

Botswana Market Watch

GMT	Country	Data event or release	Period	Market Exp	Previous
12:00	BW	Botswana to sell BWP1bn of bills			
12:00	BW	Botswana to sell BWP500mn of bonds			
0/N	JN	National CPI y/y	Jan	4.30%	4.00%
00:01	GB	GfK consumer confidence	Feb	-43	-45
07:00	GE	GfK consumer confidence	Mar	-30.9	-33.9
13:30	US	PCE core y/y	Jan	4.30%	4.40%
15:00	US	Michigan consumer confidence	Feb F	66.4	66.4
15:00	US	New home sales	Jan	620k	616k
-	US	Fed's Collins and Waller Speak			

Factors Overnight	What happened?	Relevance	Importance	Analysis
US labour market	Initial jobless claims declined to 192k in the week through 18 Feb, pointing to extremely low levels of layoffs and a very tight labour market in the US	The US labour market is a 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
Japan inflation and monetary policy	While CPI data published this morning showed inflation in Japan rose to a 41-year high, incoming BoJ Chief Ueda maintained that the current low-rates regime remains appropriate	Speculation that the days of ultra-loose monetary policy in Japan are limited has been rife since the BoJ changed its yield curve control policy	3/5 (economy, monetary policy)	It may be premature to double down on speculative bets that a hawkish policy shift in Japan lies ahead, since inflationary pressures may not be sustainable given companies' reluctance to raise wages
China weighs in on the Russia-Ukraine war	China called for a ceasefire between Russia and Ukraine in a 12-point proposal for ending the war, although the proposal is unlikely to win support from Ukraine's Western allies	The Russia-Ukraine war is becoming increasingly global in nature as more major countries weigh in	3/5 (war, geopolitics)	A broad-based push for peace in Ukraine continues to underlie dialogue between the world's major countries, but, concerning, there are still strong incentives for the major players to keep the war going at this time

Factors on the Radar	What happened?	Relevance	Importance	Analysis
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 published today, 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
US housing market	New home sales data scheduled for publication today should continue to reflect subdued housing-market activity as the Fed pursues a higher-for-longer rates strategy	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

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Local and regional talking points

- In line with expectations, the Bank of Botswana left interest rates unchanged at 2.65% on Thursday. The MPC noted in its policy statement that the decision to leave rates on hold comes on the back of expectations that the economy will operate below full capacity in the short-medium term, therefore not generating any demand-driven inflationary pressures.
- While the central bank noted that inflation is expected to remain elevated in the near term due to supply-side pressures and related second-round effects, consumer price growth is expected to moderate in the coming months and will fall within the objective range in Q2 2024. Recall that in the December statement, the BoB expected inflation to fall within the target range by the end of 2024. Underpinning the notion that inflation should moderate in the months ahead is our expectation for a period of appreciation in the pula.
- The MPC noted that the risk to the global inflation outlook is to the upside amid the potential increase in international commodity prices beyond current forecasts and the persistence of supply and logistical constraints. Bond traders will take comfort in the fact that the BoB left rates on change yesterday, and while there was some hawkish rhetoric regarding foreign price pressures, the overall tone was quite dovish. Governor Pelaelo even went as far as suggesting that policy will remain accommodative this year to support economic growth. The dovish tone may provide a boost to the bond auction today, as it suggests that the rate hiking cycle is very likely at an end.

Financial Market Commentary

- For the second consecutive trading session, the ZAR tested its weakest levels only to stage a late-day recovery yesterday. The recoveries were not a function of the USD losing ground, as it remains on the front foot. Twice, investors have found value in buying into SA markets at much cheaper entry points. Yields are attractive, and the ZAR is significantly undervalued on just about every valuation metric. The prevalence of load-shedding justifies much of this, but that is now in the price. As we head into the weekend and risk events pass, so the ZAR could enjoy a relief rally. Any positive news from the rating agencies will only add to the recovering sentiment. Selling USD-ZAR from current levels appears to be more prudent.
- The BWP-USD, meanwhile, weakened to 0.0750 yesterday following the dovish central bank meeting, weakness for the ZAR, and strength for the USD. We still expect that this period of weakness will revert in the coming months, as the ZAR remains undervalued, the dollar remains overvalued, and corrections there should drive the BWP stronger.
- For the day ahead, focus will be on the monthly bond auction. The BWP500mn on offer will be split into BWP200mn each of the 2027 and 2031 tenors, with the remaining BWP100mn being offered in the 2040 tenor.
- For the 2027 tenor, one could expect bids to come in at 7.95-8.25 region, assuming normal market conditions. Liquidity for the tenor is improving, but there are risks. Market has been tightening a lot lately, yet a near 30bp wide bid/ask spread remains, suggesting that some imbalances may exist.
- For the 2031 tenor, the benchmark tends to experience decent liquidity and demand dynamics. Therefore, the risk is that demand outstrips the BWP200mn offering.
- Finally, the 2040 tenor has a pricing expectation of weak to higher, as prior auction results suggest that there is limited appetite for bond. Higher seasonal liquidity may be a factor today but the limited interest at the October auction raises a red flag.

Corporate Foreign Exchange

	CUSTOMER BUY	CUSTOMER SELL	CUSTOMER BUY	CUSTOMER SELL
	CASH	CASH	TT	TT
BWPZAR	1.310592	1.32336	1.3358482	1.419855
BWPUSD	0.072	0.093496	0.0733875	0.077971
GBPGBP	16.520504	16.676088	16.163089	15.714006
BWPEUR	0.073528	0.074256	0.0694628	0.072828
JPYBWP	10.4936	10.5976	9.913425	10.368325
USDZAR	17.4744	18.938608	17.883956	18.5288785
EURUSD	1.017408	1.102608	1.0412535	1.0787535
GBPUSD	1.1544	1.250704	1.1814563	1.2236455

Interbank Spot Foreign Exchange

	Close	Change		BWPUSD	BWPZAR
BWPUSD	0.075	0.0000	1m	-2.15475	-1262.015
BWPGBP	0.0624	0	3m	-6.318	-2595.531
BWPEUR	0.0707	0.00	6m	-11.3685	-4583.552
BWPZAR	1.3651	-0.013	12m	-22.8735	-9229.954

Forward Foreign Exchange

Dollar Index	104.56	-0.038
EURUSD	1.0598	0.0003
GBPUSD	1.2025	0.0012
USDJPY	134.55	-0.15
USDNGN	459.94	0
USDZAR	18.2014	-0.0162

Local Fixed income

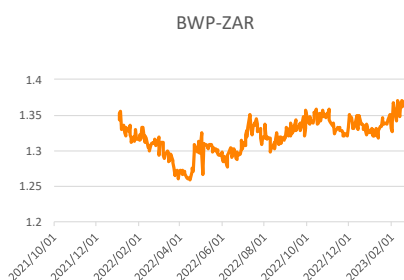
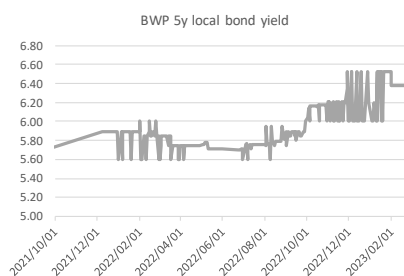
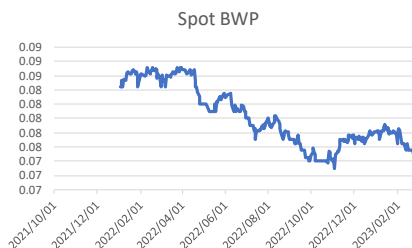
Yield curve	Close	Change		Close	Change
6m	5.385	0.001	SA 10y	10.115	-0.04
3y	5.339	-0.003	US 10y	3.881	-0.042
5y	6.38	0	German 10y	2.475	-0.039
20y	8.8	0	Spread SA 5y vs Bots 5y bpts		
22y	9.01	0		215.5	-1.5

International Fixed Income

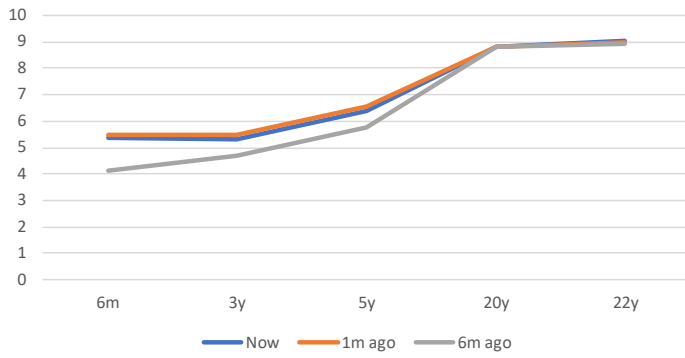
Equities

	Close	Change		Close	Change
VIX	21.14	-1.15	Gold	1822.64	-2.4
Dow Jones	33153.91	-84.5	Brent Crude	1825.04	1.61
FTSE	7907.72	-47.12	3m Copper	1834.3232	-208
JSE All share	79010.83	-640.91	LME Index	1841.14	-87.6
Bots DCIBT	7842.42	1.14	1 carat index	1841.59	
Nigeria Index	54646.38	126.22			

Commodities



Botswana Yield Curve



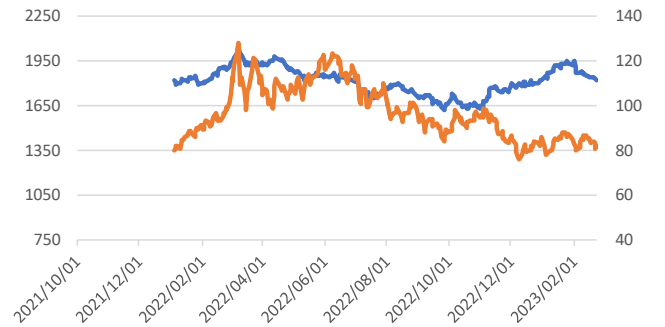
USD Index



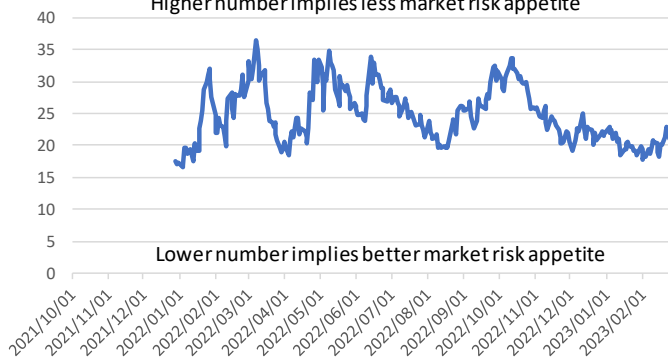
Base metals - Copper L_Hand axis LME Index
R_Hand axis



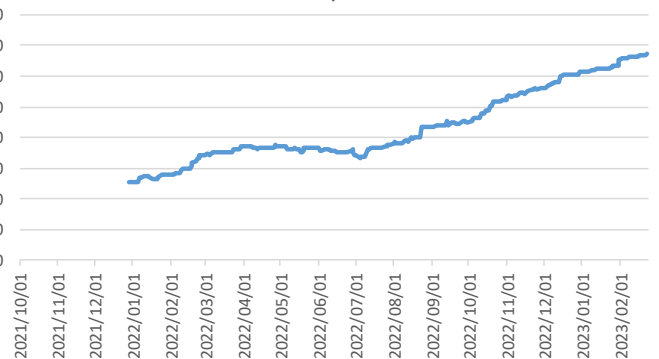
Oil R_Hand Axis - Gold L_Hand Axis



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



Local stockmarket performance



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