

Botswana Market Watch

23 June 2021

GMT	International and Local Data			
	BO	Nothing on the cards		
11:00	US	MBA mortgage applications	Jun 18	4.2%
12:30	US	Current account balance	1Q	\$-207,05bn
13:45	US	Markit PMI manufacturing	Jun P	61,8
14:00	US	New home sales	May	875k
15:00	US	Fed's Bostic Discusses Systemic Racism		
20:30	US	Fed's Rosengren Discusses the 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	WTO Director-General Ngozi Okonjo said that Africa is working with the European Union and other partners to help create regional vaccine manufacturing hubs in South Africa, Senegal and Rwanda	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
Africa vaccine hubs		Regional vaccine production hubs mean that Africa will be more capable of responding to pandemics and won't be as reliant on the rest of the world	4/5 (economy)	The over-centralization of vaccine production capacity is incompatible with equitable access in a crisis situation. Regional production hubs, in tandem with open supply chains, offer a more promising path to preparedness for future health crisis

Global	What happened?	Relevance	Importance	Analysis
Japanese factory activity	It expanded at the slowest pace in four months in June, a sign that momentum was slowing as the Jibun Bank Flash Japanese PMI fell to 51.5 in June from 53.0 the previous month	It reflects the pressure many companies find themselves under, given the ongoing restrictions	2/5 (economy)	Overall, the data was mildly disappointing but still pointed to expansion in broader activity levels, albeit at a slower pace. The combination of the Olympics and further easing of restrictions will see the data improve
Virus latest	Although vaccination drives are continuing, India has declared yet another variant on top of its delta variant named delta plus.	India has listed this variant as a concern as it exhibited greater transmissibility	4/5 (economy, pandemic)	Each new variant holds the potential to spread again, and it is unclear how effective the existing vaccines will be against them
Fed's Powell testimony	Fed Chairman Powell reiterated the Fed's stance that they would seek to encourage a broad and inclusive recovery in the jobs market and not raise rates too quickly on inflation fears alone	The Fed will not raise rates pre-emptively and will wait for actual indications of inflation and other imbalances	4/5 (economy, monetary policy)	For now, this will ease fears that the Fed would move sooner than anticipated and that a large dislocation in financial markets is warranted. Instead, some less volatile trading will resume, and much of last week's moves unwound

Local F.X. Opening Rates and Comment

	CUSTOMER BUY		CUSTOMER SELL		Benchmark Yield Curve		Forward Foreign Exchange			
	CASH	TT	CASH	TT						
BWPZAR	1.2521	1.2763	1.3666	1.3534	6m	1.5760		BWPUSD	BWPZAR	
BWPUSD	0.0877	0.0894	0.0957	0.0948	3y	4.7750	1m	-2.0280	0.0000	
GBP/BWP	15.8526	15.5097	14.5356	14.8385	5y	5.1250	3m	-6.5325	0.0000	
BW/PEUR	0.0736	0.0754	0.0803	0.0787	22y	6.7750	6m	-16.6140	0.0000	
JPY/BWP		9.9527		10.3683			12m	-38.6246	0.0000	
USDZAR	13.6993	14.0204	14.8537	14.5323						
EURUSD	1.1442	1.1710	1.2400	1.2132						
GBPUSD	1.3373	1.3686	1.4489	1.4176						
					Equities		Economic Indicators			
					BSE Domestic Index	6624.22	GDP	-4.1	Bank Rate	3.75
					BSE Foreign Index	1550.85	CPI	6.2		

- COVID-19 is rapidly spreading through South Africa's most prosperous province namely Gauteng which is some 350 km to the east of the Botswana capital Gaborone. The proximity of Gauteng to the Botswana border will result in the health officials becoming more vigilant over the coming weeks with South Africa firmly in the grip of the third wave of the pandemic. Some 70% of new cases are however being recorded in Gauteng, and thus the significance is heightened for Botswana.
- Against this backdrop it is not surprising to see parts of Botswana society expressing concern. The Teachers' Union has sent a letter to the Minister of Basic Education, Fidelis Molao last week asking him to provide clarity on the vaccination of teachers as well as asking for the closure of schools over the winter months. MMEGI reported - *The demand letter, dated June 18, 2021, issued by Botswana Teachers Union (BTU) and Botswana Sectors of Educators Trade Union (BOSETU), states that there is overwhelming evidence that demonstrates teachers are exposed to the risk of contracting COVID-19 than anyone else across the sectors. It reads, both infections and deaths are the highest in the teaching profession than any other sector. The unions demanded that teachers be provided with protective equipment as there is overwhelming evidence that they are at high risk. "Despite the overwhelming empirical evidence, which demonstrates teachers have been disproportionately affected by COVI-19 and are correctly classified as frontline workers, your government has failed to provide teachers in schools with basic personal protective equipment to create a safe working environment," read in part of the letter.*
- Economically speaking, the country can ill afford another set of hard lockdowns, we have seen greenshoots of economic growth coming through which needs to be encouraged given the economic devastation which has hit the poorest of the poor the hardest.
- Moving over to the international stage, The main event yesterday were comments by Fed Chairman Powell when he testified before a U.S. House of Representatives panel. His comments will have soothed markets at the margin as he clarified that the Fed would not move pre-emptively, would seek a full and inclusive economic recovery and would wait for clear signs in the data that inflation was taking hold before withdrawing monetary support. The USD retreated slightly on the news and it is quite likely that the weight of the twin deficits and the Fed's current QE will once again weigh on the general performance. Through the remainder of the week and possibly next, financial markets will unwind some of last week's kneejerk reaction to the FOMC.
- Today will see the Market flash manufacturing and services PMI data released. In both cases, the PMI readings have been steadily climbing to reflect a strong recovery, although this latest data will likely show a slight moderation in the rate of expansion from levels that were always going to be difficult to sustain. A Reuters poll shows that the manufacturing PMI could dip to 61.5 in Jun from 62.1 in May, while the services PMI could moderate to 70.0 in June from 70.4 in May. Easing of lockdown measures, ultra-accommodative monetary policy and an administrative push for another massive fiscal stimulus package suggest that the solid pace of economic recovery in the US will persist through the months ahead. Since the start of the vaccine rollout earlier this year, the pace of economic recovery in the US has risen sharply as the economy reopens and activity across the hardest-hit sectors by the pandemic is restored. Going forward, we expect the US economy to recover to pre-pandemic levels before most of its developed market counterparts.
- Looking at the FX markets, we see the USD index anchored below the 92.00 handle as the Asian session matures and the EU session opens. The comments by the Fed Chairman surrounding the pace of interest rate hikes has taken the dollar off the boil and allowed riskier assets to grab a foothold.
- Locally we have the BWP consolidating post the recent spate of losses. We expect the market to remain cautious and would like to remind the reader that we are heading into the end of the month period where corporates usually have remittance or payment commitments which will drive price action.

ZAR and Associated Comments

- The ZAR traded weaker through domestic hours yesterday amidst broader risk-off moves, which weighed on higher-beta assets. The ZAR was one of the harder hit emerging market currencies on the day though, but managed to pare losses in late afternoon trade ahead of a testimony from Fed Chair Jerome Powell where it was expected he would be pressed on the central bank's unexpected hawkish turn last week. While the US dollar ultimately encountered some weakness, the ZAR remained on the back foot, trading 0.25% weaker to close at 14.2700/\$.
- The SARB's leading indicator released yesterday rose to a record high of 125.8 in April, suggesting South Africa's economic recovery remains afoot. However, as with most recent releases, data has been distorted due to the low base established last year during harsh lockdown restrictions. While there are still positive takeaways from the leading indicator's rise, it was still no surprise that the ZAR shrugged this off. South Africa's gradual recovery still faces downside risks in the form of long term structural issues and now in the form of a third wave of COVID-19 infections.
- While resurging third wave risks and the potential for stricter virus containment measures will detract from any rebound in ZAR sentiment, moves in FX markets are primarily being dictated by the USD at present. The trade-weighted USD index (DXY) edged higher yesterday ahead of Powell's testimony before Congress, but failed to solidify gains as the Fed Chairman played down last week's hawkish rhetoric. He did note that recent price increases were larger than expected but are still likely to dissipate.
- While the dust settles after the dollar's latest rise, for the ZAR to regain some of its lost composure, we would need to see data, absent of base effects, providing evidence on SA's ongoing recovery. This would allow the SARB to kickstart its own rate hike cycle and keep domestic yields sufficiently above those in developed markets. On that note, the next couple of days ahead hold some potentially market-moving data on the inflation front, beginning with the consumer price index (CPI) later this morning. According to surveyed forecasts, the CPI is expected to rise 5% y/y in May from 4.4% y/y in April, thus putting inflation in the upper half of the SARB's 3-6% range. However, month-on-month changes are expected to be muted and could reduce any market reaction to a higher annual print. For the day ahead, markets will also have a slew of provisional manufacturing PMIs out of the

developed world for June to digest, starting with Eurozone and UK releases this morning and the US release later in the afternoon. As has been the case, disparities in these indices will point to different paces of economic recovery and growth, and the potential for sooner monetary policy tightening.

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