

Botswana Market Watch

30 May 2022



GMT	Country	Data event or release	Period	Market Exp	Previous
-	BW	Nothing on the cards			
06:00	GE	Retail sales y/y	Apr	4,4%	-5,4%
09:00	JN	Machine tool orders y/y	Apr F		25,00%
09:00	EZ	Consumer confidence	May F		-21,1%
12:00	GE	CPI y/y	May P	7,5%	7,4%
Factors Overnight	What happened?	Relevance	Importance	Analysis	
China Covid	Gradually, Beijing appears to be easing its Covid restrictions helping Shanghai resume normal economic activity and easing growth constraints	Although it is not clear exactly how restrictions will be phased out, sentiment has risen	4/5 (economy)	Global financial markets will enjoy the news that China can resume a more normalised production service and that growth headwinds from China will likely ease in the months ahead	
US inflation pressures	Data released on Friday showed that core PCE rose 0.3% m/m, unchanged through the past 3 months, helping to reduce the PCE price index to 4.9% y/y in Apr	This suggests that inflationary pressures in the US are slowly losing momentum and could moderate	4/5 (economy, market)	These are early signs that the worst could be over if oil prices can be contained. Oil prices remain the biggest threat to the global economy and will have a bearing on prices	
Oil prices	Front-month Brent has now surged back above \$120/pb ahead of today's EU meeting, where the topic of a Russian oil embargo will be discussed	Although unlikely in the short-term, any ban on Russian oil would tighten supplies	5/5 (economy, markets)	Countries around the world are battling with sky-high energy prices and a cost-of-living crisis which threatens to crater global growth and trigger recessions in many countries	
Factors on the Radar	What happened?	Relevance	Importance	Analysis	
Russian -Ukraine war	EU leaders will meet on Monday and will likely declare continued support for Ukraine but will likely stop short of announcing new sanctions against Russia	This falls well short of what Ukraine needs, although more financial aid will be most welcome	5/5 (geopolitics)	The main sticking point remains the embargo on Russian oil, which remains unacceptable to Hungary and effectively stalls the imposition of any further embargoes.	
Stock market rebound	Stock markets look set to unwind all of May's losses as investors position for a less aggressive Fed and reduced Covid curbs in China that will bolster growth prospects	Strong equity markets will raise overall risk appetite and assist currencies regain ground vs the USD	3/5 (market)	The outlook is decidedly less negative than it was just two weeks ago, with a lot of talk of bargain hunting doing the rounds as investors continue to bet on central banks being sensitive to growth	
NATO expansion	Turkey has again reiterated its view that it will not allow "terrorism-supporting" countries like Finland and Sweden to Join NATO as negotiations continue	This is a political ploy by Turkey to crush any resistance to its political establishment	3/5 (geopolitics)	Neither Finland nor Sweden is terrorism supporting, but they harbour people linked to the Kurdistan Workers Party and halted arms sales to Ankara in 2019	

Highlights news vendors

CNBC - [Beijing, Shanghai start to reopen as Covid cases drop](#)

ALL AFRICA - [African Union Chief 'Gravely Concerned' By Rwanda-DR Congo Tension](#)

FT - [Europe's unity 'crumbling' on Russia sanctions, Germany warns](#)

SOUTH CHINA POST - [Why Ukraine war will have limited impact on China's arms production](#)

REUTERS - [Asia stocks swing to 3-week high, dollar struggles](#)

Local and regional talking points

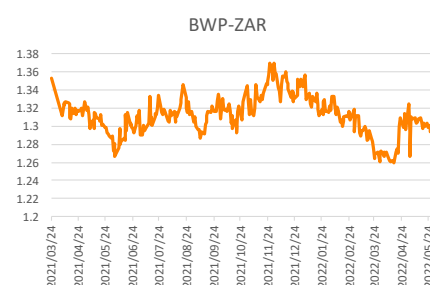
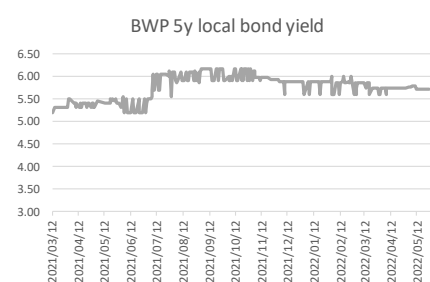
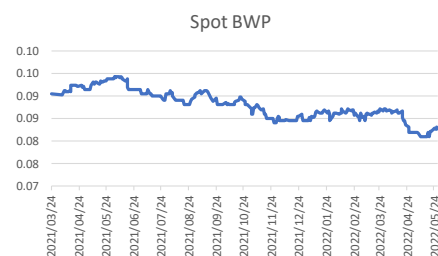
	Corporate Foreign Exchange			
	CUSTOMER BUY	CUSTOMER SELL	CUSTOMER BUY	CUSTOMER SELL
	CASH	CASH	TT	TT
BWPZAR	1.242144	1.247424	1.2660812	1.338382
BWPUSD	0.079776	0.093496	0.0813134	0.085902
GBPWP	15.76588	15.831504	15.424791	14.918148
BWPEUR	0.080288	0.0806	0.075849	0.07905
JPYBWP	10.972	11.0136	10.365375	10.775325
USDZAR	14.947008	16.2032	15.297329	15.85265
EURUSD	1.032576	1.11904	1.056777	1.09483
GBPUSD	1.213728	1.3156	1.2421748	1.2871375

	Interbank Spot Foreign Exchange		Forward Foreign Exchange	
	Close	Change	BWPUSD	BWPZAR
BWPUSD	0.0831	0.0005	1m	-2.1255
BWPGPB	0.0658	0.0002	3m	-6.6885
BWPEUR	0.0774	0.00	6m	-12.33375
BWPZAR	1.2938	-0.0046	12m	-26.52975

	Close	Change
Dollar Index	101.475	-0.193
EURUSD	1.0756	0.0029
GBPUSD	1.2643	0.0027
USDJPY	126.96	-0.15
USDNGN	414.72	0
USDZAR	15.5684	-0.0004

Yield curve	Local Fixed Income		International Fixed Income	
	Close	Change	Close	Change
6m	1.825	-0.001	SA 10y	9.72
3y	4.75	1.325	US 10y	2.7432
5y	5.713	0	German 10y	0.963
20y	8.5	0.011	Spread SA 5y vs Bots 5y bpts	252.2
22y	8.55	0.013		-3.5

	Equities		Commodities	
	Close	Change	Close	Change
VIX	25.72	-1.78	Gold	1860.8
Dow Jones	30810.12	0	Brent Crude	120.14
FTSE	7585.46	42.17	3m Copper	3.81
JSE All share	70485.46	1898.51	LME Index	3.81
Bots DCIBT	7232.59	0	1 carat index	Invalid field(s)
Nigeria Index	54085.3	559.91		

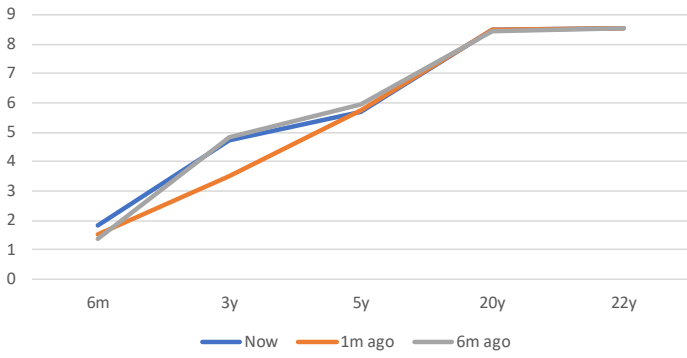


- The Ministry of Finance will spend around the P10.4bn mark in this financial year to square off the principle debt and interest payments on various local and external debts. This number is some 33% higher than it was two years ago and is as a direct result of COVID-19 which resulted in the shut down of the economy and the need for fiscal and social support programmes.
- MMEGI Online - A finance ministry note seen by BusinessWeek indicates that while a total of P7.8 billion was paid out as public debt in the financial year to March 2021, an amount of P10.4 billion has been allocated for the year to March 2023. The total paid out for the 2021 fiscal year includes P2.2 billion as settlement of a bond which matured in September of that year.

Financial Market commentary

- Given the regions sensitivity to the performance in the dollar and the rand we would like to unpack the USD-ZAR at the start of the week for context.
- The USD lost ground last week and remains on the defensive at the start of this week. As investors eased bets that the Fed would hike rates aggressively, so the USD lost some of its attraction, leaving most currencies to regain some lost ground. For context, the USD is overvalued against most currencies, and by quite some margin. The USD is at least 25% overvalued on a trade-weighted basis when considering data spanning the past forty years. Even if a modest correction of 5-10% on the USD were to unfold, that could shave at least R1.00/dlr off the USD-ZAR rate, highlighting the potential for the ZAR to appreciate USD weakness rather than anything SA related.
- However, on the local front, the week ahead is likely to attract the attention of foreign investors, but for all the wrong reasons. In the last quarter of 2021, the unemployment rate rose to 35.3% on the narrow definition. Using the more realistic, broader definition, the unemployment rate is in the mid-40s. This week, the Q1 2022 data will be released. Many hope that it will reflect an improvement from the Q4 2021 data, but the risk is that the improvement will be sluggish as the economy struggles to recover amid load shedding, inflation, rising interest rates and many structural constraints.
- It is not difficult to argue for ZAR depreciation. SA's economy faces so many challenges that it seems logical to expect it, yet the ZAR's performance in recent years says otherwise. Again, investors are reminded of the USD's overvaluation, which forms the backdrop against which all the other challenges will detract from SA's ability to grow. A weak economy translates into a trade and current account surplus as both consumption and investment in SA's future are scaled back. Add to that SA's carry attractiveness and its exposure to commodities that might perform well in a weaker USD environment, and one can appreciate that the outlook for the ZAR is much more nuanced than simply focusing on all the bad economic developments that are unfolding.
- Beyond the unemployment data, investors will also gain insight into the latest money supply data and the state of the credit cycle, the trade balance, government finances, the Barclays manufacturing PMI, the all-economy PMI, and finally, the latest vehicle sales. In other words, this week will offer a comprehensive perspective of the state of the SA economy, which could have implications for how foreign investors perceive the risks associated with SA and whether anticipating an aggressive SARB is justified or even likely. For now, the USD-ZAR is trading at a critical level. A sustained break below 15.4000 opens the door for a much deeper retreat. Failure to do so, and any bounce, raises the probability that the right-hand shoulder of a head and shoulders formation could build to take the pair back towards the 16.00 handle. Therefore, this is an important week from a technical perspective.
- Given this backdrop we expect the local FX market to adopt a wait and see approach at the start of the week.

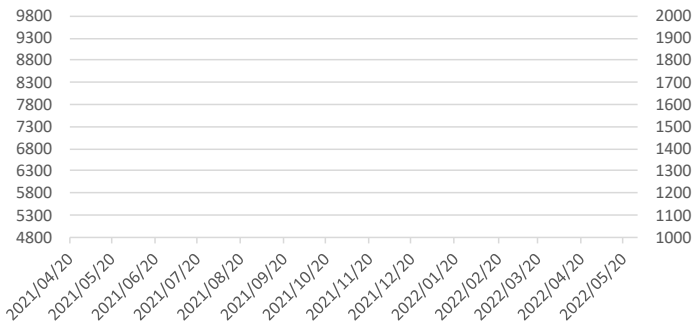
Botswana Yield Curve



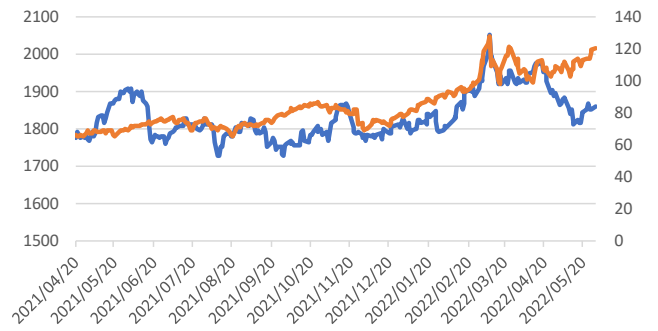
USD Index



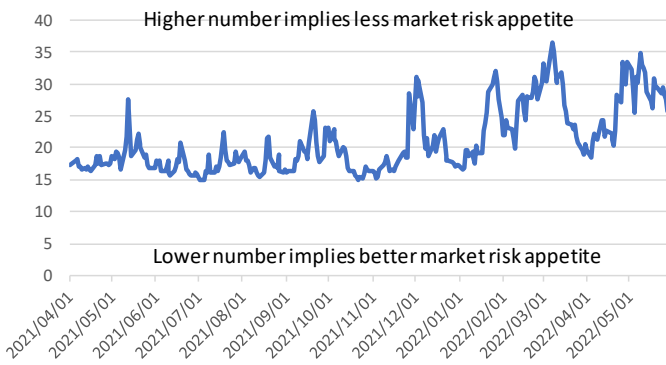
Base metals - Copper L_Hand axis LME Index
R_Hand axis



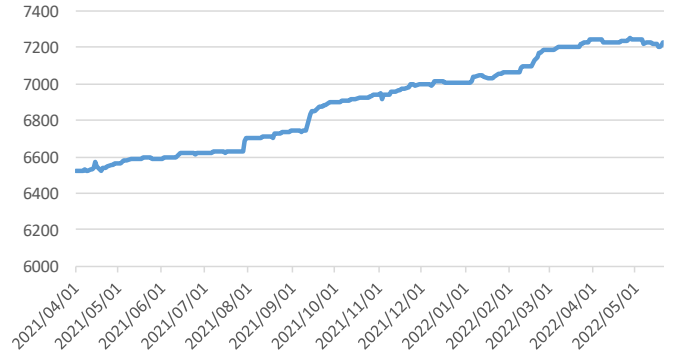
Oil R_Hand Axis - Gold L_Hand Axis



VIX Index - Risk appetite measure



Local stockmarket performance



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