THIRD QUARTER ECONOMIC BULLETIN-SEPTEMBER 2015

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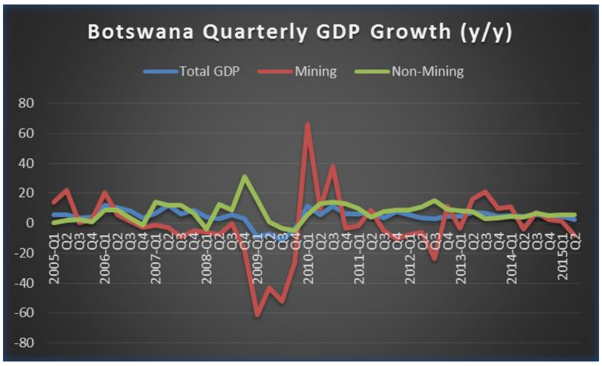
1.0. Mining sector tumbled by 8% y/y...

Real GDP grew by 2.5% y/y during the 2nd quarter of 2015 as shown by data from Statistics Botswana. The subdued growth was led by the mining sector which reduced by 8%y/y as compared to the revised 1.2%y/y growth achieved during the prior quarter. The Water and Electricity also tumbled, by 41%, from -1.7%y/y registered during q1 2015. However on a positive note, the Finance & Business Services sector grew by 5.8%y/y while the tourism sector posted a 6.9%y/y growth y/y as compared to 6.4%y/y achieved during the previous quarter.

Meanwhile, real exports declined by 4.3% as compared to a huge 46% surge during q2 2014 while imports on the other hand increased by 6.3%; against 19.5% posted during 2nd quarter of the previous year.



Source: Statistics Botswana, Motswedi Securities

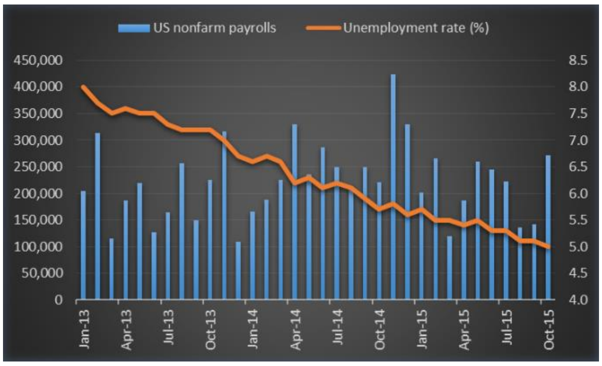
The slowdown in economic growth during the quarter was mainly led by the mining sector (which is the largest contributor by 22%) as it plummeted by 8% due to a 5.7% decline in diamond output while copper/nickel languished by 12.9% following the closure of Boseto mine. The persistent slowdown of the Water and Electricity sector, reflects supply constraints and the escalating domestic demand. Our expectations going forward is for domestic growth to remain subdued, tracking the global fragile outlook which presents potential threat to our diamond revenues. The tourism sector which is the 2nd largest contributor to our economy could also come under pressure as the Eurozone economy is yet to recover from the Greece financial crisis.

All attention is now fixed on the much talked about Economic Stimulus Package for the local economy which is widely expected to be a game changer to the country's economy. However, without much information about its size, the exact type of projects to be implemented and the time frame, it is very difficult to ascertain how effective it will be to resuscitate the fragile economy.

2.0. Developed Economies Overview…

US Labor Market gaining traction…

The 5 year US quantitative easing scheme (which was ended during October 2014) had buoyed the US economy as we saw unemployment rate declining from levels above 8% (during 2013) to 5% in October 2015. Consequently, the dollar also, gained momentum against most of its major trading peers. A resilient US economy is a positive development for global growth and emerging markets. However, a stronger greenback going forward could impair demand from heavy commodity consumers such as China and Japan, among others, as commodities are mainly dollar-priced. With the US inflation rate currently at critical deflationary levels, we expect the Fed to be cautious and take a dovish stance; monitoring the global outlook led by the slowdown in China. We are likely to see US interest rate flat (near zero) until the end of the year, although we cannot rule out a lift off given the huge resilience of the US labor market.



Source: US Labour Department

PBOC devalues the yuan to spur growth…

In China growth has been subdued at the back of dispiriting manufacturing activity, causing GDP to be flat and sluggish growth in trade activity. During mid-quarter, the People Bank of China (PBOC) attempted to steer economic activity by devaluing the yuan after trade data trailed market expectations. The response was mixed as market interpreted it as a spike to potential currency wars, raising expectations that other countries could take the equivalent stance in order to be price competitive in the trade market. Although there were mixed economic data which mainly pointed out to a slowdown in the 2nd largest world economy, GDP numbers for q3 2015 came in at 6.9% slightly higher than market anticipations. Going forward, as long as growth remains fragile, we feel emerging markets (SA inclusive) are at stake, hence the slowdown could be detrimental to their growth in a form of supressed trade revenues, depreciation of emerging markets currencies, imported inflation mainly from a stronger greenback (just to mention a few), which could also have a negative impact to our local economy.

ECB initiate QE to buoy the economy…

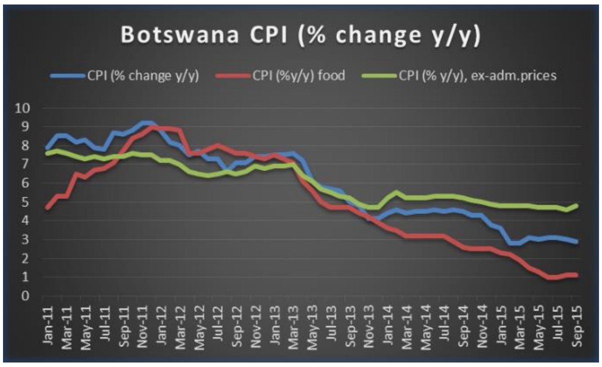
In Europe, the picture was not in any positive way better than in China. This was mainly due to worries of a Greece default, after it missed its debt repayment deadline to the IMF during the quarter. The Greece banking sector was the following victim as banks had to shut to prevent an overrun, though investors had already pulled out most of their deposits. Meanwhile the "paymaster"; Germany bond yields came under pressure as investor confidence dropped at the back of the Volkswagen turmoil which raised concerns about future exports. However, the Eurozone economy has been struggling with deflationary pressures, alarming policymakers that "more stimulus could be needed". We believe the €60bn quantitative easing scheme should aid the economy in the long term though recovery could drag as well, on attempts to recapitalize the banking space which was hardly hit by the Greece financial turmoil. Potential credit downgrades could also lead to increased cost of borrowing for some of the nations within the EU and ultimately affecting the euro and the economy at large, of which (as a major diamond exporter) we should be on the lookout.

3.0. Botswana Inflation decline below target range…

Botswana inflation ended q3 at 2.9%; a 0.2 percentage points decline from the prior quarter as shown by data from Statistics Botswana. The decline was mainly attributable to the decrease from the Transport sector as it overshadowed increases from

Housing, Water, Electricity, Gas & Other Fuels group.

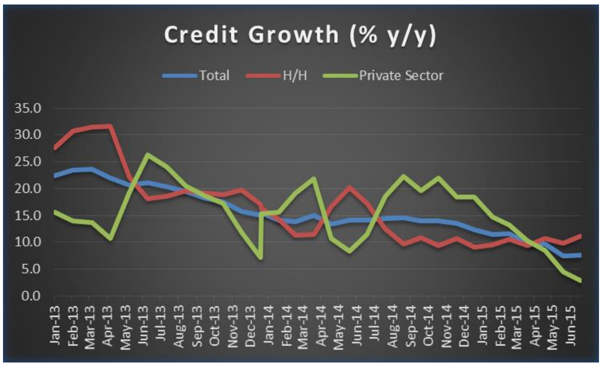
The decline of inflation below the central bank target range of 3-6% was in line with expectation following the recent cut in local fuel prices. We still expect inflation to tick up slightly above 3% as we cannot rule out base effects from the previous year. Although a stronger pula has been keeping upward inflationary pressures from SA on check, threat remains, as the rand struggles to break through the R13/$ band (as it even breached R14/$ mark during q3), posing more imported inflationary pressures to SA economy.



Source: Statistics Botswana, Motswedi Securities

Interest rates outlook…

We revise our interest rate forecast due to recent significant changes of factors such as huge decline in GDP numbers and the downward trend of inflation, though we still remain of the view that further rate cuts would be a hard pill to swallow by the banks. Margins will absolutely come under pressure and deposits growth as well. Going forward we could have another rate cut before the end of the year, in order to stimulate growth, given the lacklustre GDP numbers for q2 2015. Although the credit growth trends have been sluggish, we believe lower interest rate impact would be fruitful not necessarily now but in the longer term and we should see some credit extension to the private sector. Credit growth to the private sector slowed from 2.9% y/y in July to 0.4% y/y in August while household credit growth remained unchanged at 11.2% y/y during the same month. Total credit growth was at 7.2% in August, from 7.6% in July 2015. We believe the irony of the declining trend could be attributable to borrowers' credit capacity deteriorating and hence the slow growth in credit extension to the households and the private sector as well.



Source: Bank of Botswana, Motswedi Securities

Closer to home, seems like SA economy has more troubles due to the rand which has been losing ground to the greenback at the back of resurgent US labour market and slow GDP growth and mining sector. SA inflation has remained on the top end of the 3-6% SARB target range while GDP for q2 slowed to 1.2% y/y. In light of these factors, we expect SARB to remain hawkish, possibly increasing rates further above the current 6% in order to try curb further weakening of the rand.

4.0. Profit taking hit the domestic board...

The third quarter was somewhat low spirited, as there was a lot of profit taking and risk aversion towards the banking space. Hopefully this would create significant dips and offer potential investors buying opportunities next year! Nevertheless, there was quite numerous and exciting developments, such as BIHL planned acquisition, Letshego upping its stake in the Tanzanian business and RDCP rights issue.

The volumes were not so alarming, as 151mn shares were traded, significantly lower than the 241mn shares exchanged during q2 while turnover was somewhat higher reflecting frequent trading of the large-priced counters such as Sefalana and BIHL. During q3 the turnover recorded was P707mn, lower than the P944.8mn registered during the 2nd quarter of the year.

Source: Motswedi Securities, BSE

After so many quarters seeing Letshego being the most traded counter, Choppies took over to be the most traded stock during the quarter under review as the listing on the Johannesburg Stock Exchange further enhanced its trading. The retail giant traded about 47.7% of the total 707mn trades while Letshego exchanged 22.2% followed by Turnstar with 7%.

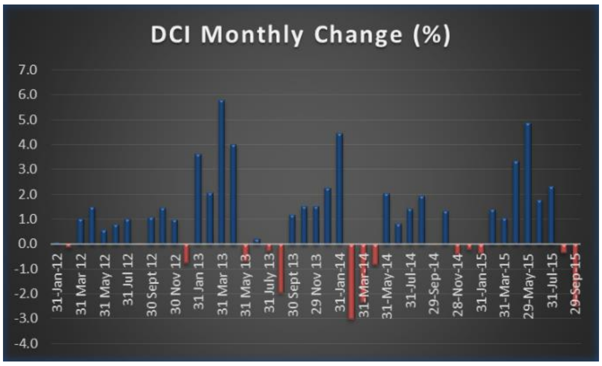
Source: Motswedi Securities, BSE

On average Choppies was trading 1.16mn shares on a daily basis while Letshego recorded just around 500,000 daily average. In total the daily average traded volumes for the quarter were 2.4mn as compared to the 3.6mn average for q2 2015.

Counter	Volumes Traded	Daily Average volumes
CHOPPIES	72,149,260	1,163,698
LETSHEGO	33,632,986	542,468
TURNSTAR	11,663,909	188,128
FNBB	7,529,809	121,449
IMARA	6894386	111,200
BARCLAYS	3,261,250	52,601
SHUMBA	3226760	52,045
SEFALANA	2,625,658	42,349
STANCHART	1,473,961	23,774
SECHABA	1,304,789	21,045

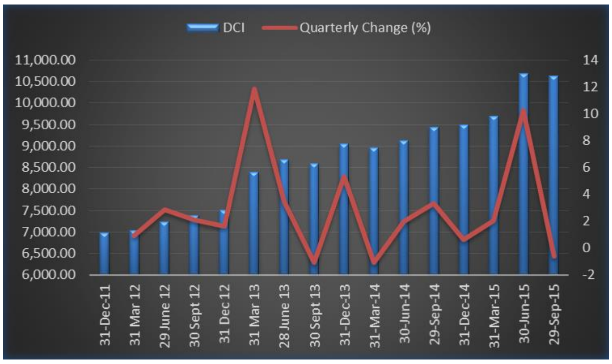
Source: Motswedi Securities, BSE

Due to the huge profit taking, the last 2 months of the quarter in retrospect ended the DCI in red territory, with the last month of the quarter recording a major dip of -2.5%.



Source: Motswedi Securities, BSE

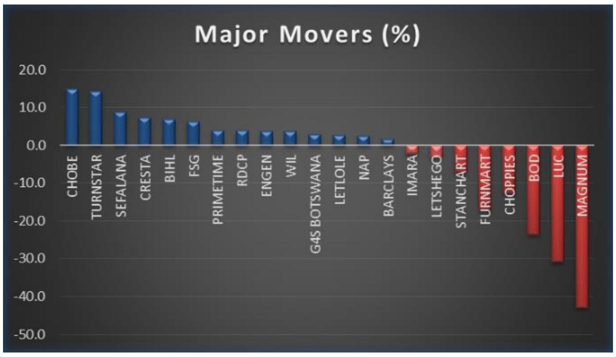
As a result of the negative return for the last 2 months, the DCI lost 0.6% as compared to a 10.3% return registered during the 2nd quarter of the year.



Source: Motswedi Securities, BSE

Despite the downtrend of the DCI during the quarter, over 60% of the domestic counters closed on the positive territory.

Top movers



Source: Motswedi Securities, BSE

Chobe was the largest gainer as it soared by 14.8%, extending its year to date to over 50%. Meanwhile, the property counters had a fantastic quarter as they all closed on a positive footing with Turnstar being the 2nd largest gainer on the main board. Sefalana also pocketed huge gains following its acquisition of a UHT plant from a third party which is expected to assist in the production of milk and other beverages. BIHL was on an uptrend as well, following their HY results which were characterized by a 32% surge in net premiums at the back of a very challenging environment reflected by declining trend of market share. The insurance giant was also buoyed by news that it is planning to acquire a 25% stake in Nico, which has a general insurance, life insurance and pensions business as well as banking and asset management. Nico has operations in Malawi, Mozambique and Tanzania.

QUARTERLY MOVERS

Counter	Price (t) 29 Sep 15	Price (t) 30 Jun 15	Q/Q Change (%)	YTD Return (%)
CHOBE	652	568	+14.8	+52.7
TURNSTAR	297	260	+14.2	+42.8
SEFALANA	1,300	1,195	+8.8	+40.8
CRESTA	102	95	+7.4	+14.6
BIHL	1,476	1,381	+6.9	+28.2
FSG	271	255	+6.3	+14.3
PRIMETIME	291	280	+3.9	+11.9
RDCP	239	230	+3.9	+16.6
ENGEN	850	820	+3.7	-10.5
WIL	482	465	+3.7	+53.0
G4S BOTSWANA	360	350	+2.9	-3.2
LETLOLE	226	220	+2.7	+5.1
NAP	245	239	+2.5	+12.9
BARCLAYS	433	426	+1.6	+25.5

Source: Motswedi Securities, BSE

On the downside, numerous counters from the foreign board closed the quarter in the red and also the top 3 largest counters by market cap on the domestic board. Choppies lost 13% as investors cashed in some of the huge gains after the retail giant reached all-time highs; exceeding the P5.00 mark, shortly after its listing on the Johannesburg Stock Exchange. On the financial sector, Letshego tumbled by 3% driven by speculations in the market regarding the anticipated share buyback. Letshego, however, recently concluded negotiations and commercial terms with a third party in Nigeria to acquire a 100% shareholding in a deposit taking financial institution that specializes in micro finance. We view Letshego's strategy as a wise move in order to seek deposit taking, which could help the group ease its cost of borrowing and widen its margins. Other losers for the quarter were the 2 banks FNBB and Stanchart.

QUARTERLY SHAKERS

Counter	Price (t) 29 Sep 15	Price (t) 30 Jun 15	Q/Q Change (%)	Ytd Change (%)
MAGNUM	4	7	-42.9	-33.3
LUC	1,132	1,635	-30.8	-25.8
BOD	13	17	-23.5	-67.5
FURNMART	135	163	-17.2	-36.0
CHOPPIES	420	481	-12.7	+3.4
STANCHART	1,175	1,267	-7.3	-6.5
SHUMBA	130	140	-7.1	+19.3
LETSHEGO	310	320	-3.1	+16.5
FNBB	384	393	-2.3	+6.1
IMARA	269	275	-2.2	+28.1

Source: Motswedi Securities, BSE

BSE INDICES

	29 Sep 15	30 Jun 15	Q/Q (%)	Ytd (%)
DCI↑	10,624.32	10,690.08	(0.62)	11.82
FCI↑	1,562.92	1,571.85	(0.57)	(0.93)

Source: Motswedi Securities, BSE

After the market took a deep breath, the market cap declined from the P50.46bn to P50.36bn. This was after reaching highs of P51.8bn during the end of July; the highest figure attained during the quarter. The major dip was mainly attributable to the selloff from some of the blue chips on the domestic board.

Source: Motswedi Securities, BSE

Bettabeta and Newplat closed the quarter under review in red territory after shedding 5.3% and 4.5% respectively. However, Newgold pocketed 3.6% to trade at 11,550thebe a unit. During the quarter the 3 ETFs exchanged slightly over 445,000 units which were significantly lower than the 6.3mn which were traded in q2.

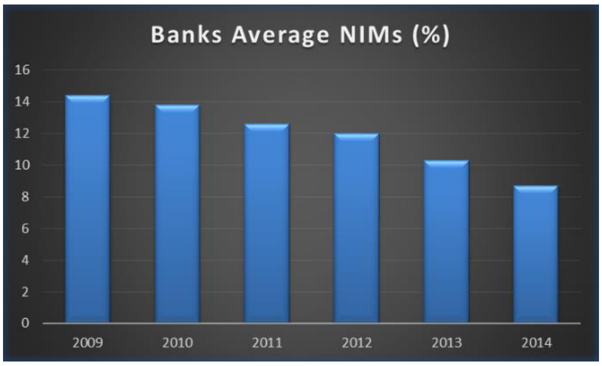
Currency	29 Sep 15	30 Jun 15	Q/Q (%)	YTD (%)
BETTABETA↑	3,865	4,080	(5.3)	(4.8)
NEWGOLD↑	11,550	11,150	3.6	8.2
NEWPLAT↑	10,075	10,550	(4.5)	(5.6)

Source: Motswedi Securities, BSE

5.0. Industry Overview…

Banking Margins still under pressure…

The banking industry prospects have remained unchanged as interest rates declined further (from 6.5% to 6% recently) while liquidity remained a challenge and ROEs continued to slide. Due to the low interest rates, NIMs came under pressure, declining from an average of over 10% in 2013 to less than 9% in 2014. Going forward we expect the same downward trend to persist at least for the next 2 years, as subdued economic indicators might propel policy makers to put in some more accommodative measures by reducing interest rates further.



Source: Motswedi Securities calculations

Following the reserve requirement ratio reduction by the central bank during q2, there has been some relief with regard to liquidity constraints. Currently the intermediation ratio was about 77%; slightly up from 76% during the end of q2. Given the relatively low incentive for savers, we believe banks could struggle to accumulate more deposits which could pose upside pressure on interest expense and ultimately weighing down on profitability. Therefore considering the pressure on NIMs and liquidity constraints we take a cautious stance to the banking industry.

However, we reiterate there is room for growth on the non-interest avenue which could be driven by new products, utilization of innovation and corporate deals among others, in order to hedge the risk from the low interest rate environment. FNBB has been taking the lead in this space and is the only listed bank which is able to fully cover its non-interest expenses with non-interest income.

Property space...

Due to challenges of finding value within the domestic board, investors have shown more interest towards the property space. There has been marginal growth though, on rental incomes generally across board. This has been mainly at the back of increased competition on the 2 major property sectors; retail and office, of which most of the listed counters are mostly exposed to. However, there has been game changes in terms of expansion of portfolios even outside the country, with some of the counters entering challenging economies like SA. We embrace the move (though with caution) as our worry remain on vacancies within the office space. The retail sector (though tends to have minimal or no vacancies) remain under challenge as competition, brought by emergence of new malls, could stunt rental income growth going forward. Given the very challenging market with limited growth, we view the property sector as a diversification strategy as they offer relatively high dividend yields which we expect to remain stable going forward, backed by sustainability of cash flows.

Tourism & Leisure sector face challenges of gloomy global growth outlook...

The tourism sector was not very active this quarter as investors felt the counters were fairly priced. This was at the backdrop of a very fragile global landscape characterized by slowdown in China, posing threat to the global growth. The financial turbulence in the Eurozone, also led to capital flight, affecting the EUR/BWP exchange rate which could have an impact on tourists' turnover rates and ultimately affect the sector. Going forward, a stronger dollar could be fruitful to the tourism space in terms of price competitiveness, although global growth slowdown could weigh down on growth. We anticipate marginal growth from the industry for the FY'16.

Like for like growth under pressure on the retail space…

The retail expansionary phase continued as we saw further growth by Choppies and Sefalana outside the country leading to double digits topline growth. However, the increased competition propelled by low entry barriers, has led to like for like growth coming under pressure, gross profit (GP) margins slacking and increased capital expenditure (capex), leading to net profit margins (NPMs) declining. We expect the NPMs to weaken further due to limited growth locally signalled by declining trends of market share. Meanwhile, inflation has been on a downfall, easing pressure on consumer disposable incomes. The low fuel prices could also free up consumer disposable incomes, which could be channelled to spending and potential boosting the retail sector. However, we remain very concerned about growth outside Botswana which expose the domestic retail counters to more competition with some of the heavy giants within the continent such as Shoprite and Spar.

6.0. Foreign Exchange Market Developments

The Pula was weaker against most of its major trading peers during the quarter though it gained traction to the rand. The BWP/USD strength complements price competitiveness of our diamonds and other exports to most developed economies. On the other hand, the stronger pula to the rand has been mainly effective in terms of curbing imported inflationary pressures from SA. On a year to date the pula has firmed by 9% to the rand.

Domestic (Pula Exchange rates)*

Currency	29 Sep 15	30 Jun 15	Q/Q (%)	YTD (%)
US$/BWP↓	0.094	0.1004	(6.37)	(10.56)
ZAR/BWP↑	1.3285	1.2208	8.82	9.17
EURO/BWP↓	0.0833	0.0931	(10.53)	(3.70)
GBP/BWP↓	0.0619	0.0679	(8.84)	(8.30)
JPY/BWP↓	11.22	12.05	(6.89)	(10.81)

Source: Bank of Botswana, SARB

***=** *The rates as produced by the Bank of Botswana are for information purposes only and do not represent the rate that may be offered for any foreign exchange transactions.*

The rand was on a weaker footing during the quarter, on the Greece crisis, lackluster Chinese economic data and domestic woes led by slowdown in economic growth trends. The unit started on a positive footing, as investors were upbeat about a solution to the dragging Greece turmoil which has raised jitters about a default and potential withdrawal from the Eurozone. The bears came on board, feeding on a deluge of weaker Chinese data which raised concerns about global growth, leading the rand to breach the R14/$ mark. Meanwhile People Bank of China took a bold move to devalue the yuan, following downbeat Chinese trade data. On the domestic front, SA maunfacturing output tumbled by 0.2% y/y in August while mining production grew by 3.8%; slower than the previous 2 months growth.

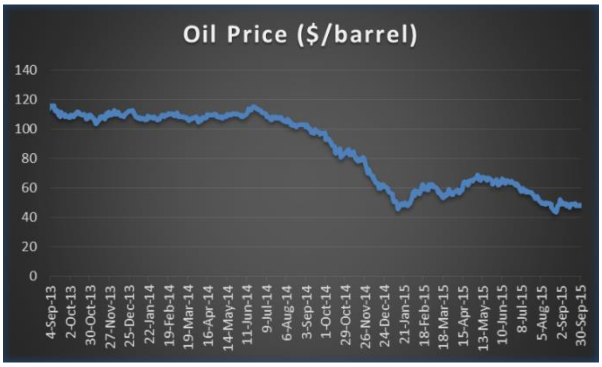
Going forward we expect the rand to remain under more selling pressure at the back of domestic disruptions and looming mining stoppages. With inflation still at the top end of SARB target range, we could see the central banking excersing monetary tightening, hiking rates slightly above 6% in order to curtail a softening ZAR, though tumbling economic growth might need the central bank to offer more stimulus.

Source: South African Reserve Bank

7.0. International Commodity Markets- Brent crude weaker on oversupply woes...

Brent crude oil

Brent crude oil was on a losing streak this quarter as worries of an oil flush weighed on prices, with insufficient support from US crude stockpiles data which reflected a blurred trend of crude consumption during the quarter. The commodity started the quarter on a relatively higher footing trading at $62.5/barrel as traders were a bit sceptical about if the Tehran nuclear deal would materialize. However, by mid-quarter, lacklustre Chinese PMI data coupled with a stronger dollar pushed prices to reach its lowest levels for the quarter of $43.5/barrel. Meanwhile, US weekly crude stockpiles data showed a mixed bag albeit biased to the upside, revealing signs of sluggish crude demand in the US, weighing down on prices.



Source: Bloomberg

Going forward, we believe the Tehran nuclear program is on the "driving seat" as western powers are almost at closing a deal which could result in Iranian sanctions being lifted, thus more crude output and raising potential oversupply woes in the market. China through the quarter was also a major concern, with subdued economic growth indicators leaving investors questioning "where would potential growth come from…?"

We are still taking a bearish stance on prices as global growth concerns led by China would most likely weigh on demand. There are also underlying signs that OPEC has been pumping more than its monthly target output which could also exacerbate the global glut jitters in the market. We find relatively insufficient factors to cushion the commodity on the downside and therefore we expect prices to end the year below the $60/barrel.

Gold

Gold was very volatile during the quarter under review, recording a range of about $90 as the Greece financial turbulence, worries about global growth and US nonfarm payrolls data weighed on the commodity. The yellow metal glazed early during the quarter after Greece missed its debt repayment deadline, raising jitters about the Greece economy and potential repercussions to the Eurozone and global outlook, pushing gold prices to strike quarterly highs of $1169/oz. Greece missed its deadline to repayment the IMF, leading to Greek leaders calling on Greeks to vote for or against austerity measures proposed by creditors.

However a string of US data pointed out to a more resilient and stable labor market, convincing traders that a Fed rate hike should be underway before the end of the year, as we saw gold tumbling to reach lows of $1081/oz.

Although event risk to ignite haven bids was very minimal during the quarter, we anticipate prices to rebound during q4 mainly on the subdued global outlook. Recently China cut interest rates for the 5th time this year after disappointing trade and manufacturing data among other economic indicators, while in Europe, ECB hinted a dovish tone during its last meeting, presenting room for capital flight from developed and most likely emerging markets, creating a bull market for gold.