Botswana Market Watch

18 June 2021

GMT		International and Local Data			
	BO	Nothing on the cards			
-	JN	BOJ Policy Rate	Jun 18	-0,1%	-0,1%
-	EC	EU Finance Ministers Meet			
-	UK	United Kingdom Sovereign Debt to be rated by Fitch			
06:00	GE	Producer prices y/y	May	6,4%	5,2%
06:00	GB	Retail sales excluding auto fuel y/y	May	27,1%	37,7%
08:30	GB	BoE/GfK inflation (next 12 months)	May		2,7

Africa	What happened?	Relevance	Importance	Analysis
Food prices	Expectations of rising inflation the world over have come roaring back in 2021, underpinned in part by soaring commodity and food prices. The latest FAO Food Price Index showed that international food prices continued to surge in May	With weather conditions still shaky in some of the world's largest food-growing regions and demand still robust, food prices are expected to remain elevated	**4/5** (economy, monetary policy)	The FAO Food Price Index (FFPI) averaged 127.1 points in May, 4.8% higher than in April and 39.7% above the same month in 2020. The May increase represented the biggest month-on-month gain since October 2010. It also marked the twelfth consecutive monthly rise in the value of the FFPI to its highest value since Sep 2011
Cost of slow vaccine rollout	A study done by the World Bank showed that the slow rollout of COVID-19 vaccines in Africa could cost the continent $14bn a month in economic output	Less than 0.5% of the continent's roughly 1.3bn people are fully immunized, according to Bloomberg data	**4/5** (economy)	African is struggling to secure vaccines as wealthy countries hoard vaccines for their citizens. This has ultimately resulted in a much slower rate of vaccination in Africa than in other parts of the world
World Health Organization – Africa vaccine	The World Health Organisation reported that Africa needs at least 20mn doses of the AstraZeneca Plc vaccine by mid-July to complete the immunization of people who have had their first doses	The WHO noted that less than two doses per 100 people have been administered in Sub-Saharan Africa, well below the global average	**4/5** (economy)	According to the WHO Regional Director for Africa Matshidiso Moeti, a further 200mn doses are needed for Africa to vaccinate 10% of its population by September. The pace of vaccine rollouts is a key determinant of the pace of economic recoveries

Global	What happened?	Relevance	Importance	Analysis
BoJ	The BoJ left its rate targets unchanged and extended the Sep deadline for the pandemic-relief programme by a further six months. Furthermore, it rolled out a climate change policy	Climate change policy aims to boost lending into efforts to combat climate change in the hope it also helps bolster growth	**4/5** (monetary policy)	The climate change policy will be rolled out this year, but at best, this will only help the economy at the margin. There are still enormous structural reforms needed, mostly on the fiscal front that is saddled with mountains of debt
US labour market	Although weekly jobless claims climbed for the first time in over a month, it is important to note the broader trend and the data that shows that layoffs are easing	The data remains somewhat erratic still, but the improving trend remains intact and will persist	**3/5** (economy)	Other real-economy data confirms that the economic recovery is underway and that the demand for labour will steadily improve through the months ahead, especially in the PMI data
EZ inflation	Eurostat data confirmed that inflation in the EZ rose 0.3% on the month to register a 2.0% y/y increase, driven by energy and services prices	The trend in inflation is still up and will rise towards 2.5% by the end of the year, above the ECB target	**3/5** (economy)	Although inflation is rising, it is not yet considered a major problem. Stripping out the volatile food and energy prices and core inflation is just 0.9% y/y confirming that there is no underlying rise in prices

Local F.X. Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2421	1.3563	1.2661	1.3432
BWPUSD	0.0883	0.0965	0.0900	0.0956
GBPBWP	15.7447	14.4352	15.4040	14.7360
BWPEUR	0.0741	0.0808	0.0758	0.0793
JPYBWP			9.9626	10.3887
USDZAR	13.5017	14.6461	13.8182	14.3292
EURUSD	1.1441	1.2396	1.1709	1.2128
GBPUSD	1.3367	1.4485	1.3680	1.4172

Benchmark Yield Curve

6m	1.5740
3y	4.7750
5y	5.1250
22y	6.7750

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-2.0280	0.0000
3m	-6.5325	0.0000
6m	-16.3459	0.0000
12m	-38.5076	0.0000

Equities

BSE Domestic Index	6622.1
BSE Foreign Index	1550.85

Economic Indicators

GDP	-4.1	**Bank Rate**	3.75
CPI	6.2		

- The Central Bank decision on rates was the highlight of the trading session yesterday. The Bank of Botswana left the benchmark rate unchanged at 3.75% a record low achieved when the bank made its final adjustment to the downside of 50 bpts on the 8th October 2020.
- Since then we have had inflation spike dramatically with the May reading coming in at 6.2%, which is out of the bank's 3-6% target band. The governor of the bank, Mr. Moses Pelaelo told reporters in a virtual meeting that *"The increase in inflation in May mainly reflects second-round effects of the recent upward adjustments in administered prices,"* The governor expects inflation to return to the target band by the 2nd quarter of 2022. For now, the bank seems very comfortable with the deep negative real interest rates which it views as necessary to repair the balance sheet of many corporates and consumers post the hard lockdowns as a result of COVID-19
- Given the inflation backdrop that Botswana currently faces we will periodically look at the oil markets and developments therein given the contribution that energy makes to the inflation basket.
- The Brent crude front-month price has been under some more pressure in response to the rallying dollar, with a dip down to $72.50/barrel noted overnight. This represents a 3.3% fall from recent peak levels near $75/barrel and suggests that dollar and rates volatility is spilling over into oil markets. WTI has fallen to $70.6/barrel. The effect of a dollar recovery notwithstanding, the demand vs. supply outlook remains relatively bullish and should reduce downside potential in oil prices at least until more Iranian or OPEC supply comes online. Expectations for oil demand to remain supported link primarily to the resumption of economic activity in key oil consumers such as the US.
- In the wake of the FOMC decision and guidance, the initial spike in yields has given way to some consolidation, although the shape of the curve appears to have remained flatter than it was before the announcement. Investors will need to steadily tilt their expectations on inflation and how policy might unfold, although there is also an appreciation that the shift by the Fed will take time. The knee-jerk reaction has unwound, and through the day, the USD might well give up some of the previous day's gains. However, looking forward, the automatic short USD positioning will need to be more deeply considered.
- In terms of real economic data, mobility in motor vehicle travel increased 55% in April y/y. This is hardly surprising given the pandemic and still reflects a population that is still holding back on travel. The nominal travel numbers still remain well down on April 2019, suggesting that there is a long way to improve before a full recovery is achieved. Not only are many people still preferring and choosing to work from home, but holiday travel remains severely curtailed. That being said, a recovery is underway, and the mobility stats will steady improve through the remainder of the year, with the vaccine rollout proving successful.
- The USD this morning remains on the front foot and although there are signs that underlying momentum is slowing, there is no clear-cut reversal pattern that has emerged. However, the market has moved a long way in a short space of time and it may be premature to turn overly optimistic on the USD on the basis of the FOMC guidance alone. It will be the data in the upcoming months that will drive expectations and lest we forget, the Fed is in no hurry to taper its asset buying just yet. Recent polls suggest that may only materialise in 2022 and even then, that will depend on a number of factors including the manner in which the pandemic unfolds, the strength of the cyclical recovery and the strength in inflation.
- The BWP had a torrid day yesterday shedding around 1.8% following the Central Bank decision to stay pat on rates. There is some policy divergence between the Fed and the BoB and this will result in the USD being favoured, at least in the short term.

ZAR and Associated Comments

- The ZAR led emerging market currencies lower yesterday, following the previous evening's moves as the US Federal Reserve adopted a more hawkish forward policy guidance. The local currency weakened further during the day, hitting an intraday low of 14.1615/$, its weakest level in a month.
- Riskier emerging market currencies such as the ZAR tend to outperform during rate-cutting cycles as offshore funding conditions become cheaper, while domestic yields remain relatively high on account of fiscal and structural economic challenges. The onset of the COVID-19 pandemic saw interest rates being slashed by the world's major central banks, combined with huge increases in money supply through asset purchases, this created cheap financing conditions and excess liquidity in financial markets. Thus, along with the eventual tightening of monetary policy by DM central banks, EMs will be subject to correction as the market begins to price in these changing dynamics. While rate hikes remain roughly two years away, earlier tapering of asset purchases by the US Fed will see US yields begin to rise as they did in Q1, squeezing the interest rate differential and eroding the resilience the ZAR has enjoyed over the past year.
- Despite the knee jerk reaction yesterday, this will also occur gradually over time. In the meantime, the ZAR may yet find support through the trade account as higher commodities continue to buoy exports relative to imports, which should stay due to still subdued domestic demand. Furthermore, retail sales stats yesterday did little to help the ZAR in terms of economic recovery prospects from the pandemic. While recording high annual growth due to base effects, retail sales declined 0.8% m/m in April, far lower than expectations for a 1.5% m/m rise. However, this should feed the view that overall demand domestically remains weak, which has ultimately favoured the ZAR through a higher trade balance over the past year.
- There is not much in the way of data for the day ahead, which will leave emerging market currencies to the ebb and flow of risk appetite. The trade-weighted US dollar index (DXY) has steadied at two-month highs after its upwards progress was stalled yesterday by rising jobless claims data. This may open the door for the ZAR to recoup some of yesterday's losses, which ultimately saw the unit plunge 2.90% against the USD. Thus far, the ZAR has bounced back the most against the greenback in early morning

trade. However, risk appetite has not fully recovered following the FOMC's surprise hawkishness with market sentiment during the Asian trading session this morning seeing mixed performances amongst EM currencies. .

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