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Botswana Market Watch

28 June 2021

GMT		International and Local Data
	BO	Nothing on the cards
12:00	UK	BOE's Haldane speaks on "leveling up"
12:00	EC	ECB's Weidmann Speaks
13:00	US	Fed's Williams Takes Part in BIS Panel Discussion
15:00	EC	ECB's Guindos Speaks

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
Africa vaccine hubs	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
Chinese industrial profits	Profit growth slowed again in May as surging raw materials prices crimped margins. That being said, profits were still 36.4% higher y/y, according to official data on Sun	The recovery profile remains a bumpy one and is still taking shape. It is also a function of rising PPI	3/5 (economy)	Rising commodity prices are placing significant upward pressure on the factors of production, and that will eventually spill over into inflation on a more sustained basis if it persists
US inflation	Data released on Friday showed that core PCE rose by 0.5% on the month and 3.4% y/y, and although well up, consumer spending was flat on the month	Interestingly, inflation expectations have not been materially affected as the spike is deemed temporary	4/5 (economy, monetary policy)	Any and all data that offer a fresh perspective on the trajectory of prices will be scrutinised and hold market-moving potential. On the release of the data, some markets expressed relief
Fresh covid outbreaks	Australia and South Africa are currently battling through fresh outbreaks of what is believed to be the delta variant, with a high transmissibility	This is the same variant affecting the UK and has resulted in restrictions being imposed	4/5 (virus)	Vaccine rollouts need to continue at pace, while under-vaccinated countries will seek to impose fresh restrictions to try and combat the spread and prevalence of the virus

Local F.X. Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2425	1.3653	1.2665	1.3522
BWPUSD	0.0877	0.0963	0.0894	0.0954
GBPBWP	15.8025	14.3959	15.4606	14.6958
BWPEUR	0.0735	0.0808	0.0753	0.0793
JPYBWP			9.9331	10.4294
USDZAR	13.5940	14.7445	13.9126	14.4255
EURUSD	1.1447	1.2402	1.1715	1.2134
GBPUSD	1.3331	1.4444	1.3643	1.4131

Benchmark Yield Curve

6m	1.5750
3y	4.7750
5y	5.1250
22y	6.7750

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-1.9695	0.0000
3m	-6.3473	0.0000
6m	-15.3075	0.0000
12m	-35.5485	0.0000

Equities

BSE Domestic Index	6615.66
BSE Foreign Index	1550.85

Economic Indicators

GDP	-4.1	Bank Rate	3.75
CPI	6.2		

- Botswana's debt auctions have hardly been stellar with investors demanding a higher yield for holding domestic debt than the government has been prepared to pay. The government needs the investment community to fund is projected BWP6bn deficit for the current fiscal year and to this end we have word that the Bank of Botswana is engaging with the Ministry of Finance and Economic Development on the matter. The Bank is said to be speaking with the Ministry about accommodating higher yields which will placate investors and make for smoother auctions.
- Botswana will be coming to market with another debt offering this Friday and it needs to fill these auctions given that the last two have been less than optimal. The auction on the 28th May only raised some BVWP1.03bn from the BWP1.95bn on offer and came from the short end of the curve with BWP1.00bn being placed in short term treasury bills.
- The country has been downgraded and inflation is trending higher, even if you view inflation as transitory, investors are well within their mandates to demand higher returns for the additional risks faced.
- One problem the government may face is saturation of the domestic market thus the need to attract internationals with higher yields to fill the void is paramount. Caster Moseki the Director of financial markets for the Bank of Botswana stated that they are in discussions with local pension and insurance funds. He was quoted as saying the following - "We have engaged the pension funds and other investors who have said they think they are close to reaching their limits on what they can take with the government bonds," he said.
- Moving onto the international stage we have the broader financial markets exhibiting tone at the start of the week with investors concerned about the spike in COVID-19 cases across the globe. The Asian region has experienced a surge in cases and this has prompted the Australian authorities to place Sydney into a hard lockdown , while the likes of Thailand has announced new restrictions as the highly contagious Delta variant sweeps the globe.
- In terms of the FX markets, we have the USD on the front foot this morning as risk off conditions prevail. This may well result in a measured start to the local markets who are also gearing up for the end of the month remittances and corporate flow price action.

ZAR and Associated Comments

- The ZAR ended last week with its third consecutive daily advance against the US dollar, taking its weekly gain to 1.45%. The local unit strengthened to an intraday high of 14.0200/$, after beginning the day at the 14.2000/$-handle, as supportive risk appetite aided the emerging market basket of currencies at the end of the week. However, the ZAR settled near 14.1500/$ after encountering resistance at its 50-day moving average, suggesting a stronger catalyst is needed to break back below the 14.0000/$-handle.
- Meanwhile, there were no surprises on the US inflation front at the end of the week as the Fed's preferred measure of inflation, core personal consumption expenditure (PCE), rose in line with expectations. Nevertheless, the PCE core index advanced 3.4% y/y, its largest gain since April 1992. While this hasn't broken the Fed's script that inflationary pressures will be temporary as economic activity normalises, the market will remain skittish over higher inflation prints, especially as they come alongside signs of a recovering US labour market, raising concerns of longer-term price pressures. The week ahead heats up on the labour market front, with US private payrolls data and the official US jobs report for June likely to steal focus from an equally heavy domestic data week. For the Fed's employment targets to be met, there still needs to be several months of solid hiring before the central bank materially considers tightening policy, but that will unlikely limit the potential for kneejerk reactions and FX volatility in the week ahead.
- Having said this, despite US inflation rising and employment conditions improving, the US dollar may yet face further downside on account of the vast monetary easing over the last year. All in all, the outlook for global FX markets remains murky, but the ZAR will undoubtedly have a more challenging start to the week than other EM currencies after President Ramaphosa announced a move to tougher coronavirus restrictions last night. The country will move to an adjusted version of virus alert level 4, where public gatherings are forbidden, alcohol banned, and restaurants closed for operations other than takeaway services. Other restrictions include school closures and no leisure travel in and out of Gauteng, the nation's hardest-hit province in the current third wave.
- As such, the country's third wave risks are currently being realised. While the ZAR has traded weaker amongst the broader EM currency sample this morning, souring sentiment may thus see the local unit succumb to more significant losses in the session ahead. Therefore, today's release of the BER consumer confidence for Q2 will likely be overshadowed by the market's reaction to stricter restrictions. Regardless, given tightened restrictions, a weak print will highlight the pressures on household finances and underscore the risks to SA's economic recovery..

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