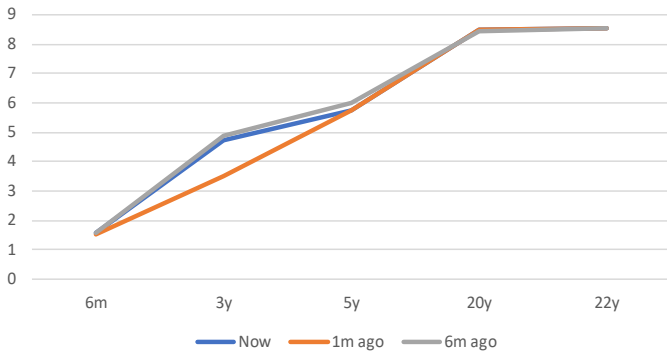


- Politics remains front and centre in terms of local news flow. News24 reported the following overnight. - The government of Botswana has dismissed as "outrageous" claims by former president Ian Khama that his family is under siege and there's a plot to assassinate him. Khama, who left Botswana in November 2021, is in South Africa. He previously said he didn't flee the country and was attending to personal matters. He recently spoke to the SABC and opened up about his claims against his country's government. [\(Full article can be viewed here\)](#)
- Although not market moving in itself, political unease does affect investor sentiment, especially foreign direct investment related to projects and infrastructure. Investors prefer a politically stable environment to make investments, Botswana has long offered this, we do not see the current backdrop raising too many red flags.
- Looking at the day ahead, we have the potential for the release of the April CPI reading. We expect inflationary pressures to remain embedded for now but we are now at the top or nearing the top of the inflationary cycle created by higher energy and commodity prices coupled with supply chain strains.

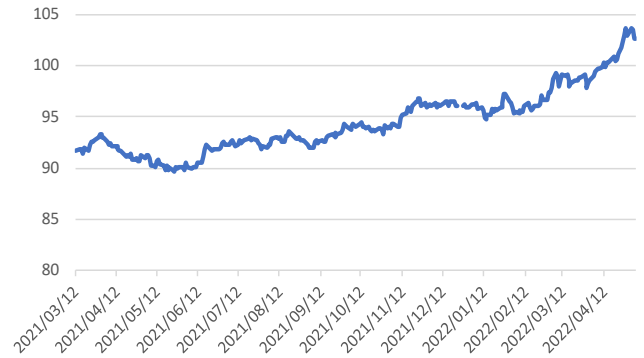
Financial Market commentary

- The market focus for fixed income traders is centred on monetary policy at the moment as major central banks tighten policy aggressively to curb soaring inflation. Overnight, the Fed hiked rates by 50bp as expected, its steepest hike since 2000. It also announced that it would start its balance sheet run-off from the first of June at a pace of \$47.5bn a month. This is made up of \$30bn of Treasuries and \$17.5bn of mortgage-backed securities. The reductions for US Treasuries will then be increased to \$60bn a month after the first three months, while MBS reductions will rise to \$35bn a month.
- It should be noted that there were no dissenting voices this time around, with all voting members backing a 50bp rate hike. There was some speculation that we could have seen at least one vote for a 75bp increase. The initial market reaction saw the USD decline while stocks rose and bonds gained. However, Powell's press conference generated some volatility in the markets before risk sentiment ultimately received a boost as he suggested that there would be no 75bp rate hikes.
- Overall, it seems as if the Fed will remain hawkish for a while longer, but the market may be starting to realise that it got ahead of itself in pricing in such aggressive rate hikes. While we could see some repricing of rate hike risk in the sessions ahead, the Fed was decisively hawkish in its forward guidance, suggesting that headwinds for emerging market bonds will remain acute in the near term. While we expect central banks across the globe to tighten policy further in the months ahead, the current hiking cycle is likely to be shorter than previous cycles amid mounting growth risks. Therefore, given how much rate hike risk is currently priced into bonds at the moment, we see value in going long bonds over the next 12-24 months
- Moving onto the FX markets, shortly after the FOMC decision, the USD capitulated and started what could turn out to be a deeper correction. Investors judged the Fed's actions to limit inflation as more constructive than adopting a more cautious approach and have rewarded the Fed with a powerful response. Overall risk appetite levels have improved, and the Dow surged more than 930 points on the news. The relief rally in stock markets helped risk assets more broadly, and some EM currencies responded well. Both the EUR and GBP have staged a modest recovery against the USD, and these moves could also extend further. There was a lot priced into the USD before the meeting, and so there is now a need to price in the possibility that the Fed may not be able to act quite as hawkishly as it has signalled it would.

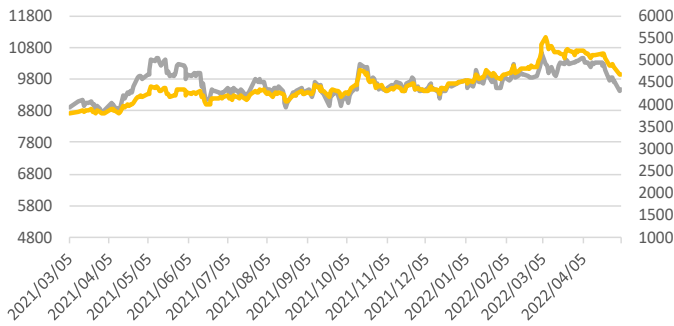
Botswana Yield Curve



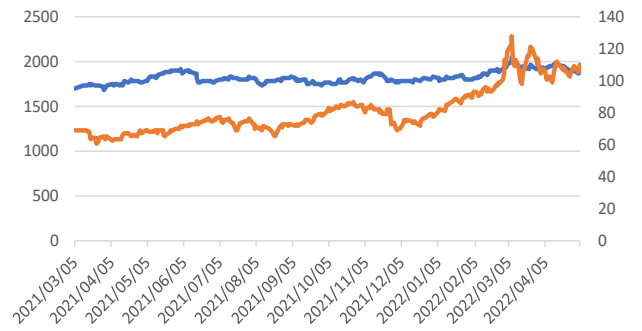
USD Index



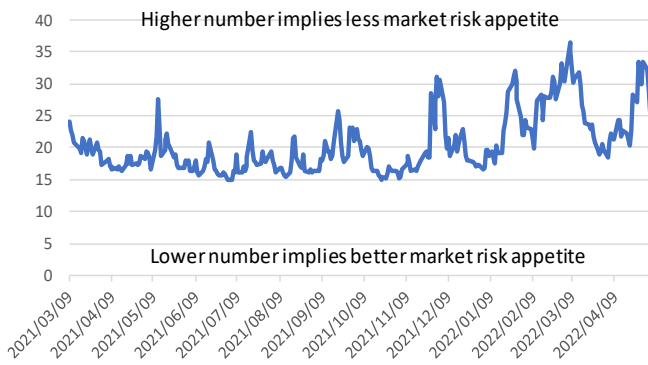
**Base metals - Copper L_Hand axis LME Index
R_Hand axis**



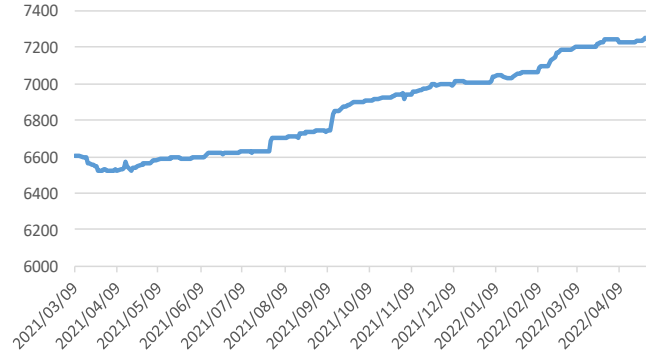
Oil R_Hand Axis - Gold L_Hand Axis



VIX Index - Risk appetite measure



Local stockmarket performance



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