

Botswana Market Watch



GMT	Country	Data event or release	Period	Market Exp	Previous
-	BW	No Data			
06:00	GB	GDP y/y	1Q P	0.2% (A)	0.6%
06:00	GB	Industrial production y/y	Mar	-2.0% (A)	-3.1%
06:00	GB	Manufacturing production y/y	Mar	-1.3% (A)	-2.4%
06:00	GB	Total trade balance (GBP)	Mar	-2864mn (A)	-4805mn
12:30	US	Import price index y/y	Apr		-4.6%
14:00	US	Michigan consumer confidence	May P	63	63.5

Factors Overnight	What happened?	Relevance	Importance	Analysis
UK monetary policy	Consistent with market expectations, the BoE hiked its benchmark interest rate by 25bps to 4.5% and stuck to its data-dependent, albeit slightly hawkish, policy outlook	The BoE's inflation fight continues, with a tight labour market underlying concerns that price pressures may be sticky	5/5 (monetary policy)	The BoE's forward guidance was unchanged, suggesting it was reluctant to signal that the end of its monetary tightening cycle is near; OIS market pricing for at least one more rate hike appears accurate
US jobless claims	Initial jobless claims data pointed to further labour market weakness in the US, rising from 242k to 264k in the week through 6 May	A string of rising jobless claims prints suggest that the US labour market is starting to loosen	4/5 (labour market, monetary policy)	Although the US labour market remains tight, layoffs are starting to rise and will continue to in the coming months as the economy loses momentum after an aggressive rate-hike cycle; ultimately, this would support the case for the Fed to pivot to looser monetary policy
US-Sino relations	Top US and Chinese diplomats met this week to try and ease existing strains between the two nations and potentially set the stage for an eventual call between Presidents Biden and Xi	Relations between the two economic superpowers have been extremely tense recently, with any reconciliation welcome	3/5 (geopolitics)	US-Sino tensions have been acute since the US shot down a Chinese balloon that flew in its airspace, with both sides now looking to get beyond that incident and re-establish normal channels of communication as they spar over a number of other issues

Factors on the Radar	What happened?	Relevance	Importance	Analysis
G7 conference	The finance chiefs of the G7 nations will meet at the end of this week to discuss their nations' trade dependence on China and its scope for economic coercion	As China and Russia challenge the US hegemony, Washington is calling on its allies for support	3/5 (geopolitics)	The meeting between the finance ministers of the G7 nations will set the stage for next week's G7 leaders summit, where China and Russia will once again be the focal points of the agenda
US debt ceiling	A meeting between President Biden and top lawmakers over the US debt limit has been postponed to next week, with the deadline to find a solution creeping closer	Republicans are vowing to support raising the debt ceiling only if Biden agrees to retroactive reductions in government spending	4/5 (fiscal policy)	The government and lawmakers have three weeks to break the deadlock over raising the \$31.4trln US debt limit before an unprecedented default happens, with negotiations going down to the wire
US consumer sentiment	The preliminary print of the U.Mich. consumer confidence index for May will be released today and is expected to reflect a slight deterioration in household sentiment as the labour market begins to loosen and credit conditions tighten	As the US economic cycle nears a turning point, the consumer sentiment data provide insights into household demand conditions	4/5 (economy)	Abating inflationary pressure will need to be weighed against tightening credit conditions and a loosening labour market as the full impact of the Fed's aggressive rate-hike cycle begins to work its way through the economy

Highlights news vendors

BUSINESS LIVE - [Pretoria imperils US trade largesse as ambassador accuses SA of aiding Russia](#)

FT - [US accuses South Africa of supplying arms to Russia](#)

REUTERS - [Sudan's rival forces agree to protect civilians but no ceasefire](#)

SOUTH CHINA POST - [Mineral-rich central Africa becomes focal point in US-China tug of war](#)

Local and regional talking points

- South Africa is in trouble, and it has nothing to do with economics. The country appears to be lurching from one crisis to the next, most of them self-inflicted. The latest is the diplomatic fallout between SA and the US, with the latter forcing SA into a corner from which decisions will be forced, and sides are taken. SA has tried to hold a non-aligned position concerning the war in Ukraine, but diplomatic relations took a turn for the worse when US Ambassador to SA, Reuben E Brigety II, called out SA for recent developments, including the docking of a sanctioned Russian cargo ship in Simonstown in Dec where arms and ammunition were allegedly loaded on to the ship and the landing of military aircraft owned by a sanctioned Russian company at the Waterkloof Air Force Base.
- The US has now openly accused SA of providing material support to Russia but is open to further dialogue on the matter. The ANC now finds itself between a rock and a hard place. It has been called out for its actions which the US views as an act of hostility. Interestingly, the US singled out the ANC as being hostile rather than the country as a whole, implying that the pressure is on the ANC in particular. The ANC now faces a dilemma. If it placates the US, it could lose alleged Russian party funding ahead of next year's elections. If it sides with Russia, the US will surely follow through with penalties of various sorts, including reviewing the AGOA trade agreement or, in the worst-case scenario, some kind of sanctions.

Corporate Foreign Exchange

	CUSTOMER BUY		CUSTOMER SELL	
	CASH	TT	CASH	TT
BWPZAR	1.360416	1.375872	1.3866324	1.476196
BWPUSD	0.07056	0.093496	0.0719198	0.076529
GBPGBP	17.514848	17.706936	17.135921	16.685382
BWPEUR	0.069992	0.07072	0.0661223	0.06936
JPYBWP	10.3064	10.4104	9.736575	10.185175
USDZAR	18.509376	20.060352	18.94319	19.626354
EURUSD	1.048704	1.136512	1.073283	1.111924
GBPUSD	1.201248	1.301456	1.2294023	1.2732995

Interbank Spot Foreign Exchange

	Close	Change	Forward Foreign Exchange	
BWPUSD	0.0735	0.0000	1m	-3.63675
BWPGBP	0.0587	0	3m	-5.52825
BWPEUR	0.0673	0	6m	-12.289875
BWPZAR	1.4173	0.0196	12m	-26.21775

Dollar Index	Close	Change
Dollar Index	102.042	-0.016
EURUSD	1.0923	0.0009
GBPUSD	1.2511	0.0002
USDJPY	134.77	0.23
USDNGN	460.07	0
USDZAR	19.283	0.0872

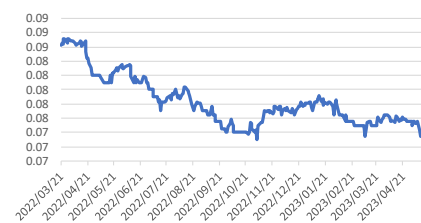
Local Fixed Income

Yield curve	Close	Change	International Fixed Income	
6m	5.372	0.003	SA 10y	10.975
3y	5.315	0.005	US 10y	3.388
5y	6.65	0	German 10y	2.24
20y	8.85	0.04	Spread SA 5y vs Bots 5y bpts	
22y	9	0.05		311.5

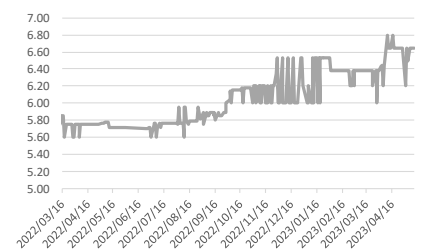
Equities

	Close	Change	Commodities	
VIX	16.93	-0.01	Gold	2015.5499
Dow Jones	33309.51	-30.48	Brent Crude	2029.51
FTSE	7730.58	-22.76	3m Copper	2034.17
JSE All share	76997.16	-1.85	LME Index	2016.5428
Bots DCIBT	8006.3	0	1 carat index	2051.1084
Nigeria Index	52161.24	-397.2		

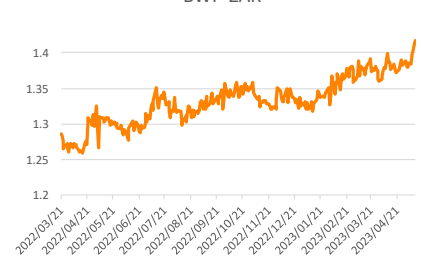
Spot BWP



BWP 5y local bond yield



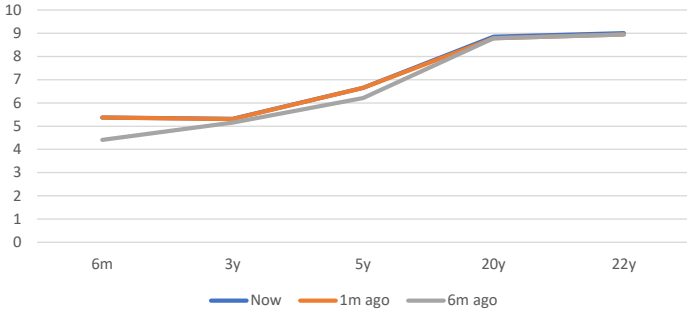
BWP-ZAR



Financial Market Commentary

- Yesterday will go down as a historic day for the ZAR as a perfect storm hit. In addition to dovish comments from the Southern African Reserve Bank and intensifying concerns over SA's electricity, the ZAR faced fresh headwinds after the Bloomberg report surfaced that SA has been providing weapons and ammunition to Russia, prompting fears of possible sanctions if found to be valid. That report proved to be the final nail in the coffin, pushing the USD-ZAR to a near record-high. The over 1% drop in ZAR saw it rank as the worst-performing EM currency on the day and added to week-date losses of around 4.0%.
- If the accusations are true and hold water, sanctions on SA become a real possibility. Sanctions on SA would almost certainly tip SA into a currency crisis. Moreover, if true, it could put SA at risk of losing preferential access to the US under the African Growth and Opportunities Act (AGOA). Note that SA exports utilizing AGOA stood at \$2.7bn in 2021.
- The excessive ZAR sell-off could have significant implications for Southern African currencies, given the close links in terms of monetary policy and trade. For context, we saw the Botswana pula and Namibian dollar weaken yesterday, tracking the losses in the ZAR. The sell-off could see the SARB implement an aggressive rate hike to curb negative speculation against the currency, and this could see the likes of the Bank of Namibia and other regional central banks follow suit.
- The BWP-ZAR, meanwhile, has risen above 1.4200 and is at its highest since Q3 2020.
- South Africa Forward Rate Agreements are now looking at the possibility of an emergency hike, possibly even before the next scheduled meeting, and another 100bp worth of rate hikes to come. Any expectations of rate cuts through 2024 have been curtailed, and investors are now firmly convinced that the SARB has a lot more work to do. Yesterday's price action across the ZAR and bonds pushed a major reset button and caused significant dislocations. SA is about to experience a very tough year, and while tougher SARB action will eventually stabilise outflows and discourage negative speculation on the ZAR, the environment is likely to prove highly challenging. Investors should prepare for much higher interest rates and a deeper domestic recession.

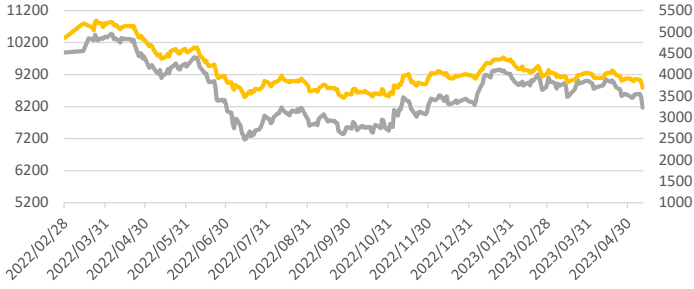
Botswana Yield Curve



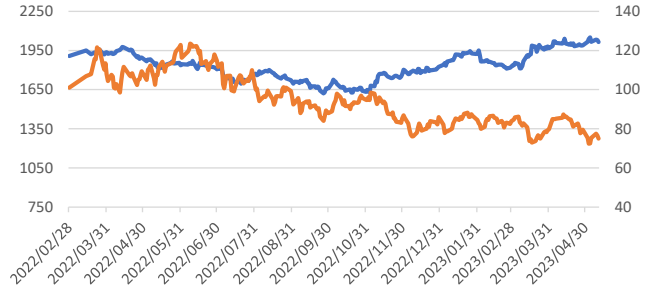
USD Index



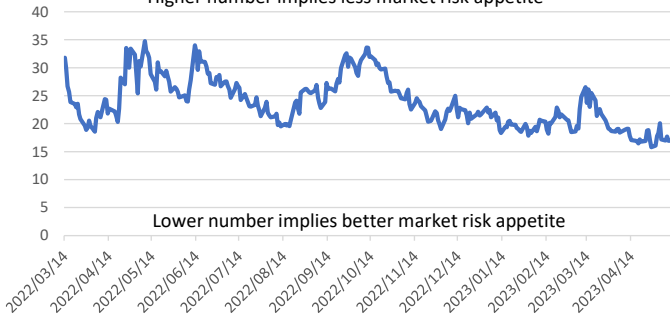
Base metals - Copper L_Hand axis LME Index R_Hand axis



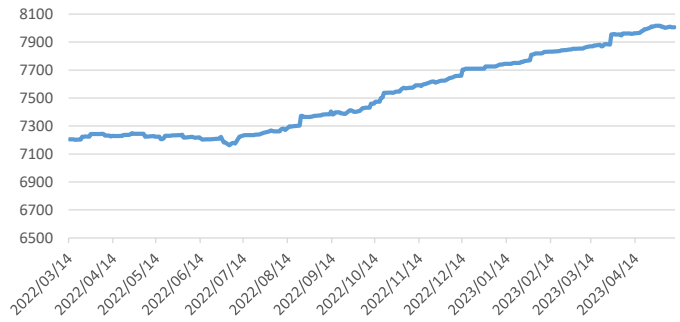
Oil R_Hand Axis - Gold L_Hand Axis



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



Local stockmarket performance



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