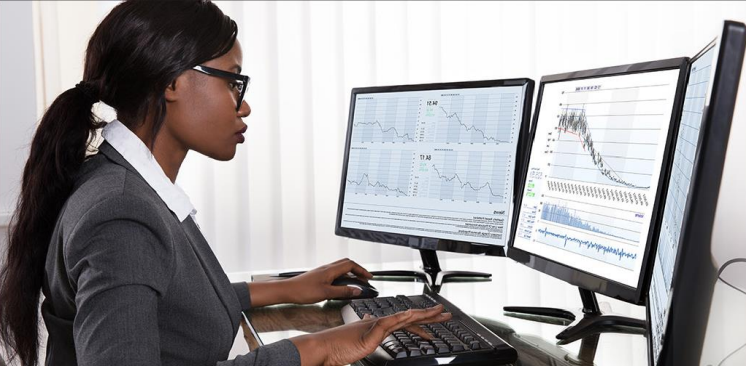


Botswana Market Watch 20 May 2022



GMT	Country	Data event or release	Period	Market Exp	Previous
	BW	Nothing on the cards			
O/N	GB	GfK consumer confidence	May		-38%
O/N	JN	National CPI y/y	Apr	2,5%	1,2%
06:00	GE	Producer prices y/y	Apr	29,5%	30,9%
06:00	GB	Retail sales excluding auto fuel y/y	Apr		-0,6%
07:30	UK	BOE's Pill speaks			

Factors Overnight	What happened?	Relevance	Importance	Analysis
Japan GDP	Japan's GDP shrank 1.0% q/q, vs the forecasted contraction of 1.8%. Covid curbs and surging commodity prices have weighed on overall performance	Given its global linkages, Japan's economy is also a barometer for global demand conditions	4/5 (economy)	Japan's authorities have a problem on their hands as they struggle to drive growth against a backdrop of high inflation and tightening monetary policies by the major central banks
Brexit news	Yesterday Britain set out steps to break the deadlock with the EU on trade with Northern Ireland. However, it overrides parts of the Brexit deal and could inflame tensions with the EU	This remains a major source of uncertainty and holds implications for relations between the EU and Britain	3/5 (geopolitics)	It remains an unresolved issue that will require compromise from both sides to resolve. Britain will not want to back down much, however, or this could threaten the united kingdom and prompt succession
EZ and UK bond yields	ECB official Klaas Knot indicated that a 50bp increase in rates was not off the cards, while the UK 2yr yields surged on stronger than expected wage growth data	Even central banks with weak growth environments are considering lifting interest rates	4/5 (monetary policy)	It speaks to the broader theme of monetary policy tightening and the global adjustment higher in market interest rates. This will add to existing recessionary forces

Factors on the Radar	What happened?	Relevance	Importance	Analysis
ECB debate on policy	Minutes of the 14 Apr meeting show that policymakers expressed widespread concern about the spread of inflation and debated the speed of tightening	Bond buying will end in Q3, after which the ECB will look at lifting rates, albeit more slowly than the Fed	4/5 (markets, monetary policy)	There is not much surprise in this, and the ECB will remain a laggard in the broader scheme. However, it is one more major central bank that is now looking to reverse monetary easing
IMF warning	The global tide of monetary tightening has come faster than expected, according to the IMF and Asian economies must be mindful of the spillover effects	Widening interest rate disparities could cause major swings in currencies and disrupt economies	3/5 (economy, monetary policy)	The comments were partly aimed at Japan's ultra-accommodative policy stance and the balance that it seeks to achieve in managing the depreciation of the JPY
Major debt markets	Major economy bond yields may have turned the corner as they gradually start to reflect concerns about longer-term growth prospects	Bond yields in the US and other DMs have drifted lower through the course of the past two weeks	4/5 (economy, market)	This may be a sign that investors have priced in about as much as they are comfortable pricing in and that bond markets will, from here on out, start to outperform equities materially

Highlights news vendors

- CNBC - [Australia's election will be a tight race. Whoever wins will 'struggle' to manage rising costs](#)
- ALL AFRICA - [Nigerian Tech Startup Pricepally Tackles Rising Food Costs With Bulk-Buying Platform](#)
- FT - [China cuts mortgage lending rate by record as lockdowns hit economy](#)
- SOUTH CHINA POST - [Reshaping of Communist Youth League gives insight into party resilience](#)
- REUTERS - ['We are going to die': Sri Lanka warns of food shortages](#)

Local and regional talking points

- The African Union has proposed a fund to cover a \$110bn infrastructure gap. The AU called for the establishment of an infrastructure fund to help finance the construction of roads, dams, and other infrastructure on the continent. According to Raila Odinga, the AU's infrastructure representative, the continent has an annual funding deficit of around \$110bn. Odinga further said that "Africa has idle capital such as sovereign wealth funds, pension funds, and insurance funds. We can work with several institutions to establish this fund." Note, that a rapid migration to urban areas has resulted in a significant percentage of the continent's population living in towns and cities, placing pressure on the existing water and sanitation facilities, roads, bridges, and railways.

Financial Market commentary

- In its final decision, the SARB decided to hike 50bp. It is a bold move, given the state of the economy. It aims to accelerate the SARB's objective of unwinding negative interest rates, regardless of whether supply-side issues caused those negative interest rates or not. The SARB believes that the state of the economy is not a function of interest rates and that it can better support the long-term objectives of boosting growth by promoting price stability. There is much truth to that, and it is difficult to turn overly critical of the SARB, although what makes this particularly hiking phase different, is that it takes place amid a dearth of employment, consumption and investment.
- Positive real interest rates will require the repo rate to adjust substantially higher. The SARB will need to raise rates by 50bp increments at the upcoming meetings, knowing full well that controlling inflation will be more a function of external factors than SARB policy. It might hike rates more aggressively, and impose a headwind that will slow down growth that barely exists, given high fuel prices, administered costs, load shedding and structural deficiencies. For context, SA GDP has not yet recovered to pre-covid levels like the economies of the US, UK, and others hiking more aggressively to slow demand.
- Time will tell whether the central banks have judged the environment correctly and whether raising interest rates so aggressively is the correct approach. While rates need to rise, hiking them aggressively against such a weak growth backdrop when demand conditions are not strong enough to promote second-round inflation effects risks overreach and punishing an economy for price pressures it cannot control. At best, it may promote a more stable ZAR at the margin, which is constructive but will come at a cost.
- The ZAR strengthened after the decision, which the SARB might feel vindicates its bold move. However, ZAR appreciation also coincided with a USD that retreated, so interestingly, not much of yesterday's move was a function of the rate hike. The SARB met market expectations and dissuaded some negative speculation at the margin. At the very least, the SARB has now removed one scenario that might've counted against the ZAR, which could now find support to recover further as we head into the weekend. In a world of correcting equity markets, rising volatility and risk aversion, perhaps the SARB's move has bought SA some insurance. Exporters may now look to take advantage of these levels while they still have them.

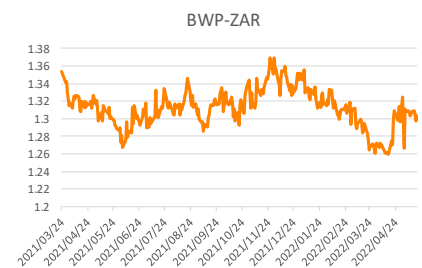
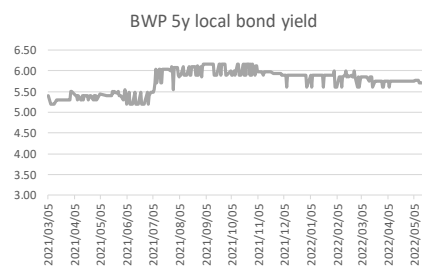
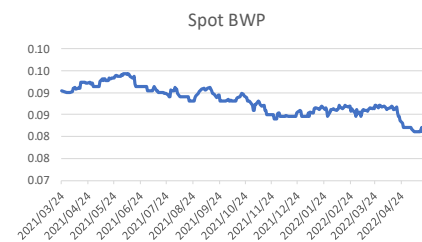
	Corporate Foreign Exchange			
	CUSTOMER BUY	CUSTOMER SELL	CUSTOMER BUY	CUSTOMER SELL
	CASH	CASH	TT	TT
BWPZAR	1.2528	1.259712	1.2769425	1.351566
BWPUSD	0.079008	0.093496	0.0805306	0.085284
GBPGBP	15.670512	15.736448	15.331487	14.828576
BWPEUR	0.080912	0.081224	0.0764385	0.079662
JPYBWP	10.9304	10.972	10.326075	10.734625
USDZAR	15.222336	16.52144	15.57911	16.164005
EURUSD	1.014912	1.099904	1.038699	1.076108
GBPUSD	1.194816	1.295112	1.2228195	1.26709275

	Interbank Spot Foreign Exchange		Forward Foreign Exchange	
	Close	Change	BWPUSD	BWPZAR
BWPUSD	0.0823	0.0013	1m	-25.90377
BWPGBP	0.066	0.0004	3m	-79.28944
BWPEUR	0.0777	0.00	6m	-139.1504
BWPZAR	1.3035	-0.0051	12m	-274.8763

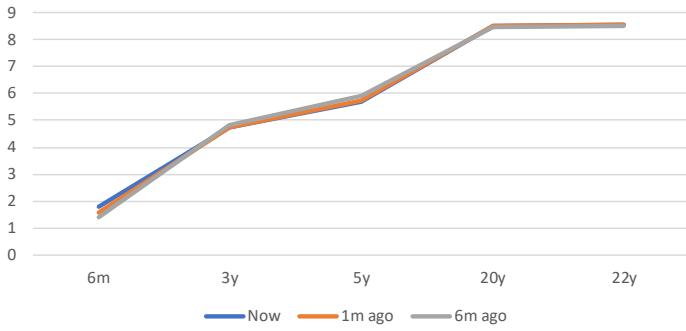
Dollar Index	102.95	0.226
EURUSD	1.0573	-0.0013
GBPUSD	1.2449	-0.0011
USDJPY	127.74	-0.06
USDNGN	414.62	0
USDZAR	15.8543	0.0034

Yield curve	Local Fixed Income		International Fixed Income	
	Close	Change	Close	Change
6m	1.796	-0.002	SA 10y	9.88
3y	4.75	0	US 10y	2.837
5y	5.713	0	German 10y	0.94
20y	8.5	0	Spread SA 5y vs Bots 5y bpts	
22y	8.55	0		256.2

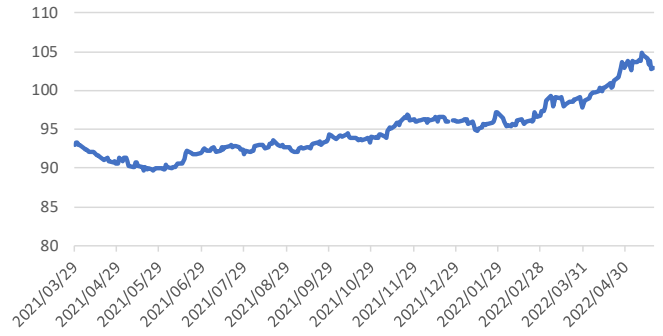
Equities	Commodities	
	Close	Change
VIX	29.35	-1.61
Dow Jones	31253.13	-1164.52
FTSE	7302.74	-80.26
JSE All share	68245.84	-612.95
Bots DCIBT	7211.04	0.21
Nigeria Index	53275.49	-35.28



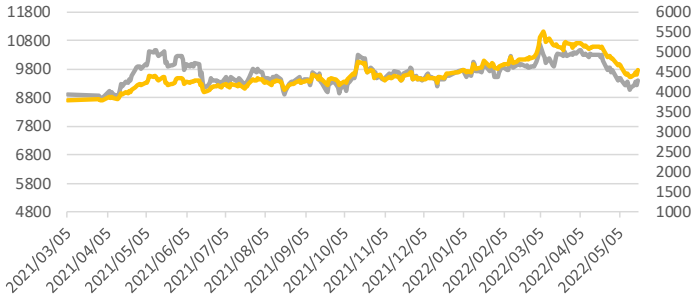
Botswana Yield Curve



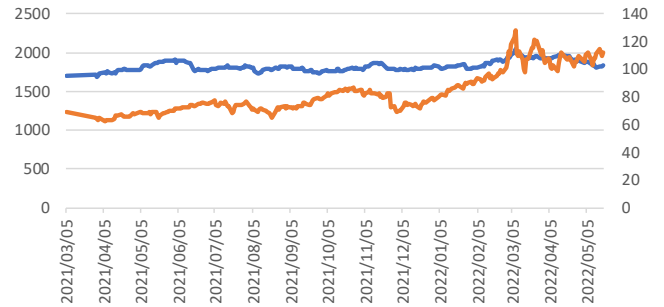
USD Index



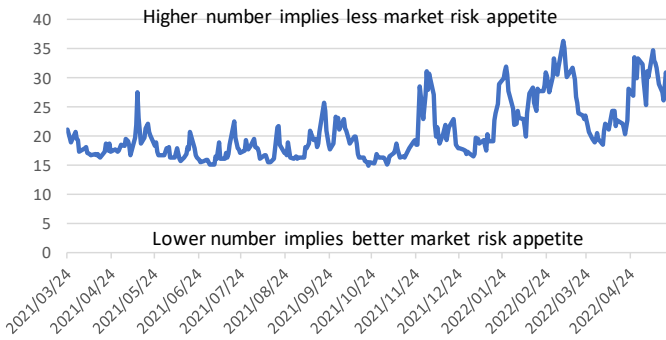
Base metals - Copper L_Hand axis LME Index R_Hand axis



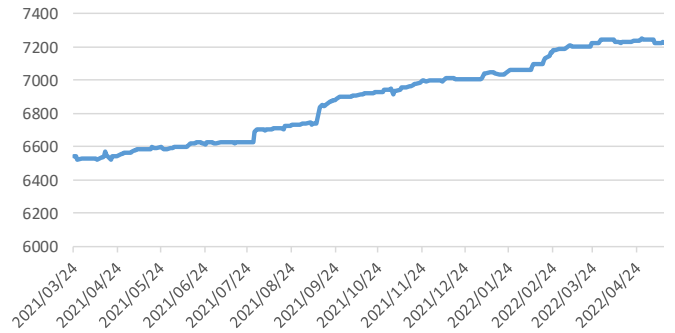
Oil R_Hand Axis - Gold L_Hand Axis



VIX Index - Risk appetite measure



Local stockmarket performance



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