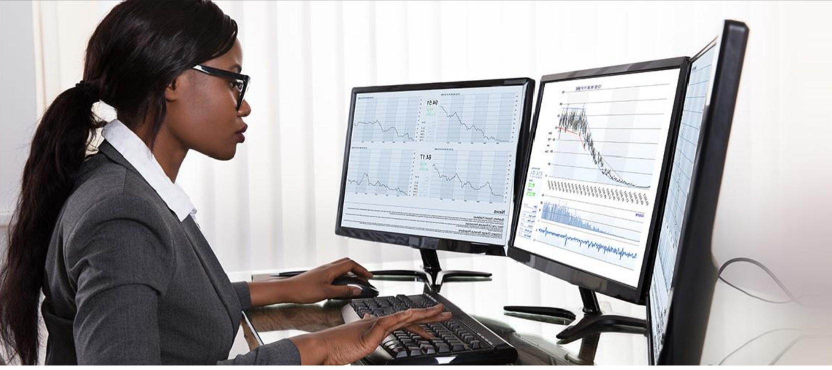

Botswana Market Watch

19 May 2022

GMT	Country	Data event or release	Period	Market Exp	Previous
	BW	Nothing on the cards			
09:00	EZ	Construction output wda y/y	Mar		9,4%
12:30	US	Initial jobless claims	May 14		203k
12:30	US	Philadelphia Fed index	May	16,05	17,6
12:30	EC	ECB Publishes Account of April Policy Meeting			
14:00	US	Existing home sales	Apr	5,66mn	5,77mn
14:00	US	Leading Indicators	Apr	0.00%	0,3%
09:00	EZ	Construction output wda y/y	Mar		9,4%

Factors Overnight	What happened?	Relevance	Importance	Analysis
Japan trade	Japan's trade deficit persisted for the ninth straight month. While exports rose b 12.5% y/y, imports rose by a staggering 28.2% in the year to Apr	High oil prices and JPY weakness has meant that input factors of production eroded terms of trade	**4/5** (economy)	Like many other global producers, Japan is facing a struggle, and the transfer of wealth to oil-producing countries continues. It is also a barometer for the headwinds affecting global trade
Aussie labour market	Australia is experiencing a full-blown employment boom, with the jobless rate dropping to 3.9%, the lowest unemployment rate since 1974	This is another clear indication that the RBA will be forced down the path of rate hikes	**4/5** (economy)	The next RBA meeting in June is likely to reveal a rate hike to combat the distinct possibility that the Australian economy experiences strong wage inflation and demand-pull pressures
US housing market	Building permits declined 3.2% in April, while housing starts have dipped 0.2%, and single-family starts dived 7.3%	With mortgage rates topping 5.5% at present, the housing market is correcting	**4/5** (economy)	Banks have moved pre-emptively to adjust mortgage markets, and the effects of tighter monetary policy are already making their presence felt

Factors on the Radar	What happened?	Relevance	Importance	Analysis
Stock markets	Wall St took a hammering yesterday, and Asian shares are down this morning. Rising global inflation has investors scurrying for the safety of cash	Bonds are unable to fully shield investors with central banks signalling aggressive tightening to come	**5/5** (markets, monetary policy)	Strong guidance from the central banks to combat inflation may be justified but could easily result in some dramatic volatility that may eventually scare the central banks into a softer approach
Global debt	Global debt has risen to $305trln in Q1, although the debt/GDP ratio has fallen to 348% compared to Q1 2021	The global economy is massively indebted and vulnerable to a bout of rate hikes	**5/5** (economy, monetary policy, fiscal policy)	The rate hikes will be a huge burden to the private sector, but that burden will be even larger for sovereigns that borrowed aggressively through Covid
EU plan on Russian oil	The EC on Wed unveiled a €210bn for Europe to end its reliance on Russian fuels by 2027, while at the same time transitioning to green energy	Gas to be sourced from elsewhere, and investments in green energy to ramp up sharply	**4/5** (economy, geopolitics)	The Russian invasion of Ukraine has become a catalyst for the move toward green energy. It will also ensure that Russia's main source of income renders it increasingly isolated and constrained

Highlights news vendors

CNBC - Only two Asia-Pacific markets are in positive territory so far this year
ALL AFRICA - Failed Mnangagwa Must Resign and Concentrate On Peasant Farming - Biti
FT - US stocks suffer worst day since early months of pandemic
SOUTH CHINA POST - Chinese diplomat warns US security adviser about Washington's Taiwan moves
REUTERS - More work to resume in Shanghai's zero-COVID areas from June

Corporate Foreign Exchange

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.241184	1.260768	1.2651027	1.352699
BWPUSD	0.07776	0.093496	0.0792585	0.084666
GBPBWP	15.681016	15.9146	15.341763	14.99645
BWPEUR	0.080184	0.081432	0.0757508	0.079866
JPYBWP	10.8576	11.0136	10.2573	10.775325
USDZAR	15.322944	16.615456	15.682076	16.255987
EURUSD	1.008384	1.092832	1.032018	1.069189
GBPUSD	1.189824	1.28908	1.2177105	1.26119125

Interbank Spot Foreign Exchange

	Close	Change
BWPUSD	0.081	0
BWPGBP	0.0654	-0.0002
BWPEUR	0.0771	0.00
BWPZAR	1.2932	-0.0154

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-2.33025	-25.3764
3m	-6.942	-78.67257
6m	-12.37275	-137.7837
12m	-25.53525	-274.0611

Dollar Index	103.633	-0.177
EURUSD	1.0502	0.0036
GBPUSD	1.239	0.0052
USDJPY	128.78	0.56
USDNGN	414.68	0
USDZAR	15.9672	-0.0511

Local Fixed income

Yield curve	Close	Change
6m	1.798	-0.002
3y	4.75	0
5y	5.713	0
20y	8.5	0
22y	8.55	0

International Fixed Income

	Close	Change
SA 10y	9.98	-0.02
US 10y	2.884	-0.1112
German 10y	1.012	-0.044
Spread SA 5y vs Bots 5y bpts	266.7	-3.5

Equities

	Close	Change
VIX	30.96	4.86
Dow Jones	31490.07	431.17
FTSE	7438.09	53.55
JSE All share	69083.44	484.63
Bots DCIBT	7206.25	-17.18
Nigeria Index	52721.34	-188.03

Commodities

	Close	Change
Gold	1815.61	0.9415
Brent Crude	109.11	-2.82
3m Copper	9235	-131
LME Index	4422.2	-61.7
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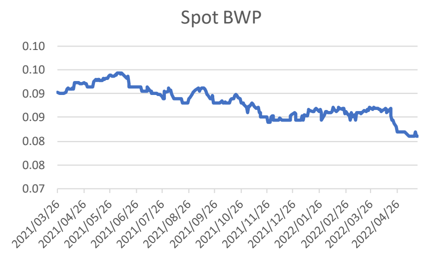
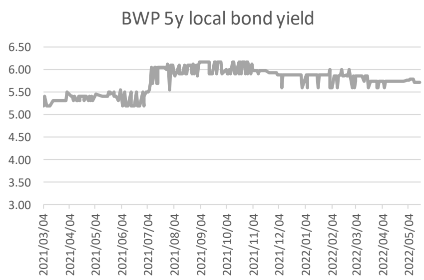
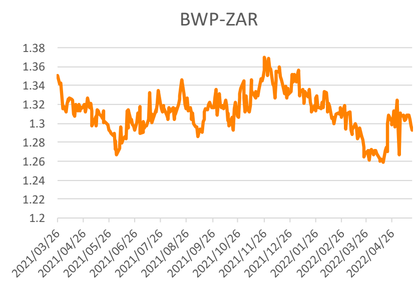






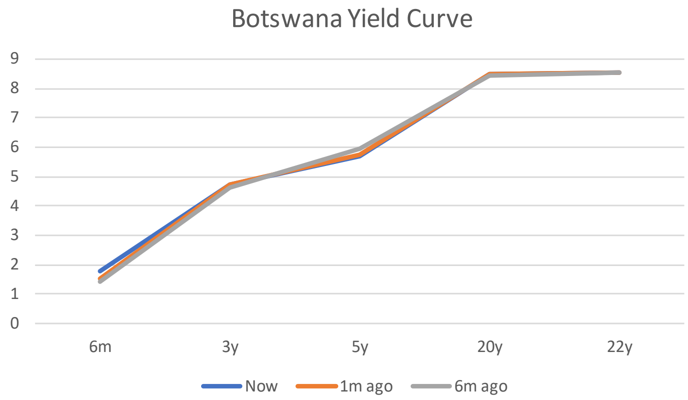
Local and regional talking points

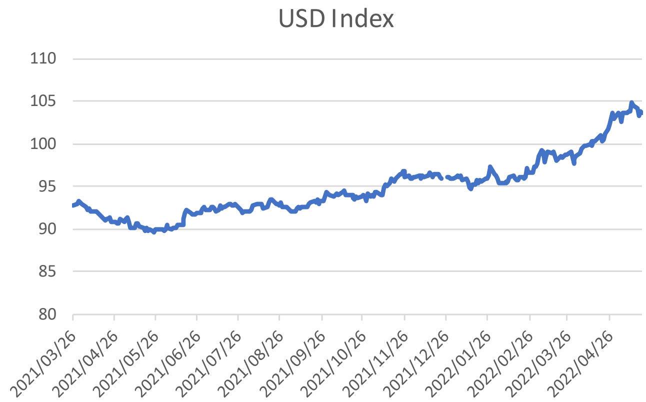
- Mining is once again top of mind when it comes to local news flow. MiningWeekly reported the following - *Grindrod's Matola terminal at the Port of Maputo says it has welcomed its second coal train from Botswana. The terminal also managed to successfully discharge the 50 wagons using the terminal's tipplers. The first train arrived at the port in April, marking a milestone for Grindrod's Mozambican drybulk terminal. This rail consignment of 40 wagons each carried around 2 000 t of mineral coal. The train originated from Palapye, in Botswana, transiting through Zimbabwe via the Chicualacuala rail network, to the final destination in Maputo. Grindrod loaded the cargo on a vessel destined for Europe*
- This raises the issue of South Africa and whether or not it is able to service the growing export needs of the region. South Africa's logistical challenges are well documented and it is not surprising that Southern African countries are seeking alternatives to ship their commodities.
- There is talk amongst economists and analysts that Transnet the state owned backbone of rail and ports in South Africa is potentially as bad as the state owned energy provider Eskom. Transnet has denied that its rail operations are in free fall, but acknowledged that there are severe issues that have all culminated at the same time hampering performance.

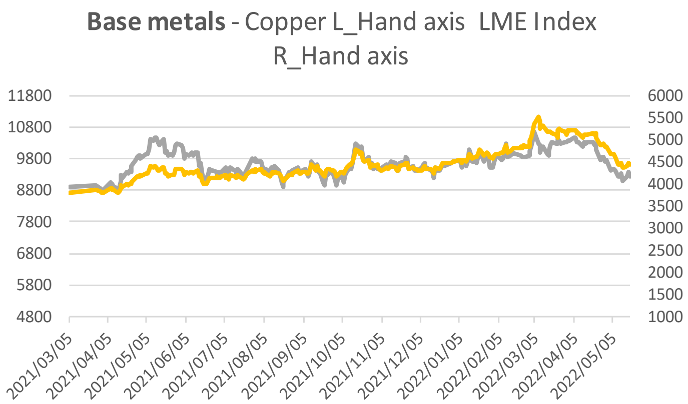
Financial Market commentary

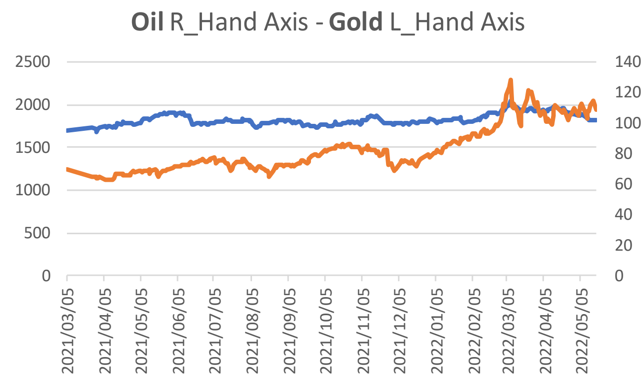
- Decision Day has finally arrived, and the South African Reserve Bank will take centre stage. In question is not whether the SARB will hike or not but by how much. Consensus expectations have the SARB hiking 50bp in response to the guidance from the Fed that it will be raising interest rates by 50bp increments over the next two meetings. Fearing that a more modest 25bp might leave the ZAR vulnerable to negative speculation, the SARB might oblige to ensure that any carry attractiveness is restored and that SA builds a buffer to an appreciating USD.
- That certainly sounds logical, and if the SARB wanted to justify the strong rate hike, that would be one defendable way of doing so. However, it is not the full picture. SA is a very different economy from that of the US, and the SARB was more pre-emptive than the Fed. Not only did the SARB not embark on full-blown QE through the pandemic that needs to unwind, but they also started hiking pre-emptively and raised interest rates when inflation was still well within the target range. The Fed, by comparison, is behind the curve and playing catch up. So the first point to debate is whether the SARB is in a desperate enough position to become more aggressive simply because the Fed is playing catch up.
- The second point to make is that the SA economy is weak, extremely weak and faces numerous structural deficiencies that cannot be resolved for years to come. These include the burden on growth by the SOEs such as Eskom, Transnet, the Ports and others. SA has no demand-side drivers of inflation. Unemployment is at a record high, consumptive demand weak, fixed investment just as soft, and the credit cycle heavily constrained. Any supply-side energy shocks could be more recessionary than inflationary. Furthermore, core inflation is trading below the mid-point of the 3-6% inflation target range, while headline inflation remains within the band, albeit at the margin. By comparison, the US is fighting an extremely tight labour market, a more robust economy that is consuming more than it is producing, a strong credit cycle and inflation that is multiples of its target.
- The contrast is extreme, so a strong argument could and should be made for the SARB to persist with its more gradual, measured and conservative approach to tightening that the private sector can adjust to more easily. It could prove counterproductive to choose to be more aggressive at such a fragile time in the SA economy when pre-covid economic activity levels have not yet been achieved. Finally, one needs to question why the SARB needs to hike rates more aggressively when it is supply-side shocks that are causing the inflation, over which the SARB has no control. If one were convinced that those would lead to a sharp and stubborn rise in inflation expectations, one might have an argument to make. However, that is unlikely to be the case in a weak economy where money supply growth remains

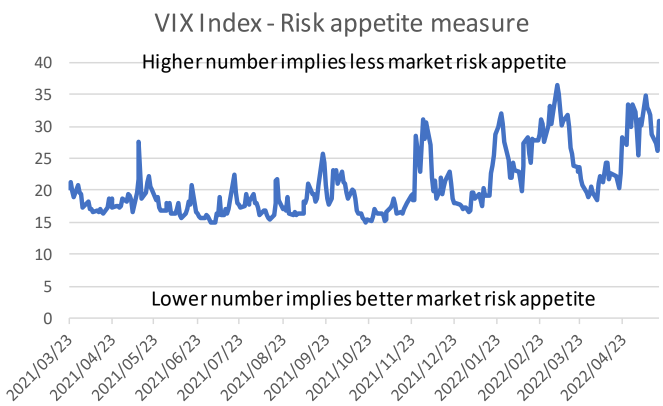
weak. However, given what the markets have already priced in, a 25bp hike could generate some volatility for the ZAR.

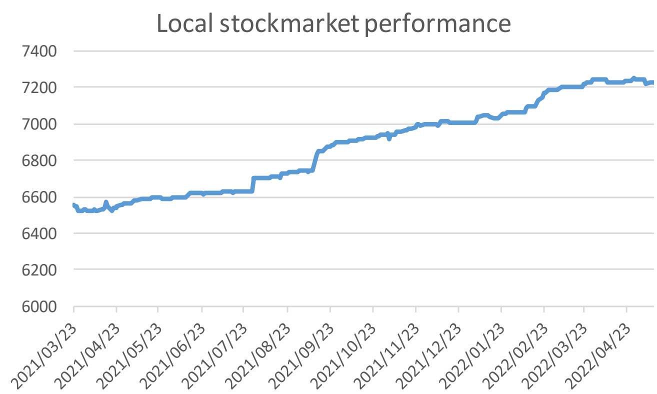












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