

Botswana Market Watch

GMT	Country	Data event or release	Period	Market Exp	Previous
-	BW	Empty data card			
O/N	JN	M3 money stock y/y	Nov	2.7% A	2.6%
01:30	CH	CPI y/y	Nov	1.6% A	2.1%
09:30	GB	BoE/GfK inflation (next 12 months)	Nov		4.9
09:30	UK	Bank of England releases inflation attitudes survey			
13:30	US	PPI final demand y/y	Nov	7.2%	8.0%
15:00	US	Michigan consumer confidence	Dec P	56.9	56.8
15:00	US	Wholesale inventories m/m	Oct F	0.8%	0.8%
15:00	US	Wholesale sales m/m	Oct		0.4%

Factors Overnight	What happened?	Relevance	Importance	Analysis
China producer prices	PPI has fallen for the second consecutive month, with Nov producer prices down 1.3% y/y vs the 1.3% contraction in Oct. Nov CPI grew just 1.6% vs 2.1% in Oct	Weak activity and soft demand weighed on the credit cycle and kept demand pressures at bay	3/5 (geopolitics)	Economic momentum remains weak. High debt levels in the property market and the recent Covid curbs have not helped. These should ease now, but the economy has softened
Russian – Ukrainian war	Russian forces shelled the entire front line of the Donetsk region in Eastern Ukraine in what appears to be part of a scaled-back ambition by Russian forces	The war rages on, and Russia may be looking to settle for less if Ukraine also back down	4/5 (geopolitics)	So much damage has already been done to both economies, and the political cost continues to mount. A solution will likely imply a compromise on the Russian separatist regions
EU price Caps – ECB	The ECB released a formal opinion on Thursday where it highlighted that a gas price cap imposed on Russia could jeopardise financial stability	As with any price controls, they can lead to unstable supply or even shortages	4/5 (geopolitics)	Shortages in gas supply would impact the economy severely and impose even more volatility and uncertainty throughout the economy, impacting financial stability negatively
Factors on the Radar	What happened?	Relevance	Importance	Analysis
Chinese Covid fears	As China unwinds its zero-Covid policy and eases restrictions, so the fear of rapidly spreading Covid is growing	This is the biggest relaxation of curbs since the pandemic began	3/5 (politics)	While the country will embrace new freedoms, expect to see headlines that reflect the rapid spread of Covid as China builds its natural immunity
BoE expectations	The BoE is expected to continue with its monetary tightening and raise interest rates by 50bp when they meet next week to take the policy rate up to 3.5%	As inflation is still rising, the BoE is expected to raise rates beyond just the 50bp next week	4/5 (monetary policy, economy)	Inflation remains a considerable constraint to the economy, and the BoE still maintains that the lesser of two evils is to constrain demand pressures in order to ensure inflation is curtailed
French pension reform	The French government is consulting unions and potential allies to see if it can pass a highly unpopular pension reform without causing mass protests	France's pension system is both costly and complicated and needs to reforming for fiscal reasons	4/5 (politics, fiscal policy)	State pensions with significant liabilities relative to assets need to be rendered sustainable, or they will become a major risk factor. Macron was elected on the mandate of pension fund reform.

Highlights news vendors

BUSINESS LIVE - [Wind power loses out as grid constraints strangle green energy rollout](#)

FT – [US House passes \\$858bn defence bill with weapons funding for Taiwan](#)

REUTERS – [China's producer prices fall, consumer inflation slows on soft demand](#)

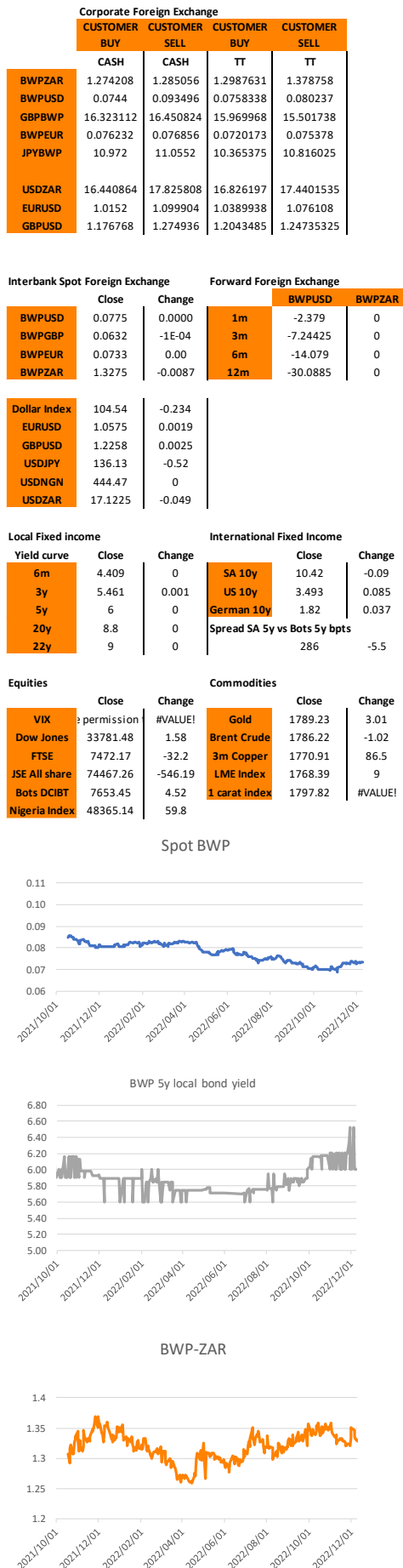
SOUTH CHINA POST - [China-Saudi ties upgraded as Xi pledges priority status for Riyadh](#)

Local and regional talking points

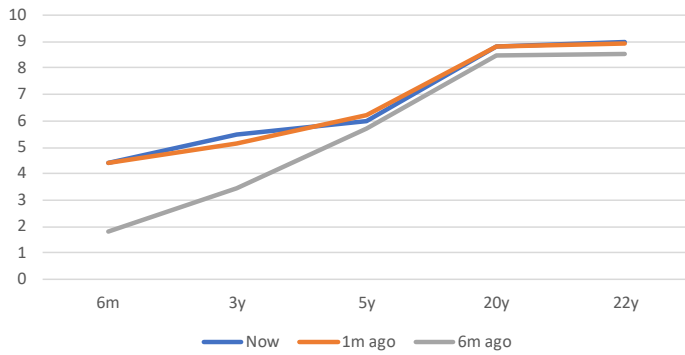
- The Bank of Botswana (BoB) published its Financial Stability Report (FSR) for October yesterday, which assesses the vulnerabilities that could elevate risks to the stability and resilience of the Botswana financial system. Notwithstanding the challenges the external sector presents, including subdued and fragile global growth, high inflation and resultant tighter global financial conditions, persistent geopolitical risks, and lingering effects of the Covid-19 pandemic, the domestic financial system remains resilient and robust. As such, the financial sector remains sound and unconstrained in supporting the economy.
- This is backed by a conducive macroeconomic environment, characterised by the prevailing accommodative monetary conditions and positive economic growth prospects, despite sovereign vulnerabilities due to the current depressed global economic environment combined with long-term structural trends, the report highlighted.
- Meanwhile, the FSR pointed out emerging vulnerabilities from the global environment, including the increasing interconnectedness of the cryptocurrency market with the rest of the financial system, challenging regulators to develop effective oversight frameworks for the sector. Another is climate-related financial risks, which are gaining traction due to climate change and its potential to impact individual and broader financial systems.

Financial Market Commentary

- US Treasuries ended yesterday marginally weaker but are rebounding this morning in what has been a period of low liquidity. Despite yesterday's losses, the general trend has been bullish for Treasuries since the start of November, sending yields down to lows not seen since September. The 2yr tenor is trading back below 4.300% while the 10yr benchmark is back around 3.450%. The bullish bias for USTs has helped to support equity and other markets owing to reduced bets on Fed hiking, but the warning signals that the bond market is flashing should not be ignored. Unsurprisingly, given the current concerns over the economic outlook, the yield curve continued to invert with the 2v10 spread currently trading around -83bp, pointing to a potentially deep recession.
- As we head into the weekend, the USD remains on the defensive. The USD index looks set to retest the lows plumbed earlier this week. As China reopens and investors prepare for the pivot, while equity markets are holding up, overall risk appetite has moderated, and demand for the USD's safe-haven status has diminished. Despite this backdrop, the BWP was little changed yesterday, remaining in a narrow range between 12.800/USD and 12.900/USD. Without a positive catalyst, the BWP is unlikely to extend a move higher through 12.800/USD and set to close out the week relatively unchanged from where it kicked off the week.
- Some investors have questioned whether investors might respond negatively to recession fears and head back to the USD, but these risks are already known. Furthermore, recession fears, especially in the US, might result in the Fed bringing forward the timing of any pause in tightening. For now, the tide remains against the USD from its overvalued position, and expectations are that it has further to correct before it stabilises. All eyes this afternoon will shift back to US data, and should any of it disappoint, the USD will have another soft end to the week.
- Oil is poised for a weekly drop of more than 10% as concerns over the global economic outlook have outweighed optimism regarding China's reopening and the EU's sanctions on Russian crude. Brent is trading near \$76.75 per barrel, while WTI for January delivery is near \$72.25 per barrel. The US benchmark briefly surged to over \$75 yesterday amid news that the Keystone pipeline in the US was shut due to a spill, but the gains were quickly reversed as traders assessed that the outage would not last long. An outage at such a major pipeline will be a drag on already low inventory levels, but a quick resumption of flows is expected to leave very little impact on the general consumer.



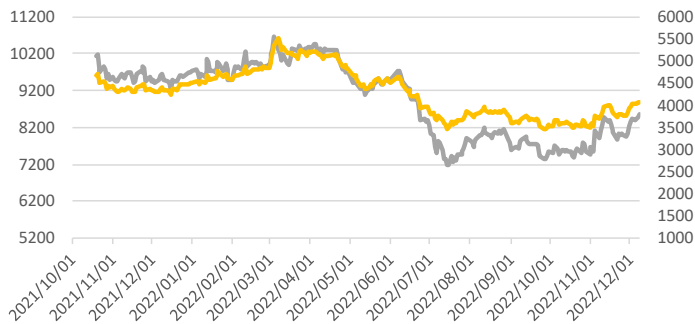
Botswana Yield Curve



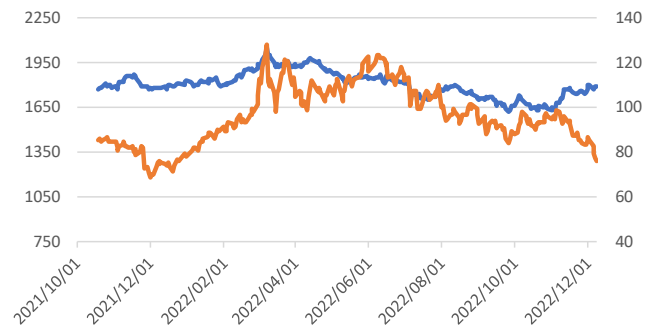
USD Index



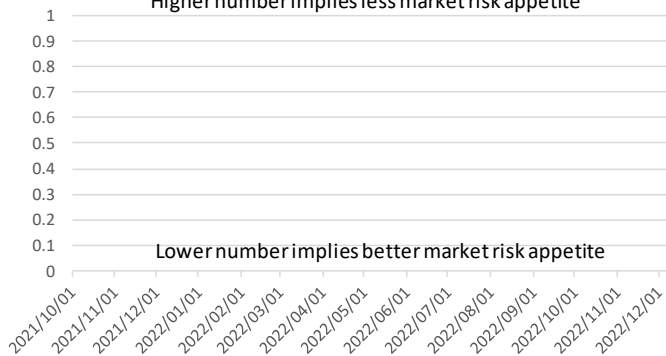
Base metals - Copper L_Hand axis LME Index R_Hand axis



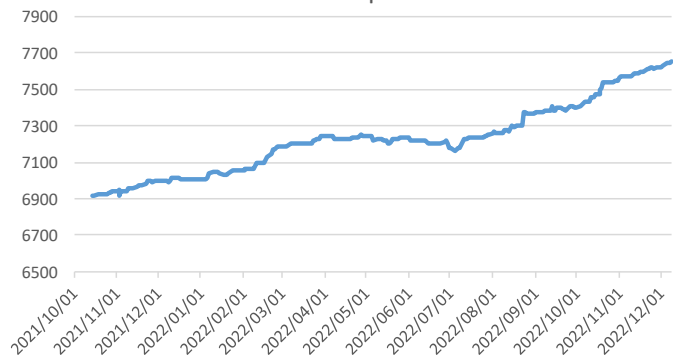
Oil R_Hand Axis - Gold L_Hand Axis



VIX Index - Risk appetite measure Higher number implies less market risk appetite



Local stockmarket performance



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