

Botswana Market Watch

29 June 2021

| GMT | | International and Local Data | Period | Actual/Survey | Prior |
|-------|-----------|---|--------|---------------|--------|
| | BO | GDP | 1Q | | -4.1% |
| 09:00 | EZ | Consumer confidence | Jun F | | -3,30 |
| 12:00 | GE | CPI y/y | Jun P | 2.40% | 2.50% |
| 13:00 | US | House price index m/m | Apr | 1.70% | 1.40% |
| 13:00 | US | S&P CoreLogic Case-Shiller house price composite-20 y/y | Apr | | 13,27% |
| 13:00 | US | Fed's Barkin Takes Part in MNI Event | | | |
| 14:00 | US | Consumer confidence | Jun | 119.00 | 117.20 |

| 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 |
|------------------------|---|---|------------------|---|
| DM bond yields | Bond yields across a number of DMs are declining ahead of some key US data releases on Friday as central banks look to stay loose | For now, investors have bought into the temporary inflation central bank view | 3/5 (market) | This week's payrolls data is now becoming important. A strong reading may see these moves reverse. A soft reading will trigger a bond market rally |
| Japanese retail | Retail sales rose for the 3 rd consecutive month, rising 8.2% y/y vs the 7.9% y/y forecast; however, trends remain constrained by pandemic | Data not yet strong enough to offer a strong outlook for the consumptive sectors that are suffering | 3/5 (economy) | The recovery remains underway, and there are positive signs emerging, but households are cautious, and the pandemic is constraining the broader recovery in consumer confidence |
| Virus latest | The Delta variant is exploding through the UK, affecting Africa and South Africa in particular, while forcing many Australian cities into full lockdown | The variant still has to spread through the US and the EU, so the risks of this happening are high | 4/5 (virus) | Any thoughts that there would be a straight line exit from this pandemic on the rollout of the vaccine were incorrect. The recovery will be uneven and will likely be peppered by fresh lockdowns |

Local F.X. Opening Rates and Comment

| | CUSTOMER | | | | Benchmark Yield Curve | | Forward Foreign Exchange | | | |
|--------|----------|---------|---------|---------|-----------------------|---------|----------------------------|-----------------|-----------|------|
| | BUY | SELL | BUY | SELL | | | | | | |
| | CASH | CASH | TT | TT | | BWPUSD | BWPZAR | | | |
| BWPZAR | 1.2517 | 1.3666 | 1.2759 | 1.3534 | 6m | 1.5760 | | | | |
| BWPUSD | 0.0877 | 0.0957 | 0.0894 | 0.0948 | 3y | 4.7750 | 1m | -1.9598 0.0000 | | |
| GBPBWP | 15.7775 | 14.4668 | 15.4362 | 14.7682 | 5y | 5.1250 | 3m | -6.2400 0.0000 | | |
| BWPEUR | 0.0736 | 0.0803 | 0.0754 | 0.0787 | 22y | 6.7750 | 6m | -15.3173 0.0000 | | |
| JPYBWP | | | 9.9233 | 10.3480 | | | 12m | -35.3730 0.0000 | | |
| USDZAR | 13.6952 | 14.8536 | 14.0161 | 14.5322 | | | | | | |
| EURUSD | 1.1434 | 1.2391 | 1.1702 | 1.2122 | | | | | | |
| GBPUSD | 1.3309 | 1.4420 | 1.3621 | 1.4108 | | | | | | |
| | | | | | Equities | | Economic Indicators | | | |
| | | | | | BSE Domestic Index | 6624.43 | GDP | -4.1 | Bank Rate | 3.75 |
| | | | | | BSE Foreign Index | 1551.29 | CPI | 6.2 | | |

- News on the wires yesterday is that the government has banned alcohol with immediate effect to stem the spread of the COVID-19 pandemic which has the potential to develop into a serious third wave. The Delta variant which has been spreading through neighbouring South Africa like wildfire is highly contagious. South Africa has responded by moving the country into a hard lockdown closing all restaurants and places of public gatherings until at least the 11th July.
- Against this backdrop we have the 1Q GDP release. The 4Q 2020 release showed the economy contracting by some 4.1% year on year and the expectation is that the 1Q 2021 release does not show the same level of contraction given that the economy had started to recover throughout the back end of 2020 and 2021. From the second quarter we should see a rapid improvement given base effects as a result of the hard lockdown that took place in late March which all but ceased economic activity.
- Moving onto global developments we have COVID-19 front and centre once again. Australia has introduced lockdown measures in an attempt to stem the spread of the Delta variant. Reuters reported the following, *Perth, capital of Western Australia, began a four-day lockdown starting Tuesday, joining Sydney and Darwin. Queensland will impose a snap three-day lockdown in capital Brisbane and some neighbouring regions from Tuesday evening. "The risk is real and we need to act quickly, we need to go hard, we need to go fast," Queensland Premier Anastacia Palaszczuk said. The state reported two new local cases. Sydney, home to a fifth of Australia's 25 million population, is under a two-week lockdown until July 9 while the lockdown in the northern city of Darwin was extended for another 72 hours until Friday. Tough restrictions, including mandatory masks and fewer gatherings, are in place elsewhere.* Elsewhere in Asia further restrictions are coming into force across the likes of Thailand and Malaysia. There are growing fears across Europe that much of the summer travel may be curtailed even in the face of widespread vaccinations across the region.
- Equally, there are worrying signs that the delta variant is becoming a feature in the US. Although the US has done well to administer well over 300mn doses of various vaccines, the delta variant could still spread through the country, in much the same way as it has through the UK. Deaths in the UK have remained low and the vaccine rollout appears to have played an important role in preventing intense sickness or hospitalisation, but that does not mean that another wave of the delta variant will not sweep through the country and cause further disruptions to plans for reopening. Part of the reason behind the dip in bond yields overnight has been concerns that the delta variant will further constrain growth.
- Looking at the global FX markets, the USD remains in a holding pattern ahead of some key data releases later in the week. Technical indicators are pointing to a lack of momentum either way and fundamentally, it may be that investors are waiting for the release of the US labour data before adopting any clear-cut trade. Some concerns about the rising prevalence of the delta Covid 19 variant has investors looking to the safety of the USD. However, it has yet to become a full-blown theme to spark a sustained surge in the USD.
- Locally the BWP is exhibiting a similar consolidative tone. We remind readers that we are gearing up for the end of the month remittances and corporate flow which could affect price action.

ZAR and Associated Comments

- The USD-ZAR gapped higher in intraday trade yesterday as harsher domestic restrictions announced the previous evening weighed on the local unit. This was met with broadly weaker EM and major currencies as the greenback began the week on the front foot ahead of crucial US employment data later in the week. Still, the ZAR was hardest hit on account of third-wave risks currently being realised, which will undoubtedly impact the country's growth and recovery prospects. As a result, the local currency weakened the most in the EM basket of currencies, losing 0.65% against the USD to close just shy of 14.2400/\$.
- The BER consumer confidence index equally weighed on sentiment towards the ZAR yesterday. The index declined in the Q2 print, erasing this year's earlier gains, which saw it return to pre-pandemic levels. The ending of the social welfare payments and temporary relief measures for workers, the emergence of a third wave of infections, rising food and fuel prices all dented sentiment in Q2. Ultimately, this speaks to subdued domestic demand remaining a theme for some time longer and will detract from South Africa's longer-term economic recovery, especially given the resumption of more onerous lockdown restrictions.
- With the general market focus now falling towards monetary policy tightening and rate hikes, albeit still some time away, South Africa's environment of subdued consumer and business confidence suggests that rate hikes too soon could derail the progress until now. However, a somewhat hawkish move can be noted by SARB governor Lesetja Kganyago yesterday after he stated there is a "compelling case" for lowering the reserve bank's target inflation range. With inflationary pressures expected to remain muted, there is a definite possibility we see lower inflation targets coming up for discussion. Furthermore, SA's finances have seen a considerable improvement since last year on booming commodity prices, which has bolstered the current account surplus through mining exports, suggesting the country could manage lower inflation targets and thus rising international interest rates.
- While current lockdown restrictions will inhibit domestic growth in the shorter term, the global economic recovery progressing should still see exports remaining firm, barring COVID-19-related risks. As such, the ZAR could remain supported in the near term. It is thus not surprising that the latest CFTC data shows the ZAR's net long position dropped by \$0.01 billion to a net bullish position of \$0.24 billion in the week ending June 22, a marginal decline given this occurred in the week following a hawkish turn from the US Fed which drove volatility in the spot markets.
- The day thus far, though, has resulted in the ZAR leading emerging market currencies weaker, while the US dollar has remained buoyed. The morning ahead sees SA's Q1 payrolls numbers and the SARB's quarterly bulletin, which will offer context on broader recovery dynamics in the jobs market as well as detail into domestic GDP data. Domestic market participants will also turn to the Constitutional Court hearing of former President Jacob Zuma. A guilty verdict would set the tone for the broader fight against

corruption and strengthen the reform agenda, which will help reassure investors and alleviate one of the main concerns that has hindered investment in the country in recent years...

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