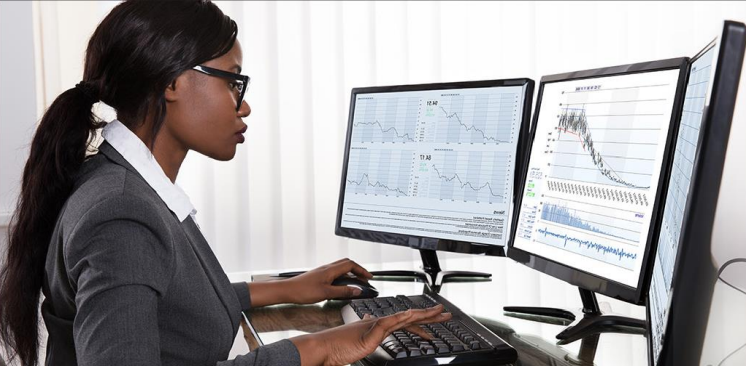


# Botswana Market Watch

## 7 July 2022



GMT	Country	Data event or release	Period	Market Exp	Previous
-	BW	Empty data card			
06:00	GE	Industrial production wda y/y	May	-2,2%	-2,2%
08:30	UK	BOE releases decision-maker survey			
11:30	EC	ECB's Lane Speaks			
12:30	US	Initial jobless claims	Jul 2	230k	231k
12:30	US	Trade balance	May	\$-85bn	\$-87,1bn
13:00	UK	BOE's Catherine Mann speaks			
14:10	EC	ECB's Stournaras, Centeno, Herodotou Speak in Athens			

Factors Overnight	What happened?	Relevance	Importance	Analysis
<b>US yield curve</b>	The US yield curve has extended its inversion. If there was any doubt about the inversion, that has now passed	With the inversion deepening, conviction on a recession is growing	<b>5/5</b> (markets)	The risk of a major slowdown in the US and elsewhere is growing with each day, and investors are now starting to position for it
<b>Fed minutes</b>	If inflation remains stubbornly strong, the Fed will respond. It was the fear of entrenched inflation that caused the Fed to hike aggressively	The minutes do not take the latest market and yield curve developments into consideration	<b>4/5</b> (monetary policy)	Guidance from the Fed minutes is in line with recent hawkish comments from Fed speakers. However, it does not reflect insight into how the Fed might act should the business cycle soften
<b>Oil prices</b>	Oil prices again came under pressure yesterday and briefly dipped back below the \$100pb mark as investors fret over the prospect of a global slowdown	Brent monthly spreads remain in deep backwardation. Bearish sentiment will be tested	<b>4/5</b> (markets)	One should not turn overly excited about softer oil prices. Global growth may have softened, but supply constraints and limited production abilities have not disappeared.

Factors on the Radar	What happened?	Relevance	Importance	Analysis
<b>UK political uncertainty</b>	PM Johnson yesterday faced an open revolt within his party with mass resignations amid increasing pressure on him to step down	Johnson's political future hangs in the balance, and the political uncertainty will weigh on markets	<b>4/5</b> (politics, markets, policy)	Johnson for his part, has vowed to stay on and is steadily replacing his cabinet with new appointees. He has also ruled out calling for another election. It is unclear whether he will last the week
<b>IMF warning</b>	IMF MD Georgieva indicated to Reuters that the fund would downgrade its expectations for 2022 from 3.6% and could not rule out a global recession	A global recession is unlikely, but the fact that it was mentioned signals a change in the global narrative	<b>4/5</b> (economy)	Whether global central banks have the stomach to continue hiking into such a soft growth environment remains to be seen. Central banks may well start to soften their stance
<b>Russian warning</b>	Former President Medvedev has warned that any attempts to punish a nuclear power such as Russia for the war in Ukraine would endanger humanity	It is a threat Russia has made before and will keep Western countries cautious in their approach	<b>5/5</b> (geopolitics)	This remains the most serious geopolitical threat since the Cuban Missile Crisis in 1962, and leaders will be all too aware of the risk of triggering a nuclear attack

### Highlights news vendors

**CNBC** - [Switzerland surprised markets with a rate hike. But Japan could cause a much more violent reaction](#)

**BusinessLive** - [National Planning Commission wants energy crisis to be declared an emergency](#)

**FT** - [Russia prepares to mobilise economy for longer war in Ukraine](#)

**SOUTH CHINA POST** - [US targets Hong Kong and UAE companies in fresh Iran sanctions](#)

**REUTERS** - [Boris Johnson 'up for a fight' as clamour to quit grows](#)

## Local and regional talking points

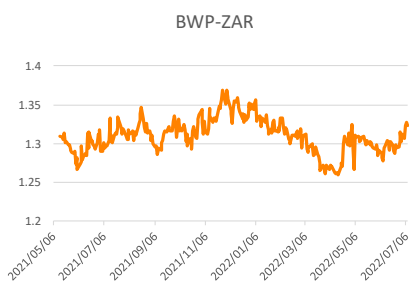
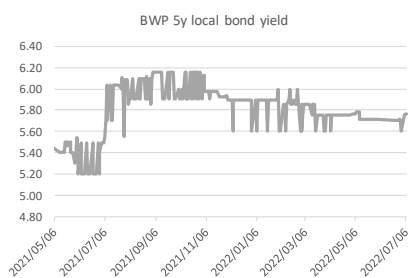
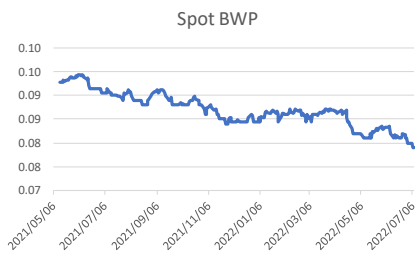
	Corporate Foreign Exchange			
	CUSTOMER BUY	CUSTOMER SELL	CUSTOMER BUY	CUSTOMER SELL
	CASH	CASH	TT	TT
BWPZAR	1.270272	1.279488	1.2947512	1.372784
BWPUSD	0.07584	0.093496	0.0773015	0.081885
GBPWP	15.624856	15.729064	15.286818	14.821618
BWPEUR	0.080496	0.081016	0.0760455	0.079458
JPYBWP	11.1488	11.2216	10.5324	10.978825
USDZAR	16.078944	17.435912	16.455794	17.05869275
EURUSD	0.979488	1.061216	1.0024448	1.038257
GBPUSD	1.146624	1.242592	1.173498	1.215709

	Interbank Spot Foreign Exchange		Forward Foreign Exchange	
	Close	Change	BWPUSD	BWPZAR
BWPUSD	0.079	0	1m	-2.3985
BWPGBP	0.0661	-1E-04	3m	-6.591
BWPEUR	0.0774	0.00	6m	-13.99125
BWPZAR	1.3232	0.0168	12m	-27.495

	Close	Change
Dollar Index	106.857	-0.239
EURUSD	1.0202	0.0021
GBPUSD	1.1945	0.0015
USDJPY	135.67	-0.26
USDNGN	414.83	0
USDZAR	16.7488	-0.0499

Yield curve	Local Fixed Income		International Fixed Income	
	Close	Change	Close	Change
6m	2.51	-0.001	SA 10y	10.715
3y	4	0	US 10y	2.911
5y	5.763	0.001	German 10y	1.158
20y	8.513	0.001	Spread SA 5y vs Bots 5y bpts	-0.029
22y	8.625	0		335.2

Equities	Commodities				
	Close	Change			
VIX	26.73	-0.81	Gold	1738.3035	-26.0493
Dow Jones	31037.68	-129.44	Brent Crude	100.69	-2.08
FTSE	7107.77	-207.18	3m Copper	7520.5	-149.5
JSE All share	65756.36	-2019.01	LME Index	3646.2	-50.6
Bots DCIBT	7177.47	9.96	1 carat index	Invalid field(s)	#VALUE!
Nigeria Index	51556.54	-204.95			



- The main takeaway from a report yesterday by the International Finance Cooperation and World Bank titled: *Botswana Country Private Sector Diagnostic* was that Botswana could transform its economy, create employment, reduce inequality and achieve a resilient recovery from the coronavirus pandemic by increasing private sector participation and investment in its energy, water and sanitation, tourism and other sectors. The report added that while Botswana has implemented many favourable investment policy measures that have contributed to significant investments in infrastructure, education, health, and social protection, there is still room for improvement to boost human capital indicators, create jobs, and reduce inequality which remains among the highest globally.

- It is another quiet day in Botswana as far as economic data goes. Post-the FOMC meeting minutes last night confirmed Fed's hawkish tone that corroborated the 75bp rate hike and suggested that another large increase would come at the next meeting. This comes as the US and several other developed market economies and stock markets have been built on massive stimulus and liquidity from a rapidly expanding money supply. Shifting to the domestic market, the broad measure of money supply, M2 has continued to accelerate this year, currently amounting to BWP8.284bn in March or roughly 6.10% y/y, according to available data. While, the current M2 monetary supply growth remains below the average of 8% over the past decade; it has the potential to keep inflation elevated in the months ahead, which is mainly a by-product of supply-side pressures.

- Upside risks to the inflation outlook due to increases in international commodity prices beyond current forecasts, global supply bottlenecks, the war in Ukraine and second-round effects of increases in local prices. Even after the central bank started using the MoPR, over the official bank rate in April, which brings cumulative increases to more than 1000bps, inflation expectations will remain elevated. The Bank of Botswana will need to slow the supply of money to get inflation under control.

- Nonetheless, April's rate hike aligns Botswana with regional peers such as South Africa and Namibia, which have raised rates by 100bps this year to temper inflation, safeguard their currencies and stem portfolio outflows.

## Financial Market commentary

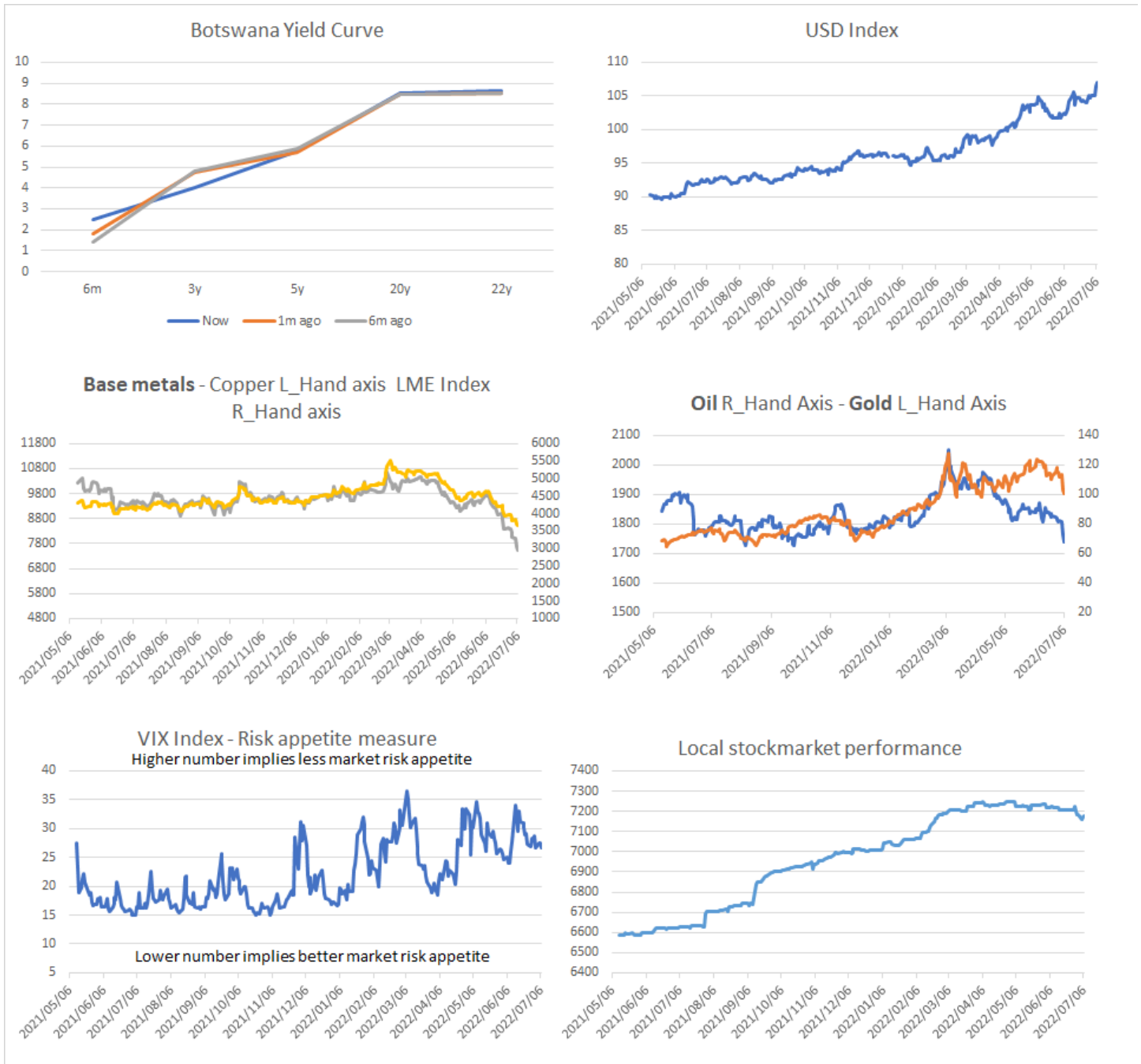
- The USD-BWP continued to build on its bullish bias, with the pair punching through 12.600 to record a fresh all-time high of 12.6186 yesterday. For emerging and frontier markets, periods of volatility, as is the case at present, are dangerous periods that can cause dramatic dislocations between trading markets. The BWP's performance this week is a case in point, and the depreciation that started earlier this week gathered momentum yesterday. The BWP is subject to that volatility and the drop in commodity prices.

- US Treasury yields had a bit of a rally yesterday following the release of the latest FOMC meeting minutes, which confirmed the Fed's intent to fight inflation. The 10yr benchmark yield rebounded to pare all of the losses seen on Tuesday, while the 2yr yield rallied to test the 3.000% level, bear flattening the curve further and taking the 2v10 spread even more negative. This morning, we are seeing a bit of a rebound for USTs, with yields paring some of their gains from yesterday. Given the lack of market-moving data out of the US today, focus will turn back to the weakening growth story, while investors will wait for comments from Fed officials Waller and Bullard later in the session. If they remain as hawkish as they have been recently, we could see the bear flattening bias extend, which could put risk assets under pressure again.

- Meanwhile, the German yield curve is steepening as traders pare their expectations for rate hikes from the ECB following some disappointing data recently and the rising concerns over the impact that the war in Ukraine and surging gas prices will have on the regional economy. ECB members, including Chief Economist Lane, will be speaking today, and their comments will also be eyed closely.

- The front-month Brent futures contract had a look below the \$100 per barrel handle yesterday but has managed to hold just above this key psychological level despite losing around 9% this week. WTI is trading just above \$98 per barrel as the dollar continues to surge and recession fears continue to grow. Adding to the downside pressure was the API report out yesterday, which showed a build of 3.8mn barrels for US stockpiles, which included an increase at the key storage hub in Cushing. The official government data will be released later today, and if it confirms the increase in inventories, we could see oil prices retreat further.

- Demand concerns are also resurfacing in China, as Shanghai reported the highest number of new COVID infections since May, prompting fears that new lockdown measures are coming. This may limit any recovery for oil for now. However, any further significant losses will be difficult to come by given that the market is still very tight, and that the USD is looking very stretched now after its recent rally.



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