

## Botswana Market Watch

## 24 June 2021

GMT	International and Local Data				
	<b>BO</b>	<b>Nothing on the cards</b>			
11:00	<b>GB</b>	BoE asset purchase target	Jun	875bn	875bn
11:00	<b>GB</b>	BoE bank rate	Jun 24	0,1%	0,1%
12:30	<b>US</b>	Durable goods orders m/m	May P	3,00%	-1,3%
12:30	<b>US</b>	GDP q/q annualised	1Q T	6,4%	6,4%
12:30	<b>US</b>	Personal consumption	1Q T		11,3%
12:30	<b>US</b>	Initial jobless claims	Jun 19		412k
12:30	<b>US</b>	Wholesale inventories m/m	May P		0,8%
12:30	<b>US</b>	Advance Goods Trade Balance	May	-\$8,2bn	-\$85,23bn

Africa	What happened?	Relevance	Importance	Analysis
<b>Food prices</b>	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
<b>Cost of slow vaccine rollout</b>	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
<b>Africa vaccine hubs</b>	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	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
<b>US infrastructure bill</b>	A bipartisan group of senators have reached a deal on a framework for an infrastructure spending bill which will be discussed with Biden today	Although way smaller, it is still a significant bill worth more than \$1.2trln and will help support the economy	3/5 (economy)	The biggest sticking point for some of the senators was how this was going to be paid for. The risk to the Federal government's fiscal position needed to be mitigated as much as possible
<b>US new home sales</b>	New home sales fell 5.9% in May, while the April figures will be revised lower. Part of the story behind the drop has been the 18.1% y/y rise in house prices	Sales of homes fell to a 1yr low as the median prices of homes rose to an unsustainable level	4/5 (economy)	Buying activity is likely past its peak, and with the Fed now talking about normalising monetary policy, confidence in future price increases may cause would-be investors to think twice
<b>EZ PMI</b>	EZ PMI data showed that activity accelerated at the fastest pace in 15 years, as the composite PMI rose to 59.2 from 57.1.	Easing of lockdown measures allowed for pent-up demand to be satisfied	4/5 (economy)	Savings increased, services are resuming, loosening restrictions as vaccination drives increase have all played a key role in boosting activity

### Local F.X. Opening Rates and Comment

	CUSTOMER BUY		CUSTOMER SELL		Benchmark Yield Curve		Forward Foreign Exchange			
	CASH	CASH	TT	TT						
BWPZAR	1.2490	1.3647	1.2730	1.3516	6m	1.5740	1m	BWPUSD	BWPZAR	
BWPUUSD	0.0877	0.0958	0.0894	0.0949	3y	4.7750	3m	-2.0280	0.0000	
GBPGBP	15.8833	14.5480	15.5397	14.8511	5y	5.1250	6m	-6.5325	0.0000	
BWPEUR	0.0735	0.0804	0.0753	0.0788	22y	6.7750	12m	-15.7463	0.0000	
JPYBWP			9.9724	10.3989				-38.3224	0.0000	
USDZAR	13.6652	14.8171	13.9855	14.4965						
EURUSD	1.1444	1.2402	1.1712	1.2134						
GBPUSD	1.3399	1.4517	1.3713	1.4203						
					<b>Equities</b>		<b>Economic Indicators</b>			
					BSE Domestic Index	6621.62	GDP	-4.1	Bank Rate	3.75
					BSE Foreign Index	1550.85	CPI	6.2		

- Botswana could in the future be a steel producer supplying the region and the world if all goes well. Engineering News has reported that *Tsodilo Resources has entered into a research collaboration with the Department of Chemical, Materials and Metallurgical Engineering at the Botswana International University of Science and Technology (BIUST) and Morupule Coal Mine (MCM) to undertake metallurgical studies with respect to the potential of generating a pellet feed and direct reduced iron (DRI) product from the Xaudum Iron Formation (XIF) using its magnetite and MCM's coal as a reductant.* ([read full article here](#))
- On the political front there is a deadlock between the Democratic Republic of Congo and Botswana over who should replace Tanzania's Dr Stergomena Lawrence Tax for the post of Sadc executive secretary. Tax will vacate her office in August and her replacement was discussed at a special sitting of the SADC council of ministers in Maputo this Tuesday. Botswana's has put forward a candidate who is secretary in the presidency and head of the civil service, Elias Magosi, and the DRC has put forward Professor Faustin Mukela, who since 1996 has been a senior official at the World Trade Organisation. To date the two parties have failed to agree after meeting in Gaborone, the final outcome will be a vote by the 16-member state bloc as to the successor.
- Internationally much focus is on the US stimulus package. On the one hand, a bi-partisan group of twenty-one senators has worked well together to finalise a \$1.2trln USD infrastructural spending bill which will be presented to Biden today. On the other, there is more bipartisan work needed if the US government is to avoid another government lockdown with the debt ceiling previously set, almost reached. Treasury Secretary Yellen has warned Congress that a lockdown at such a precarious time in the economic recovery could derail or delay much of the hard work to help the economy back on to its feet. Investors should expect this to become a hot topic through July.
- Beyond the usual weekly jobless claims figures which always hold some interest these days, there will also be other data releases that will be of interest today. Total US durable goods orders declined in the April print, marking the first time orders did not show month-on-month growth since April 2020. This was primarily led on by the volatile transportation sector, where orders fell 6.7% m/m, as a shortage of computer chips continue to disrupt production. Excluding transportation, durable goods rose 1.0%, which suggests that while supply constraints and bottlenecks will be adding to factory pressure, demand remained robust. Looking ahead, the provisional May print is expected to swing strongly back into expansionary territory, which will keep Q2 GDP growth expectations buoyed
- Finally, the third and final print for US Q1 GDP is expected to confirm that the economy grew at an annualised rate of 6.4% with no revisions expected. This would mark an increase from Q4 2020's growth rate of 4.3% as the US was undergoing a second wave of COVID-19 infections at the time prior to vaccine rollout. As for Q1 this year, stimulus-driven increases in consumer spending and recovering economic activity as vaccine distribution progressed contributed to the period's solid growth. Looking forward, further gains for the labour market and rising inflation points to GDP growth remaining solid in the quarters ahead. While this will satisfy the Fed, which adopted a more hawkish stance at the last FOMC meeting, accommodative monetary policy will remain in the near term, further supporting US growth prospects.
- Moving on to the FX markets, we have the BWP consolidating post the recent spate of losses. We expect the market to remain cautious ahead of the data deluge out of the US today 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 strengthened on the back of dollar weakness yesterday as last week's US Fed-induced risk aversion continues to subside. A measure of US service activity fell more than expected in the provisional June print, which weighed on the greenback, while similar PMI data out of the Eurozone area showed business growth accelerated at its quickest pace in 15 years. Ultimately, the USD coming off recent heights has allowed EM currencies some reprieve this week, resulting in a relatively buoyant ZAR yesterday, which gained 0.40% to close at 14.2200/\$.
- Domestically, the ZAR also had May's CPI print as a tailwind, with inflation rising for the fourth consecutive month to its highest since 2018. Annual headline inflation now stands at 5.2%, the first time it has broken above the SARB's target range midpoint of 4.5% since the onset of the COVID-19 pandemic. According to StatsSA, the main drivers were food and non-alcoholic beverages (NABs), housing and utilities, transport and miscellaneous goods and services. As a result, core CPI, which excludes food, NABs, fuel and energy, rose marginally from 3.0% y/y to 3.1%. Moreover, month-on-month inflation fell for both the headline CPI and core CPI.
- Overall, recent inflationary pressures in SA will likely prove to be transitory due to base effects and broader economic slack in the wake of the pandemic. The economic recovery thus far has seen producer price index (PPI) inflation outpace that of CPI, with producers generally unable to pass on higher input costs to consumers amid pandemic-weakened demand. Even with base effects playing a role, inflation remains below the top of the SARB's target 3-6% range. All this points to the SARB holding off rate hikes for as long as possible, barring exchange rate weakness which could drive further inflationary pressure, and suggests we will only see rate hikes as early as the September or November MPC meeting.
- Further inflation data is scheduled for the day ahead with PPI inflation on the domestic data card. SA's producer price growth has accelerated every month since the start of the year to reach a three-year high in April. This run-up in producer prices likely continued in May due to the supply-side constraints and persistent rise in commodity prices. The data may hold market-moving potential as any surprise prints in the coming months will have implications on the extent to which rising producer prices will eventually be passed onto consumers, thus impacting rate hike expectations.
- Over to the spot markets, the USD has regained some lost ground overnight after receiving some support from Fed officials who noted US inflationary pressures could last longer than anticipated and expects a need for rate hikes in late 2022. As a result, both major and emerging market currencies have continued to fall against the dollar in early morning trade. As for the ZAR, the local

unit has hovered slightly above yesterday's close after paring yesterday's gains overnight. The day ahead sees the Bank of England announcing policy rates, while more Fed speak continues later in the day and is likely to drive near-term direction in FX markets..

## Contacts

Mogamisi Nkate	+267 3674335	email: <a href="mailto:mnkate@bancabc.com">mnkate@bancabc.com</a>
Phillip Masalila	+267 3674621	email: <a href="mailto:pmasalila@bancabc.com">pmasalila@bancabc.com</a>
Kefentse Kebaetse	+267 3674336	email: <a href="mailto:kkebaetse@bancabc.com">kkebaetse@bancabc.com</a>
Maungo Sebonego	+267 3674338	email: <a href="mailto:msebonego@bancabc.com">msebonego@bancabc.com</a>

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