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Botswana Market Watch

30 June 2021

GMT		International and Local Data	Period	Actual/Survey	Prior
	BO	GDP	1Q		-4.1%
09:00	EZ	CPI estimate y/y	Jun	1.90%	2.00%
11:00	US	MBA mortgage applications	Jun 25		2.10%
11:00	UK	BOE's Haldane speaks on monetary policy			
12:15	US	ADP employment change	Jun	530k	978k
13:45	US	Chicago PMI	Jun	69,90	75,20
14:00	US	Pending home sales y/y	May		53.50%

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
Global logistical backlogs	Backlogs in China, lockdown and Covid related disruptions at ports, heightened demand for goods as retailers deal with rising demand has overwhelmed logistics	This global theme holds the potential to detract from growth and to bolster inflationary pressures	4/5 (economy)	Although one could argue that the effects will be temporary, the backlog and logistical nightmare this has created will last many months, given the container shortfall on top of it all
US consumer confidence	Consumer confidence rose to a 16-month high, with the index at 127.3 in June vs the previous reading in May of 120.	An economy that is re-opening and low interest rates have all boosted confidence	3/5 (economy)	This forms part of the broader economic recovery, and with infections and deaths dropping sharply, the next few months are shaping up nicely for the US
Japanese factory output	May output data showed a sharper contraction than expected and the biggest monthly drop in a year, falling 5.9% in May m/m	The sharp drop in car production was the main reason for the slump that threatens the recovery	4/5 (economy)	It is a reflection of the many headwinds that the economy is navigating, with the most recent lockdowns impacting negatively on the service sector and broader economic growth

Local F.X. Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2577	1.3679	1.2819	1.3548
BWPUSD	0.0877	0.0954	0.0894	0.0945
GBPBWP	15.7605	14.4963	15.4195	14.7983
BWPEUR	0.0737	0.0802	0.0755	0.0786
JPYBWP			9.9233	10.3073
USDZAR	13.7599	14.9169	14.0824	14.5942
EURUSD	1.1422	1.2378	1.1690	1.2110
GBPUSD	1.3293	1.4405	1.3605	1.4093

Benchmark Yield Curve

6m	1.5740
3y	4.7750
5y	5.1250
22y	6.7750

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-2.0085	0.0000
3m	-6.4155	0.0000
6m	-15.3855	0.0000
12m	-35.4510	0.0000

Equities		Economic Indicators			
BSE Domestic Index	6624.43	**GDP**	-4.1	**Bank Rate**	3.75
BSE Foreign Index	1551.29	**CPI**	6.2		

- Chatter in the halls of power over the past few weeks has been on ways of funding the budget deficit and what level of yield the government is willing to pay investors for investing in domestic government debt. There has also been a reckoning that the domestic investment pool may be saturated and unable to take up massive amounts of issuance.
- This has caused the a rethink of where and to who the government should be targeting its debt issuance. Botswana has an impeccable fiscal score and remains the most credit worthy of all its peers in Sub-Saharan Africa. It has room to manoveure and courting the international community would make sense at this point.
- To this end, the Bank of Botswana's head of financial markets, Caster Moseki told reporters that the issuance of a hard currency bond will assist the country in building its reserves. The bond would be a first for the country who have traditionally relied on diamond revenues to keep the fiscal position intact. A hard currency bond will also give the government greater visibility amongst international investors, many of them will only purchase hard currency bonds from frontier and emerging market debt issuers.
- "We have tentatively discussed this with the ministry and it will have to rise to the level of the permanent secretary, the governor and minister for a decision," Moseki says.
- Moving over to the US, U.S. consumer confidence released yesterday made for some positive reading. The indicator rose to a 16m high and reflected the improved trading conditions that have come about as a result of a successful vaccine rollout, the reopening of the economy, pent-up demand from months' worth of savings, government support and ultra-low interest rates. Asset prices both in the financial markets and housing have increased, and the combination has bolstered the financial position of most households.
- The recovery narrative is certainly what Fed Governor Waller had in mind when he spoke more optimistically about the growth prospects for the U.S. economy and the outlook for monetary policy. Waller felt comfortable talking bullishly about the economy and the prospect of tapering, but added that a sustained improvement in the labour market and a sustained rise in inflation are needed before the Fed would feel comfortable embarking on a series of rate hikes to normalise policy. At best, that would happen towards the back end of 2022. For now, what this does is elevate the importance of the upcoming labour data out the U.S. Some big improvements will strengthen the recovering and tapering narrative and likely boost the USD.
- Looking at the global FX markets, although the USD is in a holding pattern, it is primed for a big move higher if today's ADP data comes in strong and beats expectations. A strong recovery narrative will boost inflationary expectations and strengthen the Fed's ambitions to normalise monetary policy within the coming years. This will be USD supportive and would give credence to the bull flag formation that has formed on the daily chart. A strong result in the labour data today and or Friday could trigger the next leg higher 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

- As COVID-19 outbreaks worldwide make headlines, risk aversion looks set to stay in the near term and is likely to keep the US dollar bid. The USD rose yesterday as investors preferred the greenback's safety while positioning ahead of key US employment data this week has also bolstered dollar demand. Resultantly, the ZAR tumbled for the second day against the USD as South Africa undergoes its own rise in coronavirus cases. However, the USD-ZAR currency pair did encounter resistance at its 100-day moving average, with advances ultimately pared as it settled 0.70% higher at the 14.3400-handle.
- While the ZAR succumbed to broader market sentiment yesterday, the South African judicial system secured a massive win. The Constitutional Court found former president Jacob Zuma in contempt of court when he defied a Constitutional Court ruling that he must appear before the state capture inquiry and sentenced the ex-president to 15 months imprisonment. This development bodes exceptionally well for the fight against corruption and reformist agenda, and will instil some confidence amongst investors.
- Meanwhile, the release of the SARB quarterly bulletin and Q1 payroll figures were largely overshadowed. Some highlights from the SARB report were that gross loan debt for the fiscal year ending through to March came in at 78.8% of GDP, compared to National Treasury's estimate of 80.3%, while government dissaving levels increased. The national savings rate rose to an 11-year high in Q1, as consumers and institutions remained cautious over the economic outlook. Foreign direct investment inflows fell in Q1 from the prior quarter, while portfolio outflows of R6.4 billion were recorded following inflows of R24 billion in Q4 2020. This ultimately paints a mixed picture, but rising government dissaving levels and lower investment levels point to downside risks to the economy. The resumption of harsher lockdown restrictions will further weigh on the economy, as they did in Q1, underscored by the first quarter's payrolls stats showing a quarterly decline in employment.
- With the domestic economy still at risk of further downside, it is thus no surprise that the ZAR has incurred a substantial correction against the USD this month as COVID-19 risks intensify as well as Fed policy normalisation. The ZAR is currently over 4% down against the dollar in June, the biggest loser in the EM basket of currencies and looks set to end that way, with minimal progress being made in early morning trade thus far. The day ahead will see a host of domestic data, including money supply, private sector credit growth, and government budget and trade balances, which will unlikely hold any positive surprises for the ZAR. Externally, Eurozone CPI data will draw focus ahead of US private payrolls data, which will set the tone for the official US jobs report scheduled for Friday and thus hold plenty of bi-directional market-moving potential.

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