

Botswana Market Watch

GMT	Country	Data event or release	Period	Market Exp	Previous
-	BW	No Data			
07:00	GE	CPI y/y	Jan F	8.70%	8.70%
09:00	GE	IFO business climate	Feb	91	90.2
12:00	US	MBA mortgage applications	Feb 17		-7.70%
19:00	US	Fed FOMC Meeting Minutes	Jun 13		
Factors Overnight	What happened?	Relevance	Importance	Analysis	
Global PMIs	February PMI data out of the UK, Eurozone, and US all came out better than expected yesterday, pointing to some economic resilience in the face of tightening financing conditions globally	On the one hand, the data suggest a ‘hard landing’ may be avoided, while on the other, it suggests central banks may need to hike further	4/5 (economy)	While survey data still reflect some optimism over the state of the global economy, this may begin to fade in the coming months as the full extent of last year’s aggressive rate-hike cycle filters through into the real economy	
US housing market	Existing home sales data showed sales of previously-owned homes in the US declined for a 12 th straight month in January, extending a record decline and underscoring the impact of high mortgage rates	A downturn in the US housing sector reflects the impact of the Fed’s rate-hike cycle and portends disruptions in the broader economy	4/5 (economy)	The housing sector has borne the brunt of the Fed’s aggressive rate-hike cycle, which has sent mortgage rates higher and sapped demand for homebuying; spill-over effects into the rest of the economy are expected in due time, however	
NZ monetary policy	The RBNZ raised interest rates by 50 basis points to a more than 14-year high of 4.75% on Wednesday, and said it expects to keep tightening further as inflation remains too high	As global financing conditions continue to tighten, investors will turn more judicious over where they invest	4/5 (monetary policy)	Central banks, globally, continue to hike interest rates to weaken demand dynamics, loosen labour markets, and, in turn, bring inflation down to more conscionable levels, even as the risk of overtightening rises	
Factors on the Radar	What happened?	Relevance	Importance	Analysis	
Russia-Western tensions	Russian President Putin delivered a warning to the West over its support for Ukraine by suspending its last major nuclear arms control treaty with the US	The move marks a slight escalation of tensions between Russia and the West, although the use of nuclear weaponry remains unlikely	3/5 (war, geopolitics)	While the formal suspension of the nuclear treaty is concerning, Russia added that it would continue to abide by the limits set by the treaty and would also continue to exchange related information with the US	
Fed meeting minutes	The minutes of the Fed’s February policy meeting will provide insights into just how strong a dovish impulse existed within the central bank prior to the recent flurry of strong economic and inflationary data	With uncertainty around the Fed’s policy outlook rising, the minutes may hold insights into the central bank’s thinking	5/5 (monetary policy)	Since recent economic data out of the US suggest that the Fed could have opted for a larger rate hike in February, the justification for the 25bp rate hike as presented in the minutes will be particularly interesting	
US PCE inflation	The PCE deflator, which is the Fed’s preferred inflation gauge, is expected to confirm what was seen in recent CPI and PPI data: that inflation in the US accelerated in January	The PCE data will confirm that robust income and spending growth powered inflation in January, which would concern the Fed	5/5 (inflation, monetary policy)	Rising price pressures suggest there is not yet any reason for the Fed to turn less hawkish, meaning the USD will likely remain supported while broader market sentiment may also continue to be relatively subdued	

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Local and regional talking points

Corporate Foreign Exchange

	CUSTOMER BUY	CUSTOMER SELL	CUSTOMER BUY	CUSTOMER SELL
	CASH	CASH	TT	TT
BWPZAR	1.32288	1.330368	1.348373	1.427374
BWPUSD	0.07248	0.093496	0.0738768	0.078177
GBPGBP	16.586544	16.675776	16.227701	15.713712
BWPEUR	0.073632	0.074048	0.069561	0.072624
JPYBWP	10.5768	10.6392	9.992025	10.409025
USDZAR	17.521632	18.988008	17.932295	18.57720975
EURUSD	1.023072	1.108432	1.0470503	1.0844515
GBPUSD	1.162176	1.259128	1.1894145	1.23188725

Interbank Spot Foreign Exchange

	Close	Change		BWPUSD	BWPZAR
BWPUSD	0.0755	0.0000	1m	-1.88175	-1204.481
BWPGBP	0.0624	1E-04	3m	-6.52275	-2467.475
BWPEUR	0.0708	0.00	6m	-12.675	-4492.698
BWPZAR	1.3776	0.0152	12m	-26.80275	-9203.747

Forward Foreign Exchange

Dollar Index	104.132	-0.044
EURUSD	1.0657	0.0011
GBPUSD	1.2107	-0.0008
USDJPY	134.76	-0.23
USDNGN	459.97	0
USDZAR	18.2459	0.0205

Local Fixed income

Yield curve	Close	Change		Close	Change
6m	5.387	0.001	SA 10y	10.265	0.01
3y	5.339	-0.001	US 10y	3.9448	-0.0082
5y	6.38	0	German 10y	2.553	0.015
20y	8.8	0	Spread SA 5y vs Bots 5y bpts		
22y	9.01	0		227.5	1

International Fixed Income

Equities

	Close	Change		Close	Change
VIX	22.87	1.64	Gold	1834.3232	-6.8168
Dow Jones	33129.59	0	Brent Crude	1841.14	-1.02
FTSE	7977.75	9.95	3m Copper	1841.59	59
JSE All share	78811.05	557.61	LME Index	1837.44	26.8
Bots DCIBT	7840.75	2.81	1 carat Index	1836.19	
Nigeria Index	54189.31	419.89			

Commodities

According to figures from the Bank of Botswana (BoB), the nation's banks recorded collective after-tax profits of BWP2.4bn in the first 11 months of last year, setting them on course for a record year. Commercial banks raised their net interest incomes to BWP4.6bn, nearly 15% above the corresponding period in 2021, aided by the central bank's rate hikes. Provisions for bad and doubtful debts, meanwhile, fell more than 65% to BWP165mn last year amid a combination of tighter lending controls and as the economy recovered from the pandemic. We should see banks cautiously increase lending activities through the months ahead in an attempt to keep the positive momentum going.

Meanwhile, South African Finance Minister Enoch Godongwana will today deliver the much-anticipated 2023 budget. Finance Minister Godongwana will likely use the negative global backdrop, declining commodity prices and the effects of load-shedding to indicate that economic growth in South Africa cannot be relied upon to generate the types of tax revenue needed to reduce the budget deficit and public debt sharply. The principal objective of the budget must be to show continued fiscal discipline, while still focusing resources on improving the numerous lack-of-investment crisis SA faces. Nonetheless, scepticism will likely continue about government's increased infrastructural investment translating into actual projects. The budget is more likely to be an exercise in expenditure limitation rather than a meaningful address of structural impediments to lift SA's sustainable economic growth

Financial Market Commentary

Unsurprisingly, the ZAR remains on the defensive. National Treasury faces so many risks, and Fin Min Godongwana's job is a near impossible one. The demands on the public purse are enormous, the economy is struggling, and the potential pitfalls are many. Investors have chosen to head into the budget speech slightly long USDs. While some of that may be related to the appreciation of the USD on a trade-weighted basis, much of it is idiosyncratic and related to SA's Eskom crisis that never seems to improve. Therefore, there is the need to price in significant risk into the price of SA assets, and the ZAR currently reflects that. That being said, all this is known and priced into the USD-ZAR by now. While it is always possible that the budget contains more bad news, the finance ministry will be careful in its communication, and the potential for a relief rally exists if the plans around Eskom are fiscally sensitive, prudent and credible. The outcome of today's budget is likely to define the direction for the USD-ZAR for weeks to come.

The BWP-USD remains near its recent lows, constrained by a rising USD and uncertainty regarding the outlook for emerging market and frontier market currencies. The 0.0755 level remains the key support and we have yet to see it broken on a sustained basis. It will, however, be a volatile second half of the week for global FX markets, given the US Fed minutes and upcoming data, while in SA, the outcome of the budget today will drive direction for the near term.

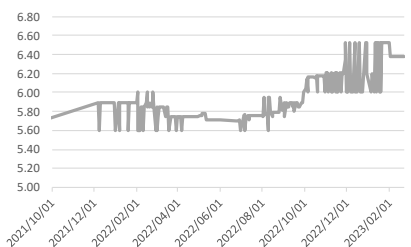
In the global fixed-income markets, bond markets took another battering yesterday, with USTs leading the losses at one point as traders returned from a long weekend in the States. Yield on the 2yr tenor touched its highest since 2007 during intraday trade following some strong US economic data that support further Fed rate hikes. Traders have now priced in a roughly 75% chance of a 25bp hike at the March meeting, with a 25% probability that the hike will be another half-pointer. More guidance on what the Fed may do in March could be provided by the FOMC meeting minutes scheduled for release today, although given all that is priced in now, the risks are actually skewed to the upside for bond markets as there is a high chance that hawkish traders could be disappointed.

A similar theme played out in European core bond markets yesterday, with hotter-than-expected PMIs from the UK and Eurozone pressuring the respective bond markets. Front-end gilt yields surged as much as 20bp at one point, before paring the gains to some degree. Buds, meanwhile, outperformed but still ended the day cheaper by between 5bp and 8bp. For the day ahead, we have German CPI and business confidence data that could provide a bit of volatility as traders wait for the Fed minutes.

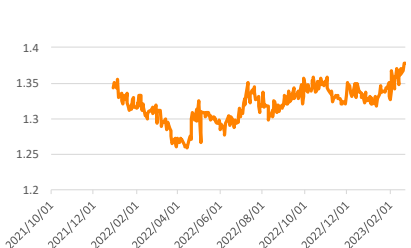
Spot BWP



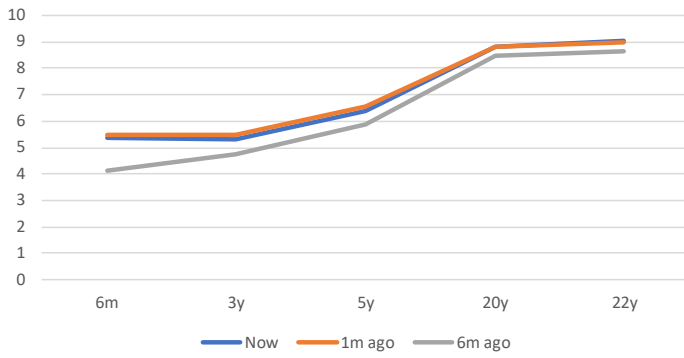
BWP 5y local bond yield



BWP-ZAR



Botswana Yield Curve



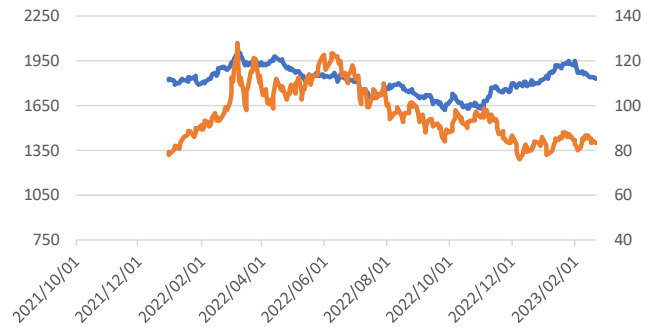
USD Index



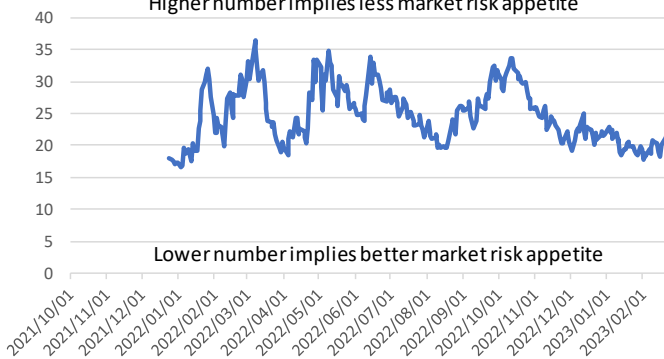
Base metals - Copper L_Hand axis LME Index
R_Hand axis



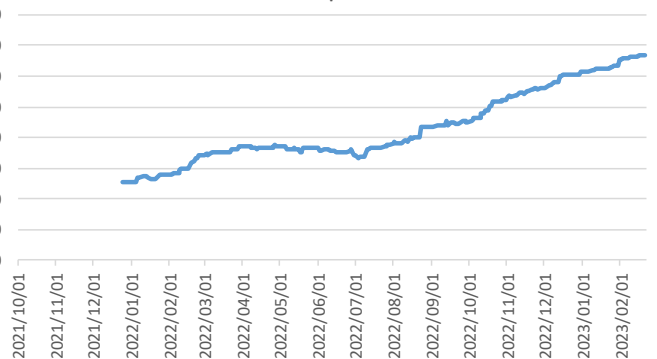
Oil R_Hand Axis - Gold L_Hand Axis



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



Local stockmarket performance



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