

Botswana Market Watch

9 June 2021

GMT		International and Local Data	Period	Exp	Previous
	BO	Nothing on the cards			
11:00	US	MBA mortgage applications	Jun 4		-4.00%
14:00	CA	Canada central bank rate decision	Jun 9	0.25%	0.25%
14:00	US	Wholesale inventories m/m	Apr F	0.80%	0.80%
14:00	US	Wholesale sales m/m	Apr		4.60%

Africa	What happened?	Relevance	Importance	Analysis
Agriculture funding gap	CDC Group, the UK's development investment arm, is taking a step to help bridge what it estimates is a funding gap of as much as \$31bn that Africa's agriculture and food industry faces each year. The CDC is targeting \$1bn worth of investment into Africa this year	As banks withdraw funding from agriculture due to regulation changes, and with some larger players defaulting, institutions such as CDC have a significant role to play in plugging the shortfall	3/5 (economy)	Many African governments are under strain from the costs of managing the COVID-19 pandemic against a backdrop of poor investment and political instability. The funding from the CDC aims to reach more than half a million farmers across 29 sub-Saharan African nations, from Mozambique and Tanzania to Kenya
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
World Health Organization - Africa vaccine	The World Health Organisation reported that Africa needs at least 20mn doses of the Astra-Zeneca Plc vaccine by mid-July to complete the immunization of people who have had their first doses	The WHO noted that less than two doses per 100 people have been administered in Sub-Saharan Africa, well below the global average	4/5 (economy)	According to the WHO Regional Director for Africa Matshidiso Moeti, a further 200mn doses are needed for Africa to vaccinate 10% of its population by September. The pace of vaccine rollouts is a key determinant of the pace of economic recoveries

Global	What happened?	Relevance	Importance	Analysis
China producer prices	May's PPI rose 9.0% y/y vs a poll of 8.5% and was up 6.8% m/m. This is the fastest rise in 12 years driven by the sharp rise in commodity prices	This will impact producer profitability and could translate into a correction in global markets	3/5 (economy)	The rise in inflation is of major concern for central banks and companies alike. It could have a destabilising effect and trigger a response from the authorities that would be growth negative
US Labour market	Another indication that the labour market in the US is recovering is evident in the Job openings data, which increased 998k to 9.3mn, while voluntary job quits also rose	The labour market is becoming more dynamic, and workers now have a choice of jobs they can pick	3/5 (economy)	It implies that the sector's underlying health is improving and that the formal data will gradually improve to reflect same through the months ahead. H2 should see a great improvement
EZ economy	Eurostat data showed that the EZ economy contracted 0.3% q/q and 1.3% y/y in Q1 vs initial estimates of -0.6% and -1.8%, respectively	Lockdowns deal the economy a blow, but it proved to be more resilient than initially anticipated	2/5 (economy)	Although mildly positive, this data is now very historic, and investors will be focused on the improving outlook for the months ahead. The outlook is much brighter given the lifting of restrictions

Local F.X. Opening Rates and Comment

	CUSTOMER BUY		CUSTOMER SELL		Benchmark Yield Curve		Forward Foreign Exchange			
	CASH	CASH	TT	TT						
BWPZAR	1.2262	1.3367	1.2498	1.3239	6m	1.5740		BWPUSD	BWPZAR	
BWPUSD	0.0903	0.0984	0.0921	0.0974	3y	4.7750	1m	-2.0183	0.0000	
GBPGBP	15.6519	14.3665	15.3133	14.6658	5y	5.1250	3m	-6.6056	0.0000	
BWPEUR	0.0741	0.0808	0.0758	0.0793	22y	6.7750	6m	-16.6140	0.0000	
JPYBWP			10.1198	10.5413			12m	-38.9318	0.0000	
USDZAR	13.0312	14.1306	13.3367	13.8249						
EURUSD	1.1691	1.2669	1.1965	1.2395						
GBPUSD	1.3592	1.4726	1.3910	1.4408						
					Equities		Economic Indicators			
					BSE Domestic Index	6596.58	GDP	-4.1	Bank Rate	3.75
					BSE Foreign Index	1550.85	CPI	3.2		

- Local news flow is on the thin side this morning however the global macro backdrop is as always, a busy place. Investors are focusing heavily on the outlook for global inflation and the action of the developed market Central Banks. Today we have the Bank of Canada giving its verdict on rates, this comes ahead of the ECB and BOE tomorrow.
- Given the lack of local news flow, we would like to draw the readers attention to developments in the base metals markets given the significance of copper market in developing a more robust export sector which diversifies from diamonds.
- Copper managed to secure its position above the \$9950.00/tonne mark yesterday and we have seen levels north of the \$10000.00/tonne mark in Asia this morning. Investors have anchored their positions around supply concerns from Chile and Peru. Chile as always is currently contending with strike action, while Peru is currently choosing a new President. The uncertainty surrounding Peru is substantial given that Socialist Pedro Castillo is currently in the lead. He has promised to take up to 70% of mining firms profits to fund his social projects.
- Moving over to the US, talks between President Biden and a key Republican yesterday broke down when Biden realised that there would be no further compromise given. Instead, Biden will now reach out to a bipartisan group to see if he can make any further progress. The likelihood, however, is that he will not. The Republicans already believe that enough has been done. The plan proposed by the Biden administration is too broad and includes too much expenditure that is not directly related to infrastructure. Biden would like to include social spending, which the Democrats believe is infrastructure of a different kind in that it strengthens the social network and safety net. The Democrats may eventually be forced to try and achieve this outcome by making full use of their simple majority in Congress.
- U.S. job openings and voluntary quits have risen strongly in a clear sign that the U.S.'s labour market is improving. As it becomes more dynamic and workers find the courage and confidence to quit and look for better paying, or more suitable jobs, wage inflation will likely pick up. This may well become a theme through the back end of 2021 and into 2022. It will reflect in a stronger improvement in the official labour data and further help to strengthen the cyclical economic upswing.
- Returning to politics, the U.S. Senate has passed a sweeping bill to address China's tech threat. The Senate voted 68-32 to approve a sweeping package of legislation that is aimed at bolstering the U.S. tech industry's ability to compete with Chinese tech giants. Relations with China are hardening, and the U.S. is fully focused on tilting the scales back in their favour. The measure will allocate \$190bn in provisions to strengthen the tech sector and would separately allocate a further \$54bn to increase U.S. production and research into semiconductors and telecoms equipment.
- In terms of the FX markets, still no change to the performance of the USD, which remains largely range bound. Technical indicators are pointing to a loss of momentum in either direction and for now the market continues to look for a catalyst that might only come in the remaining two trading sessions of the week when some of the more important data is released. US CPI in particular will be the key release tomorrow that will offer perspective on the outlook for monetary policy and offer clues on how it might impact growth and the trade balance more broadly..

ZAR and Associated Comments

- The ZAR was amongst the biggest losers in the emerging market basket of currencies yesterday as the local unit continued to trade away from 28-month highs reached last week, ultimately succumbing to 0.50% loss, closing at 13.5800/\$-handle. This was primarily due to a broadly firmer US dollar ahead of US inflation data due Thursday, which is also a week before the US Fed's June meeting. The ZAR, meanwhile, also shrugged off intraday GDP data which showed stronger-than-expected domestic quarterly GDP growth.
- As for the GDP release yesterday, domestic production remained in contractionary territory on an annual basis, declining 3.2% y/y in the first quarter of this year. Quarter-on-quarter growth expectedly remained positive, with the annualised quarterly growth rate coming in at 4.6%. Explicitly, this means that should Q1's performance continue for another three consecutive quarters, one would see annual growth of 4.6%. However, as productivity rises towards pre-pandemic levels, the pace of growth should slow. The last quarter of 2020 experienced annualised q/q growth of 5.8%, signalling a continued slowing down of the recovery trend. Furthermore, progress towards pre-pandemic levels of GDP will see SA's structural challenges come to the fore once again, diminishing potential economic growth.
- On a positive note, expenditure by households rose during the quarter and is a sign of normalising spending patterns. This should see demand-side inflationary pressures begin to increase. Still, with weak investment levels, growth may ultimately prove hard to sustain unless there is a substantial increase in business confidence levels.
- We will have an update on that front later today with both the SACCI and BER business confidence indices for May and Q2, respectively. While concerns over the coronavirus pandemic, the government's slow vaccination drive, and the return of load-shedding continue to weigh on sentiment, the core issues businesses currently face are systemic. Given the government's lack of urgency in implementing reforms, persistent structural impediments, and pressure on the fiscus, business confidence levels are likely to remain subdued going forward.
- Thus, the data may prove unhelpful in swaying the bias towards the ZAR for the day ahead, with the USD holding steady overnight ahead of US inflation data tomorrow. The day ahead may see some fresh impetus for markets with the Canadian central bank rate decision, which is prior to the ECB deciding policy tomorrow. Further inclinations of policy tightening by either central banks may soften the dollar's current rebound as the Fed has offered fewer hints of movement away from its dovish stance in recent communication than other DM central banks. In the absence, the dollar will likely hold firm ahead of key inflation data tomorrow, with emerging market currencies, such as the ZAR, likely to give way to broader market sentiment..

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