

Botswana Market Watch

22 June 2021

GMT	International and Local Data				
09:00	BO	Botswana to sell BWP10bn 7-Day certificates			
14:00	US	Existing home sales			May 5,72mn 5,85mn
14:00	EZ	Consumer confidence			Jun A -3,5% -5,1%
14:00	US	Richmond Fed manufacturing index			Jun 18.00% 18.00%
14:30	US	Fed's Mester Discusses Monetary Policy and Financial...			
15:00	US	Fed's Daly Speaks at Peterson Institute Event			
18:00	US	Powell Testifies to Congress on Covid-19 Response and Economy			

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
IMF – Switzerland	The IMF backed the SNB's expansive monetary policy, which aims to prevent rampant appreciation of the CHF	IMF believes that financial instability might arise if the SNB cuts back on stimulus	3/5 (monetary policy)	Although the IMF added that FX interventions should be kept to a minimum, the entire aim of QE is to debase the currency and fight deflation
Fedspeak	Fed Chairman Powell addressed the House Select Sub-committee on the coronavirus. He confirmed that the economy was recovering and had improved greatly	Powell also confirmed that Fed would do everything it can to support the recovery until complete	4/5 (monetary policy)	Although inflation has increased notably in recent months, and the economy recovering, the Fed will remove monetary stimulus gradually so as not to disrupt the economic recovery
ECB speak	ECB President Lagarde made it clear yesterday that the US and the EZ economies are in very different situations concerning inflation as she played down the impact from the US	The ECB believes the outlook for inflation in the EZ will be moderate. The ECB is in no position to consider tapering	4/5 (economy, monetary policy)	The ECB will not be looking to taper its monetary stimulus any time soon. The effects of the pandemic restrictions still weigh heavily on economic activity, and the central bank will feel that it can persist with its support

Local F.X. Opening Rates and Comment

	CUSTOMER BUY		CUSTOMER SELL		Benchmark Yield Curve	Forward Foreign Exchange				
	CASH	CASH	TT	TT			BWPUSD	BWPZAR		
BWPZAR	1.2495	1.3652	1.2736	1.3521	6m	1.5750				
BWPUSD	0.0877	0.0958	0.0894	0.0949	3y	4.7750	1m	-2.0280 0.0000		
GBP/BWP	15.8356	14.5053	15.4930	14.8075	5y	5.1250	3m	-6.5325 0.0000		
BW/PEUR	0.0736	0.0804	0.0754	0.0788	22y	6.7750	6m	-15.7463 0.0000		
JPY/BWP			9.9134	10.3480			12m	-38.4004 0.0000		
USDZAR	13.6706	14.8227	13.9910	14.5020						
EURUSD	1.1434	1.2387	1.1702	1.2119						
GBPUSD	1.3359	1.4474	1.3672	1.4161						
					Equities		Economic Indicators			
					BSE Domestic Index	6624.22	GDP	-4.1	Bank Rate	3.75
					BSE Foreign Index	1550.85	CPI	6.2		

- Local news flow of economic or market significance is somewhat on the thin side as we head into the Tuesday session. The broader macro backdrop is one of asset price realignment following the more hawkish tone by the Fed last week. There was a massive flight back to the USD and US Treasury yields rose across the curve resulting in riskier assets being shunned from emerging markets to base metals.
- The Pula was certainly not spared and neither were many regional currencies such as the Rand and the Kwacha. There has however been a mild recovery at the start of the week, news wires released Federal Chairman Jerome Powell's prepared testimony for the congressional hearing to take place today at 18.00 GMT. He stated that he sees a sustainable improvement in the economy and that he rising inflation will not last. He was quoted as saying *Inflation had picked up but should move back toward the Fed's 2% target once supply imbalances resolve*
- This has been welcomed by the market and we have seen the USD Index consolidate off its recent highs which will be supportive of the likes of the Pula at the open. Granted we have slipped below the 0.0920 handle, but we see a floor forming and the potential for a recovery in the making.
- Given the impact of oil on inflation we remain committed to bringing the reader information on this market from time to time.
- The front-month Brent contract has breached the \$75 per barrel mark for the first time in more than two years as the market continues to tighten rapidly. Prices gained almost 2% yesterday and have kept the bullish momentum going this morning through the Asian session as the demand outlook remains positive while stockpiles continue to be reduced. Reports suggest that stockpiles at the key US storage hub of Cushing fell again last week from the lowest level since March 2020. Further evidence of these tightening supplies is the fact that the spread between the third and fourth month WTI contracts has widened to over \$1.00 per barrel for only the second time in 13 years. When this last occurred, oil was trading well above \$100 per barrel. Traders are clearly expecting a big drawdown in supplies as US travel continues to return to normal.
- As the market tightens, pressure will be building on OPEC+ to release more supply. The cartel will be meeting next week and we could see some announcements made regarding their expected production increases beyond July. Unless more output is returned to the market, we could face a notable crude shortage through the second half of the year, which could take prices even higher in the months ahead.
- Looking at the day ahead we have the weekly T-Bill auction taking place today, there is also a couple of data releases abroad coupled with Fed speak which should keep the markets occupied for the session.

ZAR and Associated Comments

- Market sentiment remained tetchy at the start of the week, with emerging market currencies showing mixed performances yesterday as global markets recovered from the US Federal Reserve's surprise hawkish tone last week. The ZAR swung intraday losses which saw the unit hit as low as 14.4000 against the US dollar, its weakest in one and a half months. The dollar edged lower against a basket of major currencies but remained buoyed near two-month highs.
- With the dollar's recent rally showing signs of slowing, risk appetite was ultimately given a chance to recover and higher beta assets swung into positive territory on the day after struggling for traction earlier on. The ZAR went on to post a 0.75% gain to close the first day of the week at 14.2400/\$. Having said that, with the market now all but gauging when the Fed may begin tapering asset purchases in the coming months, the USD's rally may be far from over. As such, the ZAR's resilience up to this point and demand for domestic assets may start to dwindle in the interim as developed world yields catch up with inflation expectations.
- Last week's kneejerk reaction was linked to heightened risk aversion surrounding the Fed meeting as well as the clearing of dollar short positions as the greenback rose. However, EM ETF inflows also suffered last week as a result, which may be pre-empting moves to come. ETFs tracking EM bonds and stocks were positive, but the lowest since the 33-week long streak of inflows began last October. For SA, ETFs tracking bond and equities remained positive but were, in total, 82.4% lower than the prior week's inflows.
- Should inflows pick up once again, though, this would indicate sentiment remains on the side of emerging market assets with the global pandemic recovery still with some room to run. For the ZAR and domestic assets to capture further upside in the months ahead, progress on the economic recovery front is needed alongside reforms to deal with the country's growth-sapping structural issues. On the growth front, the day ahead will see the release of the SARB's leading indicator. While the indicator remains distorted by base effects, there are signs of SA's economic recovery gaining some traction. However, the data is unlikely to hold much market-moving potential, given the impetus remains on whether last week's risk-off move is a sign of more to come.
- For the time being, the dollar has cemented itself higher and paved the way for further gains should more hawkish Fed speak follow in the coming weeks. In early morning trade thus far, the ZAR has traded with a slightly bearish tilt above yesterday's close at the time of writing. Buoyant equity indices in the Asian trading session suggests risk appetite has recovered, however, indicating some USD strength may be undone as markets settle after last week's rout.

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