Botswana Market Watch

21 June 2021

GMT		International and Local Data			
	BO	Nothing on the cards			
12:30	US	Chicago Fed activity index	May	0,88	0,24
13:30	US	Fed's Bullard Discusses Economic Outlook			
14:15	EC	ECB's Lagarde in European Parliament			
19:00	US	Fed's Williams Speaks at Banking 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	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
Virus latest	The so-called Delta variant that has impacted heavily on the UK and Portugal has become the dominant strain across the EU	It is threatening to keep restrictions in place for longer and delay any recovery	4/5 (economy)	Given the number of vaccines that have been deployed and continue to get deployed, it is unlikely that full lockdowns will be announced
Fed-induced global market correction	Global stock markets have tumbled, risk aversion ramped up, the VIX has rallied, bonds are back in favour, and the USD has surged in a strong recovery	The response to the Fed may be a touch overdone in the s-term but reflects how fragile markets are	4/5 (markets)	Markets across the spectrum remain heavily dependent on ultra-loose monetary policy by the Fed and other major central banks. Talk of tapering implies, loose policy effects will wane
UK house prices	House prices in the UK showed the biggest gains for any year since 2015 as available housing remains in short supply. This now takes prices 7.5% higher than pre-pandemic levels of Mar 2020	Covid forced many homeowners to reconsider where they want to live, and tax breaks assisted in driving prices higher	3/5 (economy)	It is all a function of the decentralisation of the population outside of the big city nodes, assisted by the tax breaks that were offered to homeowners during the pandemic. It has helped keep private balance sheets well supported

Local F.X. Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2629	1.3811	1.2872	1.3678
BWPUSD	0.0877	0.0959	0.0894	0.0950
GBPBWP	15.7036	14.3688	15.3638	14.6682
BWPEUR	0.0740	0.0808	0.0758	0.0793
JPYBWP			9.8643	10.3073
USDZAR	13.8173	14.9791	14.1411	14.6551
EURUSD	1.1385	1.2336	1.1651	1.2070
GBPUSD	1.3248	1.4353	1.3559	1.4043

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	-15.7463	0.0000
12m	-34.9148	0.0000

Equities / **Economic Indicators**

BSE Domestic Index	6620.07	GDP	-4.1	Bank Rate	3.75
BSE Foreign Index	1550.85	CPI	6.2		

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- SeaRail, a subsidiary of Botswana Railways has completed the construction of BWP6.8m warehouse in the port of Walvis Bay Namibia. This comes as the Botswana gears up its logisitical capabilities and capacity given that many projects are likely to come on line within the next decade. Mmegi reported the following - *The facility adds to the dry port's warehousing capabilities and is anticipated to greatly improve traffic volumes. The warehouse is suitable for high-value commodities and others that require under-roof storage like copper, chemicals, machinery, vehicles, fertilisers, processed foods, beverages, foodstuffs, grains, building materials, steel, general cargo, and mining products. In an interview this week, Dry Port manager, Derrick Mokgatlhe said Sea Rail functions as a transport link to regional neighbours, diversifying port routes for Botswana's strategic commodities*
- Botswana remains steadfast in its programme to diversify the economy and create as many trade points as possible. Given the county's fiscal position and its stable government we see the potential for the country to outperform its regional peers in the coming years.
- Moving onto developments abroad, it was a tumultuous end to the week with the Fed's guidance that it would consider tapering at some point triggering a sharp bout of profit-taking across markets globally. Stock markets corrected significantly lower, bonds suddenly looked a lot more attractive given the rise in risk aversion, emerging market assets sold off, commodity prices collapsed, and the USD surged. Investors will argue that it was long overdue and that markets should settle back down as they begin to position for the reality that none of this tapering will be happening any time soon. Furthermore, should markets continue to correct lower, the Fed might seek to calm market panic through the release of soothing comments suggesting that the taper would only happen when the economy is strong enough to tolerate it and able to expand regardless. The Fed will not want to undermine the economic recovery currently underway.
- Infrastructural spending plans seem to be gaining some support from both sides of the aisle, although the size of the deal is significantly smaller than what the White House had originally hoped for. Nonetheless, a bipartisan deal that will pass may appeal to the Biden administration more than haggling over a much larger deal that will meet with stiff resistance. Instead, the White House might prefer to break this all down into smaller deals that can be debated and decided on, on their merit. For example, a deal on social spending and "social infrastructure" might be held back for another debate later in the year.
- Locally we expect the markets to have a very measured start to the session following last weeks massive risk off trading conditions. It reminded investors just how dependent current asset prices are on very accommodative monetary policies and just how difficult it will be to wean markets off them. However, with inflation rising, it seems highly probable that the major central banks will look at rolling back their stimulus efforts and financial markets will need to rely on the underlying growth momentum of economies rather than cheap money to bolster their asset prices.

ZAR and Associated Comments

- The ZAR extended losses against the US dollar at the end of the week, a move which followed on from Wednesday's FOMC policy announcement where the US Federal Reserve made a precise hawkish turn. The majority of FOMC members forecast interest rate hikes in 2023, with tapering discussion being more prominent in the months ahead. However, St. Louis Fed President Bullard was in the newswires on Friday as he noted the potential for rate hikes in late 2022 on account of upside risks to inflation.
- More hawkish Fed speak ultimately saw the USD remaining king into the weekend, while US Treasury yields continued their decline as investors looked to unwind reflation trade bets. The ZAR, meanwhile, showed its true colours as a higher-beta asset as it led emerging market currencies lower, falling 1.50% on Friday to close at 14.3500/$. The local currency was also the worst hit week-on-week as the substantial correction saw the unit depreciate close to 4.50%.
- As global markets price in eventual monetary policy normalisation and asset purchase tapering from DM central banks, riskier assets such as the ZAR will struggle to make headway in the interim. However, with the clear intention from the Fed last week, EM central banks will also begin to be clearer in forward policy guidance as they attempt to calm financial market volatility.
- On that note, SARB Governor Lesetja Kganyago stated on Friday that the reserve bank stands ready for global monetary tightening. The governor sees South Africa normalising policy rates from a very solid footing, given the progress since last year and the better than expected current account and budget balance. While the SARB will adjust its own policy in accordance with DM central banks, it would still need higher inflation to justify doing so. However, should the ZAR follow through with more weakness, we will likely see exchange rate weakness feed into higher inflation domestically, allowing for rate hikes in H2.
- Looking ahead, the new week has started where the last one left off. The USD has extended gains in early morning trade, at the expense of other major and emerging market currencies. While the global data card is slim for the day ahead, the domestic market will receive an update on the inflation front later in the week, with both consumer and producer price inflation data due Wednesday and Thursday. In the spot markets thus far, the ZAR has continued to trade weaker alongside the majority of the EM currency basket. Judging by risk appetite during the Asian trading session, with most Asia/Pacific equity indices trading in the red, gains for riskier assets will likely be few and far between at the start of the week. As markets come to grips with last week's developments, the unwinding of the reflation trade will see riskier and higher growth assets struggle for traction in the near term.. .

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