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Botswana Market Watch

16 June 2021

GMT		International and Local Data			
	BO	Nothing on the cards			
11:00	US	MBA mortgage applications	Jun 11		-3,1%
12:30	US	Import price index y/y	May	10,9%	10,6%
12:30	US	Building permits	May	1730k	1760k
12:30	US	Housing Starts	May	1630k	1569k
18:00	US	FOMC rate decision	Jun 16	0,25%	0,25%

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
Japanese trade	Exports jumped the most in 41 years, by 49.6% y/y, which was actually below expectations, but shows that the recovery is firmly under way	Although private consumption is holding GDP back, exports and external demand are helping	3/5 (economy, monetary policy)	Were it not for strengthening international demand, Japan's economy would be under considerable pressure. Still, the BoJ will likely persist with its easy policy for a while to come
US retail sales	Sales dropped 1.3% m/m in May, while core sales fell 0.7%. However, the trend remains strong and sales remain well above pre-pandemic levels	There are indications that as services reopened, that it diverted funds away from goods sales	3/5 (economy)	As the economies reopen and sales of online goods is replaced by travel and services, so a more normalised level of retail sales will manifest. However, the trend in sales remains up
UK labour market	UK payrolls numbers in May jumped by the biggest on record when they rose 197k. At the same time, the jobless rate fell to 4.7% in the 3m to August	Although numbers at work are still below pre-covid levels, the trend is up and the market recovering	4/5 (economy)	Although there is currently plenty of spare capacity in the labour market, that will gradually dissipate as the economic recovery unfolds and furloughed workers and others head back to work

Local F.X. Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2323	1.3456	1.2560	1.3326
BWPUSD	0.0896	0.0978	0.0913	0.0968
GBPBWP	15.7048	14.4031	15.3651	14.7031
BWPEUR	0.0738	0.0805	0.0756	0.0789
JPYBWP			10.0903	10.5210
USDZAR	13.2072	14.3291	13.5167	14.0191
EURUSD	1.1642	1.2613	1.1915	1.2340
GBPUSD	1.3524	1.4653	1.3841	1.4336

Benchmark Yield Curve

6m	1.5750
3y	4.7750
5y	5.1250
22y	6.7750

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-2.0816	0.0000
3m	-6.3424	0.0000
6m	-16.3898	0.0000
12m	-38.6051	0.0000

Equities		Economic Indicators			
BSE Domestic Index	6621.25	**GDP**	-4.1	**Bank Rate**	3.75
BSE Foreign Index	1550.85	**CPI**	6.2		

- The CPI reading for May was the highlight of the session yesterday although the release did not contain news that would be welcomed by those looking for stable prices. The May reading accelerated through the BoB's 3-6% target band hitting 6.2% year on year. This is the first time the band has been breached in 8 years with the increase in inflation was driven by transport, housing and utility costs as well as a rise in food. What will give comfort to the market is that the BoB has expected the breach and thus it may continue to look through this spike in inflation viewing it as transitory. The CPI reading does however set the backdrop for the BoB decision on rates tomorrow which follows the FOMC meeting later this evening.
- Given the point above relating to energy contributing to the rise in inflation we would like to unpack the movements in the oil markets.
- The front-month Brent crude price has continued to rally overnight, with a break north of $74.7/barrel to mark its highest level since April 2019. This marks an 8.3% month-to-date gain, a 17.6% quarter-to-date gain and a 44% rise year-to-date. This is primarily linked to increased demand for fuel when OPEC agreements still contain supply. However, a look further out the futures curve suggests the price gains could be temporary. Contracts for delivery in 12-months out are cheaper by over $6 per barrel - the highest spread since March's rally. This suggests that suppliers are selling supply forward and would feed into the view that supply could catch up in due course.
- Internationally, today's FOMC meeting has shaped up to be a fairly important one. The tone of the meeting will drive expectations for the direction of monetary policy going forward given the recent focus on rising inflation pressures in the US. The tone will probably be slightly less dovish than in the previous meeting, with Powell likely to say that the committee has started discussing a tapering plan, but that more time and data is needed. Inflation forecasts may be revised higher, but the Fed should stick to its view that the acceleration this year will be transitory. Policy should remain very loose for the months ahead as a result, which will continue to support the markets.
- Given this backdrop we expect FX markets to tread water, the Asian session has been exceptionally quiet and we don't expect anything different from the EU session. Potentially some position squaring at the margin, but that's it.

ZAR and Associated Comments

- The South African financial markets are closed today for a public holiday and thus liquidity in terms of the ZAR will be somewhat thinner than normal. As it stands we have the USD-ZAR biding time around the 13.75 mark as we head into the EU open.

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