

## Botswana Market Watch

## 15 June 2021

GMT		International and Local Data	Period	Exp	Previous
	<b>BO</b>	<b>CPI y/y</b>	May		5.6%
12:30	<b>US</b>	Empire manufacturing	Jun	22,00	24,30
12:30	<b>US</b>	PPI final demand y/y	May	6.20%	6.20%
12:30	<b>US</b>	Advance retail sales m/m	May	-0.40%	0.00%
12:30	<b>US</b>	Retail sales ex. auto and gas	May	1.00%	-0.80%
13:15	<b>US</b>	Industrial production m/m	May	0.60%	0.70%
13:15	<b>US</b>	Manufacturing production m/m	May	0.70%	0.40%

Africa	What happened?	Relevance	Importance	Analysis
<b>Food prices</b>	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 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	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
<b>Cost of slow vaccine rollout</b>	The World Health Organisation reported that Africa needs at least 20mn doses of the Astra-Zeneca Plc vaccine by mid-July to complete the immunization of people who have had their first doses	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
<b>World Health Organization – Africa vaccine</b>		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
<b>Chinese monetary policy</b>	China has rolled over some CNY200bn through medium-term loans and left the seven-day reverse repo rate unchanged at 2.20%	Policy is stable but remains accommodative and will not detract from the growth outlook	2/5 (monetary policy)	By virtue of the PBoC injecting liquidity to offset the same amount of loans that were maturing on the same day, the central bank is signalling that it is not yet ready to remove accommodation
<b>EZ production</b>	EZ production grew by 0.8% m/m, and 39.3% y/y in April, as a low base and broad-based recovery bolster growth data. The recovery is firmly underway	The real out- performance came from durable goods, which more than doubled	3/5 (economy)	A combination of pent-up demand, savings being deployed, a re-opening economy, ultra-accommodative monetary policy and a credit cycle have all played a role in boosting growth
<b>Vaccine latest</b>	Novavax's vaccine is reportedly 90% effective, and the company will be submitting data to the FDA for approval in Q3.	It is another two-dose vaccine that will further help alleviate supply-side pressures	4/5 (economy)	Other companies will also come to market in the months ahead, and others are currently seeking approval. Supply-side pressures will ease later this year

### Local F.X. Opening Rates and Comment

CUSTOMER					Benchmark Yield Curve		Forward Foreign Exchange			
	BUY	SELL	BUY	SELL						
	CASH	CASH	TT	TT				BWPUSD	BWPZAR	
BWPZAR	1.2350	1.3521	1.2588	1.3391	6m	1.5740				
BWPUSD	0.0897	0.0980	0.0914	0.0970	3y	4.7750	1m	-2.0280	0.0000	
GBPBWP	15.7158	14.3644	15.3757	14.6636	5y	5.1250	3m	-6.5325	0.0000	
BWPEUR	0.0739	0.0809	0.0757	0.0794	22y	6.7750	6m	-16.4141	0.0000	
JPYBWP			10.1001	10.5617			12m	-38.6344	0.0000	
USDZAR	13.2236	14.3388	13.5335	14.0286						
EURUSD	1.1639	1.2610	1.1912	1.2337						
GBPUSD	1.3546	1.4679	1.3863	1.4361						
					Equities		Economic Indicators			
					BSE Domestic Index	6599.87	GDP	-4.1	Bank Rate	3.75
					BSE Foreign Index	1550.85	CPI	5.6		

- We have Botswana's inflation print for May today, which will provide context on how inflationary dynamics are playing out in the domestic economy after recording a bumper figure in April. The rise in global commodity prices against the backdrop of ample stimulus remain key risks to the nation's inflation outlook. May's reading is, therefore, expected to be a continuation of the trend seen since January, with consumer price growth likely to be broad-based. As such, investors shouldn't be surprised to see the CPI reading rise above the central bank's ceiling of 6%. With that all said, it remains too early to say whether inflation has peaked or whether the recent spike in inflation is transitory or here to stay. That said, from Q3 onwards, the year-on-year figure is expected to moderate amid lower base effects. Expectations are that while headline inflation may breach the upper bound of the inflation target, that it will fall back within the central bank's target range of 3-6% in the latter part of the year.
- In other news, in order to assist Botswana in mitigating the impact of the coronavirus pandemic, the World Bank (WB) has granted the country a \$250mn loan for budget support. This is the first WB budget support and is one of two planned measures for the country. According to WB Country Director for Eswatini, Botswana, Lesotho, Namibia, and South Africa, Marie Françoise Marie-Nelly, the loan will "support the government's reforms to ensure social spending reaches the poorest and assists Botswana who are most affected by the Covid-19." The loan is a rare request for external budget support by Botswana, which traditionally taps reserves built using income from diamonds.
- Moving onto the international stage, a Covid outbreak in Southern China has disrupted port services and delayed deliveries. The disruptions are reported to be massive and are driving up shipping costs once more. According to Sherina Kamal at Everstream Analytics, waiting times for vessels to berth have lengthened from 0.5 days to 16 days, and the supply-side impact will be significant. Another shipping crisis is unfolding.
- There is a data deluge out of the United States today ahead of tomorrow's FOMC meeting. The recovery in the U.S. retail sector has been fairly robust thus far, and given the amount of stimulus in circulation against the backdrop of a reopening economy, we expect the recovery in the sector to gain pace in the second half of the year. Bets are rising that the Fed will remain as accommodative as possible in the months ahead, which should continue to bolster consumption in the U.S. Savings levels also remain elevated at the moment, and spending could increase as many services industries reopen. It is, however, worth noting that while a strong recovery is expected, the recovery in the sector may be uneven due to the changes in consumer behaviour as a result of the COVID-19 pandemic.
- It has been a quiet start to the week with much of Asia on holiday, but even as Asia comes back to trade, underlying momentum in any direction for the FX markets has been weak. The bias for the USD has however shifted to the upside in a sign that investors may be positioning for some talk of tapering that would boost the performance of the dollar. Instead, most investors are waiting patiently for the FOMC risk event to pass before taking any material direction. Although the Fed will look to be patient, introducing the topic of a taper will likely lend the USD some support and if it doesn't happen at this meeting, it will probably happen at the next.
- The local unit lost some ground yesterday closing below the 0.09400 handle in the interbank market. Local markets should open with a cautious tone given the release of CPI today and the broader global macro backdrop which is consolidative.

## ZAR and Associated Comments

- As markets look to take off risk ahead of the Fed's FOMC policy announcement on Wednesday, reduced appetite for risk saw most emerging market currencies in the red at the start of the week. While also dipping despite the downbeat sentiment, the US dollar held relatively steady following Friday's rise, where the trade-weighted dollar index (DXY) remained near one-week highs.
- The ZAR joined the general mood in currency markets, trading 0.35% weaker to close at 13.7600/\$. With the ZAR appearing to settle into a range sub-14.0000/\$ comfortably, there are signs the local currency may hold current levels or better in the near term. The USD-ZAR tested the 13.8000-handle from below on multiple occasions in intraday trade yesterday, with no attempts managing to break through, suggesting some ZAR bullish momentum remains. Despite this, risks remain to the downside for the local currency. While EM currencies would be subject to volatility should DM central banks start to ditch their dovish narrative, the ZAR is also contending with domestic pandemic risks as the country moves into a third wave of COVID-19 infections alongside issues with vaccine rollout.
- Nevertheless, this didn't stop investors from seeing value in domestic assets last week. In data compiled by Bloomberg, ETFs tracking South African assets recorded inflows of \$52.9 million last week, a 70.3% rise from the week prior. While the currency faces both near term and long term risks, these inflows coincided with the ZAR depreciating over 2% last week, which suggests the local currency may remain supported by investment flows following the current dollar-led temporary correction.
- That said, the USD is likely to remain bid ahead of the big risk event of the week, being the FOMC policy update tomorrow. The run-up to the event has seen hedging costs gradually increase, with short term USD-ZAR options costs measured by implied volatilities rising to more than one-month highs. Specifically, implied volatility for the one-week option tenor has risen to 13.3375% this morning, the highest it has been since early May. While these risk events hold the potential to be a source of volatility in currency markets, recent US Fed meetings have been critical terms of future policy guidance, especially as US inflation picks up and employment conditions improve.
- The day ahead will likely offer limited reprieve for EM currencies as a slew of US economic data, including retail sales and manufacturing prints, may bolster the USD should there be sufficiently positive readings. At the same time, negative data prints will unlikely detract too much from the greenback ahead of the Fed's policy announcement tomorrow. A domestic holiday tomorrow will see thinner mid-week trading conditions locally, with the potential for heightened volatility for the ZAR. The day thus far has kicked off largely where yesterday ended. The ZAR has traded marginally weaker amongst other EM currencies, while the greenback remains supported amidst subdued risk appetite..

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