

Botswana Market Watch

17 June 2021

GMT		International and Local Data			
	BO	Benchmark Interest Rate decision		June 17	3.75%
09:00	EZ	CPI y/y		May F	2.00%
09:00	EZ	Construction output wda y/y		Apr	18,3%
12:30	US	Initial jobless claims		Jun 12	360k
12:30	US	Philadelphia Fed index		Jun	30,5
14:00	US	Leading Indicators		May	1,3%
16:30	EC	ECB's Visco speaks at 2021 IIF G20 Conference			

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 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
Cost of slow vaccine rollout	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
World Health Organization – Africa vaccine		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
FOMC	Although the Fed did not move on its monetary policy overnight, it did raise expectations for inflation and brought forward the timeline on when it would normalise monetary policy and lift rates	Investors will need to be patient for a little longer as no specific guidance was offered on the timing of tapering QE	5/5 (monetary policy)	As anticipated, the FOMC left its benchmark short-term borrowing rate near zero and will persist with asset purchases for now. But investors will start positioning for normalisation in US monetary policy
UK inflation expectations	Fin Min Sunak weighed into monetary policy guidance when he indicated that there were no signs that inflation was becoming entrenched and that expectations were still well anchored	Sunak expects inflation expectations to be anchored near the 2.0% target despite the near-term break above	3/5 (economy, fiscal and monetary policy)	Sunak was trying to offer a more optimistic outlook and confirm that the authorities should remain accommodative both on the monetary and the fiscal front, with inflation under control and no austerity planned.
Fed market response	The Fed has jolted markets out of their recent complacency. Stock markets will think twice about growth prospects, commodity prices have retreated, bonds are weaker, and the USD has surged	Investors need to adjust to the prospect that stimulus efforts will be unwound and asset price growth may slow	4/5 (markets)	This will put the brakes on the USD's slide. With US rates rising and with investors pricing in a world with less stimulus, asset allocations will need to be made a little more judiciously and EM exposure may be a less obvious trade

Local F.X. Opening Rates and Comment

	CUSTOMER BUY		CUSTOMER SELL		Benchmark Yield Curve		Forward Foreign Exchange			
	CASH	CASH	TT	TT						
BWPZAR	1.2569	1.3711	1.2812	1.3580	6m	1.5760		BWPUSD	BWPZAR	
BWPUSD	0.0900	0.0980	0.0917	0.0970	3y	4.7750	1m	-2.0280	0.0000	
GBPZWP	15.5356	14.2604	15.1995	14.5575	5y	5.1250	3m	-6.5325	0.0000	
BWPEUR	0.0750	0.0816	0.0767	0.0801	22y	6.7750	6m	-15.7463	0.0000	
JPYBWP			10.1885	10.6125			12m	-34.9148	0.0000	
USDZAR	13.4143	14.5559	13.7287	14.2410						
EURUSD	1.1515	1.2476	1.1785	1.2206						
GBPUSD	1.3433	1.4557	1.3748	1.4242						
					Equities		Economic Indicators			
					BSE Domestic Index	6622.1	GDP	-4.1	Bank Rate	3.75
					BSE Foreign Index	1550.85	CPI	6.2		

- Botswana has unearthed the world's third largest gem quality diamond. The 1098 carat stone was presented to the President Mokgweetsi Masisi on yesterday by Debswana Diamond Company's acting managing director Lynette Armstrong. Reuters quoted the following - "This is the largest diamond to be recovered by Debswana in its history of over 50 years in operation," Armstrong said. "From our preliminary analysis it could be the world's third largest gem quality stone. We are yet to make a decision on whether to sell it through the De Beers channel or through the state-owned Okavango Diamond Company," Armstrong said.
- Against a backdrop of a CPI number which has breached the upper band set by the Bank of Botswana we have the verdict on interest rates being released today. Market consensus is for an unchanged decision, keeping the benchmark rate at 3.75% with the bank likely to extend its view that inflation will be transitory and that CPI will return to within the target band by the end of the year. We would like to point out to readers that the only trajectory for rates is up, the bigger question is one of timing. Global Central Banks have become more hawkish over the past couple of weeks and we would not be surprised to see the BoB adopting a similar tone to manage market expectations. Running deep negative real yields is something the BoB is not known for.
- The big news overnight was, of course, the FOMC outcome. Although the Fed opted not to change monetary policy, it did release the latest version of its dot plots. It would appear that the latest inflation data has made a substantial difference. The Fed raised its expectations for inflation, and collectively, members of the FOMC brought forward their timeframe on when the Fed would start to hike rates. The topic of the taper is therefore becoming a key consideration. Although there is no indication as to when the taper might begin, the Jackson Hole Symposium later this year might offer a good platform to unpack the Fed's thinking and offer investors some guidance.
- The response from the market has been immediate. Bond yields have risen sharply, equity investors are rethinking their longer-term growth prospects, commodity prices have retreated, and the USD has surged. Investors will need to turn more judicious in their asset allocation in a world with less monetary accommodation. The USD will benefit from that in that overall risk aversion will be a little higher. Upcoming data that offer any added perspective on the business cycle will be key, starting with the weekly jobless claims today and the leading indicator.
- Moving over to the FX markets we have the USD very much on the front foot following the Fed's hawkish tone last night. Risk aversion will have risen slightly, and while the knee-jerk reaction may not be sustained, the changing monetary policy landscape may change overall prospects for the USD going forward. Investors will need to rethink the obvious short-USD trade that has prevailed in recent months, and this will likely reduce the underlying momentum to the weaker USD.
- Not surprisingly we have the BWP under pressure with the 0.0940 level broken to the downside. A cautious open is expected given the macro risks associated with the local rate decision.

ZAR and Associated Comments

- The ZAR held steady through most of international trade yesterday as domestic markets were shut for Youth Day. Ahead of the US Federal Open Market Committee (FOMC) meeting, ZAR traders opted for strength during the day as the unit rose roughly 0.5% to 13.7250/\$ after closing the previous day at the 13.8000-handle. A presidential address on Tuesday evening, where it was announced tighter restrictions and a move to virus alert level 3 would be implemented as the country endures a third wave of coronavirus infections, failed to move the ZAR as the market remained fixed on the Fed's policy update.
- Ultimately, the FOMC announcement did not disappoint, and overnight volatility eclipsed all of yesterday's undue ZAR strength. The USD-ZAR shot up over 2% to 14.0400 during the US trading session, a three-week low, as the Fed's policy announcement marked a clear turn away from the overly dovish narrative that has been the case at recent meetings. US Treasury yields also spiked, alongside the USD trade-weighted index (DXY), which rose to two-month highs.
- In summary, the Fed brought forward projections for interest rate hikes into 2023 from a prior forecast of 2024, with the majority of Fed officials pencilling in two 0.25% rate hikes in 2023. Though the Fed was undoubtedly the most hawkish it has been since the onset of the pandemic, policy rates will remain highly accommodative near zero for the time being. While the Fed improved the growth and employment outlook, it remains committed to ensuring a full labour market recovery due to the economy remaining 7.5 million jobs down from pre-pandemic levels.
- As it stands, US rate hikes are at least two years away and will likely only be moved forward again should there be signs of consistently high and non-fleeting inflation. Thus, the major risk to EM currencies that have, over the past year, enjoyed the flush liquidity dynamics in developed markets now lies in when the Fed will begin tapering its monthly asset purchases. On that front, the Fed stated yesterday that taper talks would now be more prominent in FOMC meetings going forward, which will ultimately result in the tightening of financing conditions in the US and reduced flows into emerging markets.
- In the spot markets, the US dollar has held steady on a trade-weighted basis after its overnight gains while the ZAR has hovered slightly below the 14.0000/\$-handle in early morning trade. Judging by risk appetite in the Asian trading session this morning, with equity indices and index futures trading in the red, the greenback will likely retain its tailwind for the day ahead once western markets awaken to the Fed news. The ZAR will thus not likely gain too much positive sentiment from domestic retail sales data due later today, as concerns over potential Fed tapering in the coming months will weigh on risk appetite.

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