

Botswana Market Watch

15 June 2022



GMT	Country	Data event or release	Period	Market Exp	Previous
	BW	Potential release of CPI as per Statsbots website			
09:00	EZ	Industrial production (wda) y/y	Apr	-0,9%	-0,8%
09:00	EZ	Trade balance nsa (EUR)	Apr		-16,4bn
11:00	US	MBA mortgage applications	Jun 10		-6,5%
12:30	US	Empire manufacturing	Jun	3	-11,6
12:30	US	Import price index y/y	May		12,00%
12:30	US	Advance retail sales m/m	May	0,2%	0,9%
12:30	US	Retail sales ex. auto and gas	May	0,5%	1,00%
14:00	US	Business inventories m/m	Apr	1,2%	2,00%
14:00	US	NAHB Housing market index	Jun	68	69
18:00	US	FOMC rate decision	Jun 15	1,5%	1,00%
20:00	US	Net long term TIC flows	Apr		\$23,1bn

Factors Overnight	What happened?	Relevance	Importance	Analysis
PBoC	China's central bank has halted its policy easing, keeping rates unchanged this morning while refraining from adding more liquidity to the market	Decision comes as China's yield premium has been wiped out by policy easing locally	4/5 (central banks)	This has strengthened the yuan a little and will prevent a larger rotation out of Chinese assets. Focus now shifts to the decision on the loan prime rate on Monday
US Yield Curve	The US yield curve remains inverted when looking at the 2v10 and 5v30 spreads, with the latter at its widest in two decades	The bond market is flashing recession signals as growth concerns are building	4/5 (FI markets)	Curve inversion could deepen significantly today following the FOMC if we see a more hawkish than expected move, keeping traders cautious
Aus Consumer Confidence	Consumer sentiment in Australia weakened sharply in June as accelerating inflation and higher interest rates have dented some of the post-pandemic euphoria	Confidence levels are now near what we typically see during times of economic disruption	3/5 (economics)	The drop in consumer confidence will impact consumption going forward but also poses a notable risk to the housing market and the financial stability of banks as a result

Factors on the Radar	What happened?	Relevance	Importance	Analysis
FOMC	The Fed kicks off a big week of central bank decisions today, with an expected hike of 50bp, although some have priced in a possible 75bp increase today	The hawkishness of the Fed will set the tone for the markets over the next few weeks	5/5 (Monetary policy)	The size of the hike will be important but so will be the forward guidance. Investors will be looking for any signs that the Fed could extend its hiking cycle to combat sticky inflation
Central Banks	Big week ahead with major central banks other than the Fed, such as the BoJ, SNB and BoE all scheduled to announce their latest monetary policy decisions	The tightening of global monetary policy will continue, keeping the markets relatively volatile	5/5 (Monetary policy)	The BoE will likely hike but possibly by a lesser extent than the Fed, while Japan's central bank will be keeping rates on hold. The SNB, meanwhile, will signal that it'll hike in September
Global Bonds	Global bonds are nearing a bear market with Bloomberg's aggregate bond index down nearly 20% from its recent peaks as global CBs tighten	The selling pressure has intensified this week and could continue given the looming CB decisions	4/5 (FI markets)	The rout for global bonds has wiped out more than \$10trn and could see more losses ahead as central banks still see themselves as behind the curve in fighting inflation

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Local and regional talking points

- The statistics website for Botswana has the release of CPI pencilled in for today which will come ahead of tomorrow's Bank of Botswana decision on interest rates.
- Globally, the focus remains squarely on the current inflation dynamics and whether or not its structural or transitory. Commodity prices remain elevated and this has filtered through to higher energy and food prices impacting inflation readings across the world.

Financial Market commentary

- All eyes are on are tonight's FOMC rate decision. Heading into the meeting, markets are pricing in a 75bps rate hike as policymakers try to rein in rampant inflation. The professional market aggressively scaled up bets for an outsized rate hike after the May US CPI print beat expectations on Friday, coming in at a 40-year high of 8.6% y/y.
- The aggressive shift in rate hike expectations has triggered a fresh bout of selling pressure across bond and swap markets around the world as traders price in the risk of higher interest rates and the adverse impact of higher lending costs on the fiscal position of countries. In addition, bets for a more hawkish Fed have fueled risk-off conditions. US Treasury yields have spiked in June, with yields across the curve reaching fresh multi-year highs.
- Emerging and frontier market bonds have also sold off sharply this month. The JP Morgan EMBI Global Total Return Index, which we use as a proxy for the performance of emerging market bonds, has lost 3.09% over the past three sessions as bond yields surged. African bonds have not been spared, with the Bloomberg African Bond Index shedding 3.24% over the same period. On a year-to-date basis, emerging market bonds have lost more than 18%, while African bonds are down by almost 6%.
- While the headwinds for bond markets the world over are expected to persist in the near term as central banks and investors continue to underestimate how strong and persistent inflation is, we see a light at the end of the tunnel for bond markets. After ramping up bets on steeper Fed hikes, traders are now turning to when the policymakers in the US will need to cut interest rates as recession fears mount. While money markets are pricing in two subsequent 75bps rate hikes for June and July and more rate hikes in the coming months, traders are also now pricing in three 25bps rate cuts within two years. There is a strong probability that the Fed over-tightens as it looks to get a hold on inflation and then has to unwind rates late next year as growth risk continues to rise. The market is pricing in one 25bps cut for late 2023, followed by a further 50bps worth of rate cuts by the middle of 2024.
- This presents a great buying opportunity for bond traders in the months ahead. Traders can take advantage of the attractive valuations on offer before the tide turns and the market focuses on recession risks. Moreover, we expect global supply chain pressures to ease next year, which should help ease inflation pressures. This comes against the backdrop of high base effects, underpinning the notion that rate cuts are very likely in 2023.
- For now though, we expect the broad-based sell-off in bonds to continue as the Fed continues its fight against persistent inflation. That said, the risk heading into tonight's FOMC meeting is, given the current aggressive market pricing, that the Fed is deemed not hawkish enough. This would likely result in a correction in bond yields and the USD.
- Given this backdrop, we expect a very measured start to the local session with the BWP and ZAR likely to trade in a tight range. Do not expect any risk-taking and expect volumes to be light.

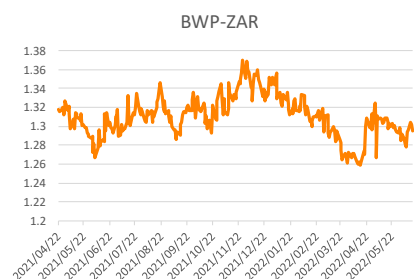
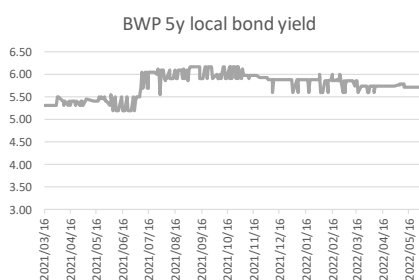
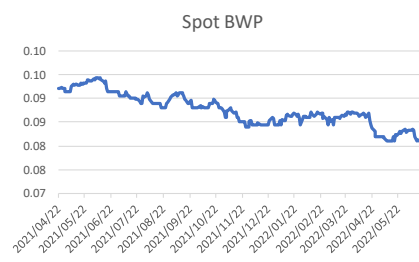
	Corporate Foreign Exchange			
	CUSTOMER BUY	CUSTOMER SELL	CUSTOMER BUY	CUSTOMER SELL
	CASH	CASH	TT	TT
BWPZAR	1.242528	1.252992	1.2664726	1.344356
BWPUSD	0.07776	0.093496	0.0792585	0.084048
GBPWP	15.317016	15.439528	14.985638	14.548786
BWPEUR	0.080704	0.081328	0.076242	0.079764
JPYBWP	11.3776	11.4608	10.74855	11.21285
USDZAR	15.340416	16.63428	15.699957	16.27440375
EURUSD	1.00176	1.085656	1.0252388	1.06216825
GBPUSD	1.153728	1.2506	1.1807685	1.22354375

Interbank Spot Foreign Exchange			Forward Foreign Exchange		
	Close	Change		BWPUSD	BWPZAR
BWPUSD	0.081	-0.0002	1m	-2.301	-39.69485
BWPGBP	0.0674	-0.0003	3m	-7.06875	-81.41082
BWPEUR	0.0776	0.00	6m	-13.5525	-142.3737
BWPZAR	1.2945	-0.002	12m	-23.751	-283.1904

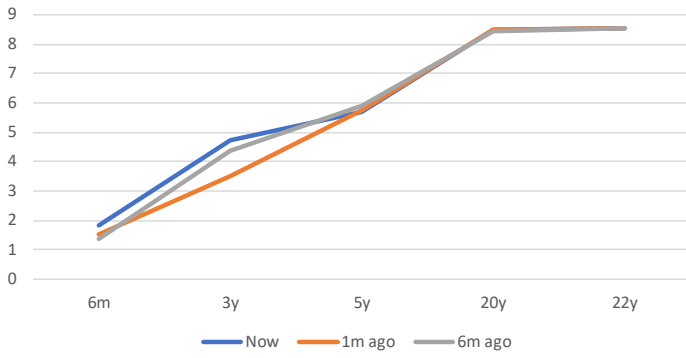
	Close	Change
Dollar Index	105.287	-0.231
EURUSD	1.0434	0.002
GBPUSD	1.202	0.0027
USDJPY	135.02	-0.45
USDNGN	414.63	0
USDZAR	15.9822	-0.0719

Local Fixed Income			International Fixed Income		
Yield curve	Close	Change		Close	Change
6m	1.825	0	SA 10y	10.39	-0.06
3y	4.75	1.325	US 10y	3.4791	0.1174
5y	5.713	0	German 10y	1.751	0.124
20y	8.5	0.011	Spread SA 5y vs Bots 5y bpts		
22y	8.55	0.012		329.5	6.8

Equities			Commodities		
	Close	Change		Close	Change
VIX	32.69	-1.33	Gold	1808.1	-10.6742
Dow Jones	30364.83	-876.05	Brent Crude	121.17	-1.1
FTSE	7187.46	-111.71	3m Copper	9230.5	-63.5
JSE All share	65683.52	-1422.48	LME Index	4290.6	-63.1
Bots DCIBT	7209.3	2.35	1 carat index	Invalid field(s)	#VALUE!
Nigeria Index	53114.65	0			



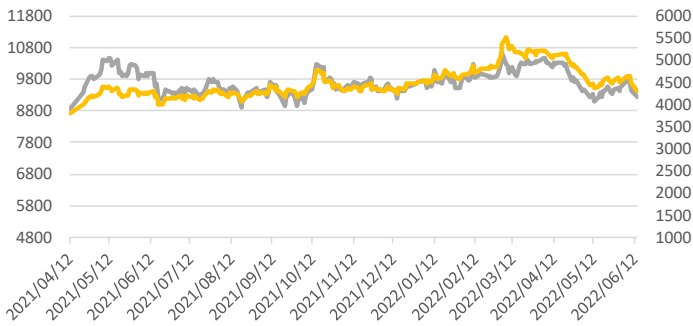
Botswana Yield Curve



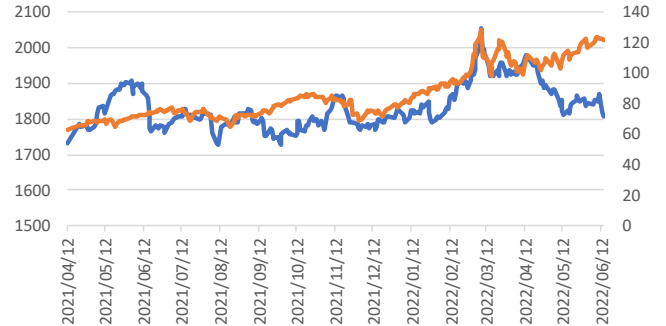
USD Index



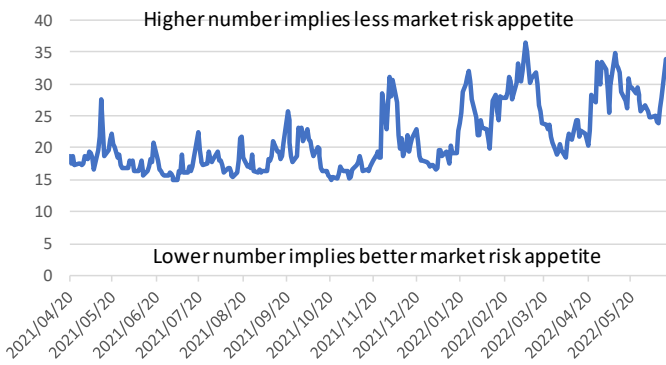
Base metals - Copper L_Hand axis LME Index R_Hand axis



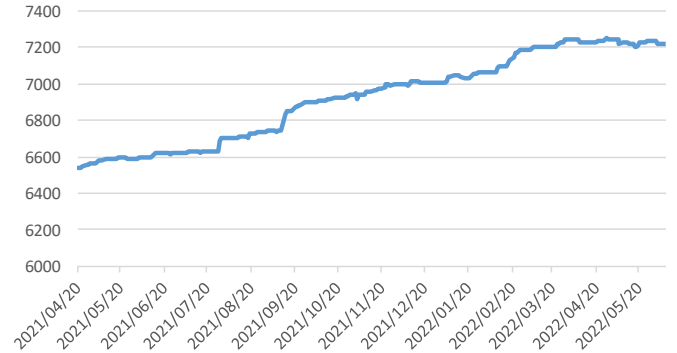
Oil R_Hand Axis - Gold L_Hand Axis



VIX Index - Risk appetite measure



Local stockmarket performance



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