

Botswana Market Watch



GMT	Country	Data event or release	Period	Market Exp	Previous
23 Feb	BW	Benchmark Interest Rate	23 Feb		2.65%
10:00	EZ	CPI y/y	Jan F	8.60%	9.20%
13:30	US	Chicago Fed activity index	Jan		-0.49
13:30	US	GDP q/q annualised	4Q S	2.90%	2.90%
13:30	US	Personal consumption	4Q S		2.10%
13:30	US	Initial jobless claims	Feb 18		194k

Factors Overnight	What happened?	Relevance	Importance	Analysis
Fed meeting minutes	The minutes of the Fed's Jan 31-Feb 1 policy meeting showed concern at the time over downside risks to growth and a more balanced inflation outlook US President Biden called President Putin's decision to suspend its last major nuclear arms control treaty with the US a big mistake, while Putin talked about boosting nuclear forces as he awaited a meeting with Chinese President Xi	There was evidently a growing dovish impulse within the Fed prior to the recent flurry of strong economic data	5/5 (monetary policy)	The minutes' reference to inflation risks as key to prospective policy means recent economic data could mean a higher projected peak rate when policymakers issue new projections at the March meeting
Russia-Western tensions	A number of schools across China have halted classes to stem the spread of Covid and other pathogens as the country sees a comeback of other illnesses after pandemic restrictions were eased	Russia's war with Ukraine is increasingly becoming a global risk as more major role players weigh in	3/5 (war, geopolitics)	As things stand, a broad-based push for peace in Ukraine continues to underlie dialogue between the world's major countries, but, concerning, the situation remains high-risk and far from stable and has certainly escalated at the margin this week
China Covid		This may prove relevant only if authorities reconsider their December U-turn to reopen as quickly as they did	2/5 (pandemic, economy)	Since natural immunity is now widespread in China, it is unlikely that the country will move back to lockdowns in the coming months as it looks to foster a period of economic recovery after the pandemic

Factors on the Radar	What happened?	Relevance	Importance	Analysis
US labour market	Initial jobless claims data will likely continue to point to extremely low levels of layoffs and a very tight labour market in the US, although layoffs could rise in the coming months	The US labour market is increasingly becoming the key determinant of when a Fed policy pause and pivot can take place	4/5 (labour market, monetary policy)	The US labour market remains tight, but layoffs should rise in the coming months as the economy loses momentum after an aggressive rate-hike cycle and a period of very high inflation
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
US consumer sentiment	The final print of the U.Mich. consumer confidence index for Feb will be released this week, and is expected to confirm an improvement in household sentiment as the labour market remains tight	While the US economic outlook remains uncertain, the occasional strong print is keeping hopes of a 'soft landing' alive	4/5 (economy)	Abating inflationary pressure and a resilient labour market continue to keep consumers relatively upbeat, although the full impact of the Fed's aggressive tightening cycle has not yet worked its way through the economy, meaning there are considerable downside risks to sentiment

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Local and regional talking points

Corporate Foreign Exchange

	CUSTOMER BUY		CUSTOMER SELL	
	CASH	TT	CASH	TT
BWPZAR	1.320864	1.32672	1.3463182	1.42346
BWPUSD	0.07248	0.093496	0.0738768	0.078074
GBP/BWP	16.549416	16.619304	16.191376	15.660498
BWPEUR	0.073944	0.074256	0.0698558	0.072828
JPY/BWP	10.5872	10.6288	10.00185	10.39885
USDZAR	17.495424	18.961696	17.905473	18.551467
EURUSD	1.019616	1.105	1.0435133	1.08109375
GBPUSD	1.157856	1.25476	1.1849933	1.22761375

Interbank Spot Foreign Exchange

	Close	Change	BWPUSD	BWPZAR
BWPUSD	0.0755	0.0000	1m -1.993875	-1204.481
BWPGBP	0.0626	-0.0001	3m -6.52275	-2467.475
BWPEUR	0.0711	0.00	6m -12.675	-4492.698
BWPZAR	1.3759	0.0085	12m -26.84175	-9203.747

Forward Foreign Exchange

	Close	Change
Dollar Index	104.376	-0.209
EURUSD	1.0621	0.002
GBPUSD	1.2061	0.0017
USDJPY	134.8	-0.1
USDNGN	459.97	0
USDZAR	18.2188	-0.0089

Local Fixed income

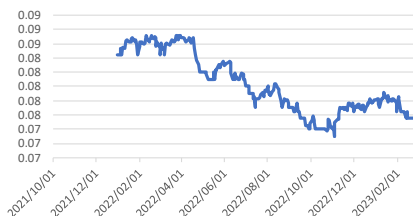
Yield curve	Close	Change	SA 10y	US 10y	German 10y	Spread SA 5y vs Bots 5y bpts
6m	5.384	-0.003	10.155	3.923	2.514	217
3y	5.342	0.003				
5y	6.38	0				
20y	8.8	0				
22y	9.01	0				

International Fixed Income

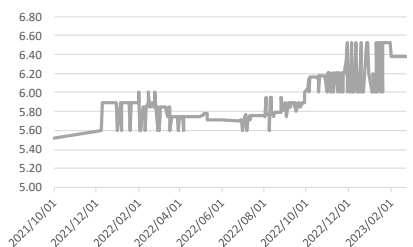
Equities

	Close	Change	Gold	Brent Crude	3m Copper	LME Index	1 carat index
VIX	22.29	-0.58	1825.04	1834.3232	1841.14	1841.59	1837.44
Dow Jones	33045.09	-697.1					
FTSE	7930.63	-36.56					
JSE All share	78170.14	-1018.34					
Bots DCIBT	7841.89	4.17					
Nigeria Index	54315.53	-35.04					

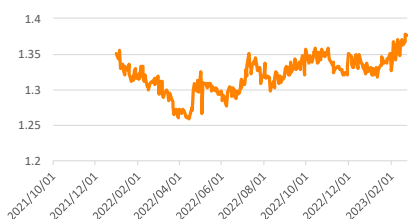
Spot BWP



BWP 5y local bond yield



BWP-ZAR



• The focus for fixed-income traders in the session ahead will be on the Bank of Botswana rate decision. While inflation pressures have intensified following the recent bout of currency weakness, our base case projection is for another hold today. Recall that the BoB left its benchmark Monetary Policy Rate unchanged at 2.65% in December, citing expectations for inflation to slow in the months ahead.

In its December MPC statement, the central bank said that it expects inflation to return within the 3-6% target bank by the third quarter of 2024. At a monetary policy briefing yesterday, Governor Moses Pelaelo reiterated that inflation is still forecast to fall within the target range in Q3. Governor Pelaelo highlighted that inflation is still worryingly high but noted that inflation has generally been on a downward trajectory since September 2022.

• The central bank head said that the inflation projection takes in to consideration the following factors:

- The dissipating impact of the earlier increases in administered prices.
- The recent reduction in domestic fuel prices.
- Expected decrease in international commodity prices and implementation of a smaller downward annual rate of crawl for the pula.
- Negative output – economy forecast to expand by 4% in 2023.
- Forthcoming increases in administered prices (electricity tariffs).

• While the BoB expects inflation to decelerate in the months ahead, Governor Pelaelo made it clear that the central bank sees the risks to the inflation outlook as being skewed to the upside. While we agree with this statement, we see currency strength in the months ahead, which should help alleviate inflation pressures. In conclusion, although we expect the BoB to leave rates on hold today, there is a risk that the central bank will have to raise rates further in the months ahead should inflation remain stickier than expected. The rate decision will set the tone for the bond auction on Friday.

Financial Market Commentary

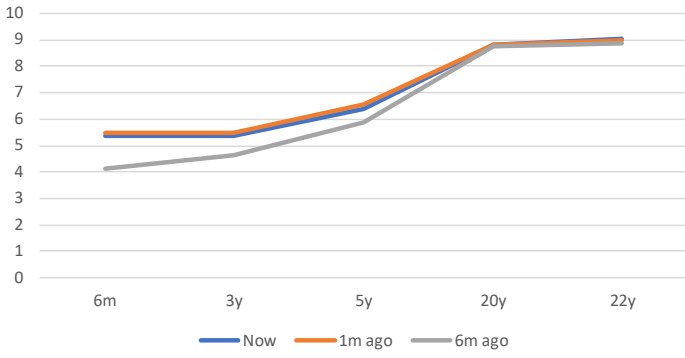
• Unfortunately, South Africa's budget announcement did not offer as much relief to the ZAR as many might've hoped. Although a tremendous amount of bad news was already priced in, the ZAR found little comfort in that, with investors still focused on upcoming risks. Among them is the high probability that SA will get greylisted and that rating agencies will deliver warnings about SA's fiscal trajectory.

• Overnight, the release of the Fed minutes showed that there is still a strong contingent of Fed speakers who believe the Fed should continue hiking rates to contain inflationary pressures. The combination is a challenging one for the ZAR and EM and frontier currencies.

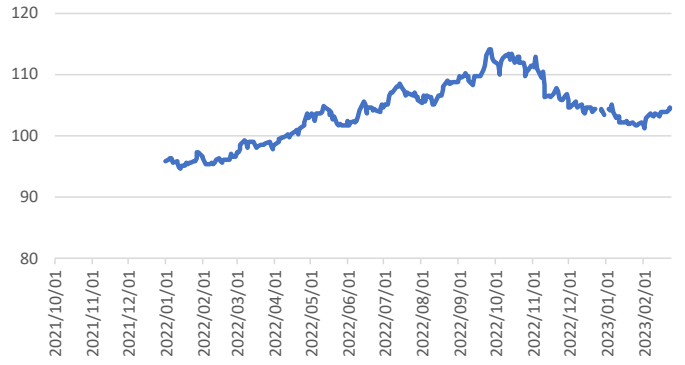
• On the one hand, the ZAR is weak and undervalued and selling its aggressively from these levels holds a high degree of risk. However, on the other hand, SA continues to score own-goals that dent sentiment towards the country. Notwithstanding the attractive interest rates and cheap entry into SA assets, the risk of selling hard currency for ZAR in the near term appears too high, and investors are holding off doing so. That goes a long way to explaining why the ZAR is one of the worst-performing emerging market currencies so far this year. That said, the ZAR has not depreciated overnight despite the USD surging on the Fed minutes. It may be that the ZAR has priced in enough bad news for now.

• No change still to the BWP-USD, which is holding at the 0.0755 level despite several attempts to break lower in recent sessions. Focus for today will, of course, be on the local central bank meeting, as well as the upcoming auction tomorrow. If the central bank surprises with a hike today, it will lower future inflation expectations, providing some support for the BWP given the structure of the peg and the annual rate of crawl that takes into account Botswana's inflation compared to its peers.

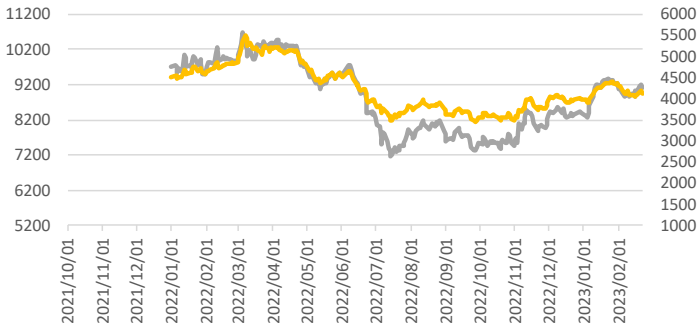
Botswana Yield Curve



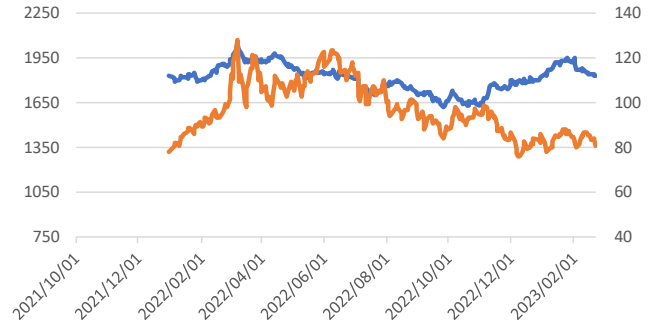
USD Index



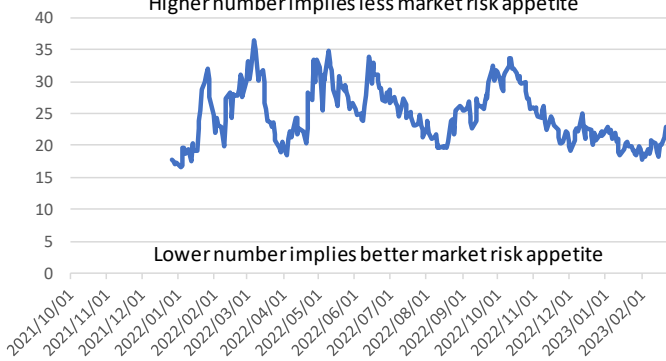
Base metals - Copper L_Hand axis LME Index R_Hand axis



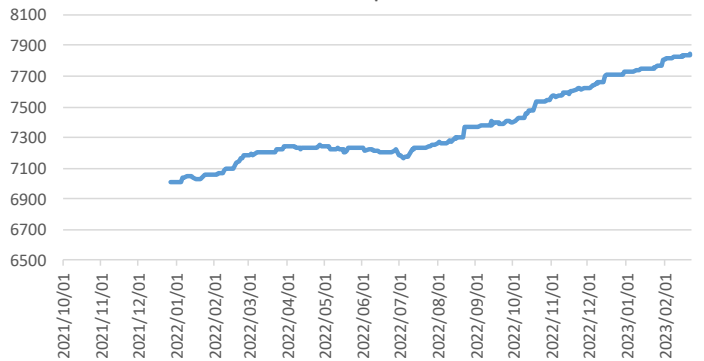
Oil R_Hand Axis - Gold L_Hand Axis



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



Local stockmarket performance



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