

Botswana Market Watch

16 May 2022



GMT	Country	Data event or release	Period	Market Exp	Previous
	BW	Nothing on the cards			
06:00	JN	Machine tool orders y/y	Apr P		30.00%
09:00	EZ	Trade balance nsa (EUR)	Apr		-7,6bn
12:30	US	Empire manufacturing	May	15	24,6
20:00	US	Net long term TIC flows	Mar		\$141,7bn
Factors Overnight	What happened?	Relevance	Importance	Analysis	
China industrial output	China's industrial output contracted 2.9% in April vs a forecasted expansion of 0.4%. April retail sales also contracted 11.1% y/y vs expectations of a drop of 0.6% y/y.	With the jobless rate rising to the highest level since Feb 2020, the PBoC will likely turn increasingly supportive of growth	4/5 (economy, monetary policy)	The contraction and slowdown highlight very clearly the impact of the Covid-induced lockdowns and the damage done to the Chinese economy but also to its trading partners that will experience slowing demand	
Japan wholesale prices	April's wholesale prices rose 10.0% y/y vs the forecast of 9.4% y/y. A combination of energy prices and the JPY's drop has elevated factory gate prices	Japan is a barometer for pressures across the rest of the world. Inflation remains a major concern	4/5 (economy, monetary policy)	Although investors will be looking through the current peak in inflation, it is clear that pressures will remain elevated through the next few months keeping central bank policy hawkish	
US consumer sentiment	US's Michigan consumer confidence data released last week Friday fell to its lowest levels in nearly 11 years as worries about inflation persisted	Household savings and a strong labour market lend resilience, but the data was very weak	4/5 (economy)	The data was more synonymous with recession territory and will have raised some eyebrows, especially with stocks on the defensive, inflation squeezing disposable income and rate hikes	
Factors on the Radar	What happened?	Relevance	Importance	Analysis	
NATO - Nordics	Finland and Sweden are actively seeking NATO membership following the Russian invasion of Ukraine despite Russia's threats.	Turkey has expressed some reservations, but those will likely be overcome	5/5 (geopolitics)	Following Russia's unprovoked invasion of Ukraine, the Nordics felt it was the only option available for them and to drop their neutral stance	
Brexit finance plans	A group of 50 economists have warned policymakers that making competitiveness, an objective risked rewarding banks for unsustainable behaviour	Along with these Brexit "freedoms" to allow the banks to operate with less regulation comes risk	3/5 (economy)	The danger is allowing unfettered risk to be accumulated in a bid to enable London to reclaim its position as the banking and finance capital of the world is that it can turn destabilising	
ECB speak	ECB Policymaker Pablo Hernández de Cos indicated that the ECB would likely end its stimulus programme in July and raise rates very soon after that	Spain's central bank governor called on colleagues to make the first move in a bid to control inflation	4/5 (monetary policy)	The ECB has lagged global peers because of the war in Ukraine that has induced recessionary conditions into an already weak economic backdrop that will require some sensitivity	

Highlights news vendors

CNBC - [China's economic data disappoint in April as Covid controls weigh](#)

ALL AFRICA - [India Says Open to Exporting Wheat to Poor Nations Despite Ban](#)

FT - [China's economic activity plummets as Covid lockdowns hit growth](#)

SOUTH CHINA POST - [Shanghai heads towards June 1 end of lockdown as Covid-19 cases dip](#)

REUTERS - [Ukraine counter-attacks Russian forces in the east](#)

Local and regional talking points

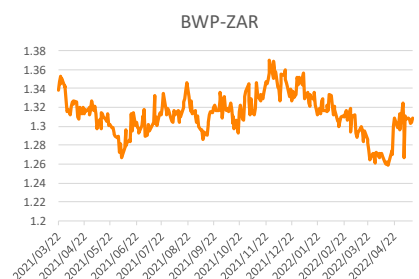
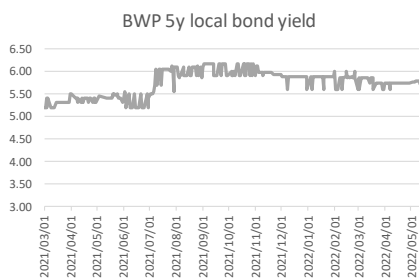
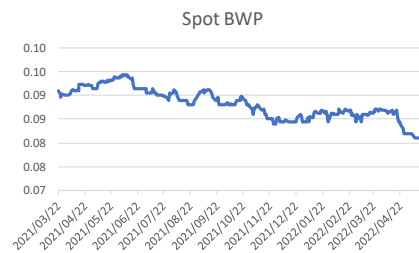
Corporate Foreign Exchange				
	CUSTOMER BUY	CUSTOMER SELL	CUSTOMER BUY	CUSTOMER SELL
	CASH	CASH	TT	TT
BWPZAR	1.260768	1.269408	1.2850641	1.361969
BWPUSD	0.07776	0.093496	0.0792585	0.083945
GBPWP	15.620384	15.718144	15.282443	14.811328
BWPEUR	0.081016	0.081536	0.0765368	0.079968
JPYBWP	10.8576	10.9304	10.2573	10.693925
USDZAR	15.564576	16.873272	15.929371	16.50822525
EURUSD	0.998016	1.0816	1.021407	1.0582
GBPUSD	1.175136	1.273168	1.2026783	1.2456235

Interbank Spot Foreign Exchange		Forward Foreign Exchange		
	Close	Change	BWPUSD	BWPZAR
BWPUSD	0.081	0	1m	-2.27175
BWPGBP	0.066	-0.0004	3m	-6.81525
BWPEUR	0.0778	0.00	6m	-12.39225
BWPZAR	1.3084	0.0012	12m	-25.88625

Dollar Index		Change	
	Close	Change	
EURUSD	1.0396	-0.0015	
GBPUSD	1.2238	-0.0023	
USDJPY	128.97	-0.22	
USDNGN	414.76	0	
USDZAR	16.216	0.0627	

Local Fixed Income			International Fixed Income		
Yield curve	Close	Change		Close	Change
6m	1.804	-0.004	SA 10y	9.985	0.02
3y	4.75	0	US 10y	2.9276	0.0725
5y	5.71	0	German 10y	0.947	0.078
20y	8.5	0	Spread SA 5y vs Bots 5y bpts		
22y	8.55	0		263.5	1

Equities			Commodities		
	Close	Change		Close	Change
VIX	28.87	-2.9	Gold	1811.1544	-10.5656
Dow Jones	32196.66	-103.81	Brent Crude	111.55	4.1
FTSE	7418.15	-114.32	3m Copper	9159	69
JSE All share	68650.66	-1164.52	LME Index	4382.5	14
Bots DCIBT	7223.22	1.82	1 carat index	Invalid field(s)	#VALUE!
Nigeria Index	53100.21	79.31			

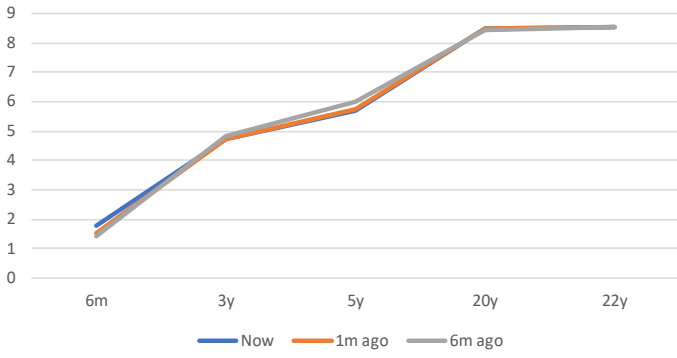


- The Friday session was all about inflation with Statistics Botswana reporting the April reading while the Central Bank revised its inflation forecasts.
- The April CPI reading came in at 9.6% year on year which was a decline on the March reading which posted 10%. We would however like to point out that the month on month increase was substantial up 3% in April versus 0.3% in March. The usual suspects were at play here with the Transport Group category rising by 5.7% month on month, the category includes fuel prices which were adjusted higher on the 29th March 2022
- Against this backdrop it was not surprising to see the Bank of Botswana pushing its inflation forecast for 2022 higher. The bank now expects inflation to average 8% this year from an initial forecast of 7.2%.
- *“Compared to the February 2022 forecast, inflation is projected to be higher in the short to medium term, reflecting the recent increase in domestic fuel prices, the upward revision in forecasts for trading partner countries’ inflation and international commodity prices, as well as a higher rate of depreciation of the pula against the South African rand than previously projected,” the BoB said in its April update.*

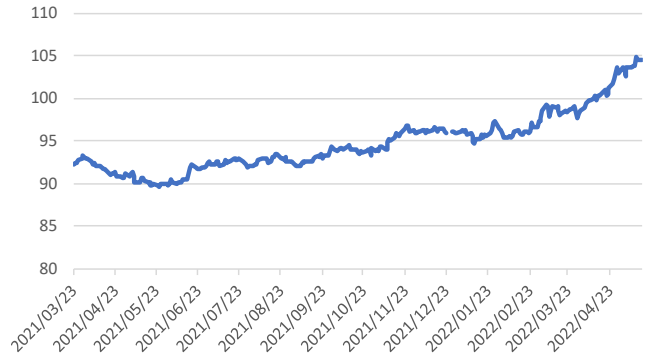
Financial Market commentary

- Given the Bank of Botswana’s reference to the rand, we would like to draw the reader’s attention to developments in Botswana’s eastern neighbour.
- There is a lot for investors to consider at the start of the week. The ZAR starts it on the defensive, with a topside breakthrough of 16.2850 likely to result in a substantially bigger move. The main event will be the SARB’s decision on interest rates. Another hike is inevitable, but whether that comes with a 25bp or a 50bp hike is debatable. The SARB has moved pre-emptively and front-run the Fed to ease some pressure to respond forcefully, especially as inflation remains within the 3-6% target band. The SARB, therefore, enjoys some flexibility with which to respond.
- What makes matters a little trickier has been the recent behaviour of the ZAR. While one could argue that the depreciation has come alongside other emerging market currencies, that may not be enough to dissuade the SARB from taking more pre-emptive action to ensure that it is not singled out as a currency that is vulnerable to speculation. At the same time, the SARB will be mindful of the weak state of the SA economy. It is a difficult balancing act but will be scrutinised this week and holds implications for the performance of the ZAR.
- On that front, it has been encouraging to see Finance Minister Godongwana again extolling the virtues of private sector inclusion in the economy. He is actively encouraging investment by the private sector in different industries to bolster fixed capital formation and ease the pressure on the government to do all of the heavy lifting. It is long overdue and arguably comes too late, but it is the only real option to resurrect SA’s infrastructural backbone on which everything operates.
- Had it not been for these structural deficiencies and the economy had the potential to grow even faster, the SARB might’ve already moved to hike interest rates more aggressively as other central banks have done around the world. So the SARB’s guidance this week will be key to understanding its expectations and perspectives. It could also play a determining role in the broader direction of the ZAR.
- On the energy front, some weak data out of China has seen oil tumble at the start of the new week, ending the commodity’s run of four straight gains. China’s industrial output and consumer spending levels slumped in April on account of the strict lockdown measures put in place, while oil demand and crude processing across the country dropped sharply. This data has seen the front-month Brent contract slide back below the \$110 per barrel level after closing last week at over \$111.50. Continued concerns over the health of China’s economy should keep oil relatively contained, for now, preventing the bulls from breaching the \$115 per barrel resistance level over the near term.

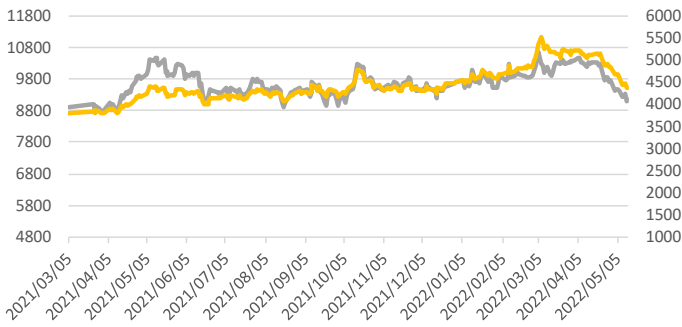
Botswana Yield Curve



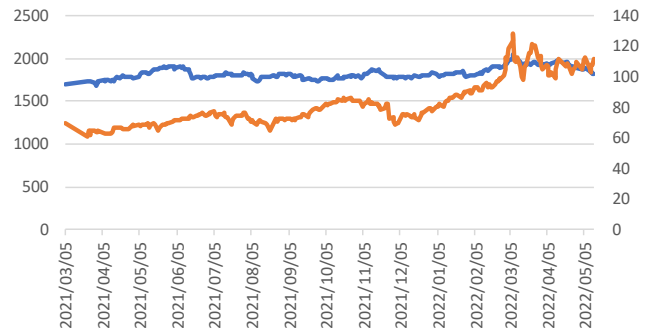
USD Index



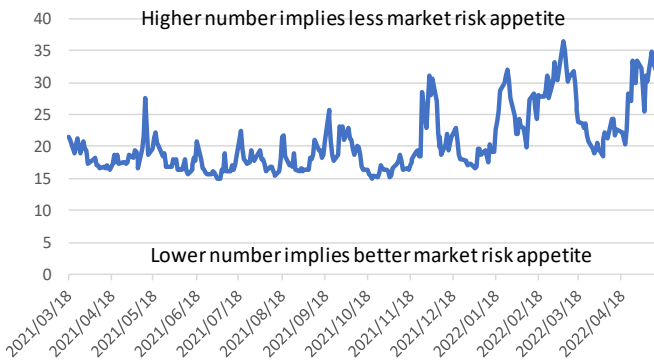
Base metals - Copper L_Hand axis LME Index R_Hand axis



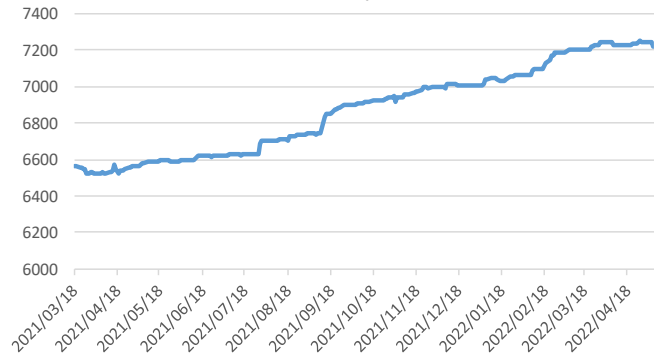
Oil R_Hand Axis - Gold L_Hand Axis



VIX Index - Risk appetite measure



Local stockmarket performance



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