

Botswana Market Watch

10 June 2021

GMT		International and Local Data	Period	Exp	Previous
	BO	Nothing on the cards			
11:45	EZ	ECB deposit facility rate	Jun 10	-0.50%	-0.50%
11:45	EZ	ECB rate announcement	Jun 10	0.00%	0.00%
12:30	US	CPI y/y	May	4.60%	4.20%
12:30	US	Initial jobless claims	Jun 5		385k
12:30	US	Real ave weekly earnings y/y	May		-1.40%

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
Japanese prices	May's wholesale prices rose at the fastest pace in thirteen years as the effects of the commodity surge makes its presence felt.	The higher costs will erode profit margins and may crimp purchasing power	3/5 (economy)	The BoJ will not respond to this as the country continues to struggle with very weak underlying demand. The CGPI rose 4.9% y/y in May, up from 3.8% in Apr
Bank of Canada	The BoC left its key interest rate unchanged at a record low of 0.25% and indicated the economy would rebound strongly as vaccinations continued and people and confidence improved	Consumer spending driven by pent-up savings and improved consumer confidence will bolster GDP growth through H2	3/5 (economy)	Inflation is of some concern as it remains around 3% and above the Bank's target of 2%, but is unlikely to do enough to blow the BoC off course. Policy will remain stable through the remainder of the year
UK Housing	RICS data shows that there is a rush to buy homes before the end of June when a tax break on transfer duties comes to an end	RICS price index rose to +83 from +76, confirming sharp house price increases	2/5 (economy)	The danger is that while people may be saving on taxes, they may well be paying over the top for the home, which may moderate in value in the months ahead

Local F.X. Opening Rates and Comment

	CUSTOMER BUY	CUSTOMER SELL	CUSTOMER BUY	CUSTOMER SELL	Benchmark Yield Curve		Forward Foreign Exchange			
	CASH	CASH	TT	TT				BWPUSD	BWPZAR	
BWPZAR	1.2429	1.3561	1.2669	1.3430	6m	1.5750	1m	-2.0963	0.0000	
BWPUSD	0.0905	0.0989	0.0923	0.0980	3y	4.7750	3m	-6.6690	0.0000	
GBP/BWP	15.5647	14.2756	15.2280	14.5730	5y	5.1250	6m	-15.9315	0.0000	
BW/PEUR	0.0744	0.0811	0.0761	0.0796	22y	6.7750	12m	-38.6978	0.0000	
JPY/BWP			10.1492	10.5820						
USDZAR	13.1806	14.2893	13.4895	13.9801						
EURUSD	1.1678	1.2656	1.1952	1.2382						
GBPUSD	1.3548	1.4678	1.3865	1.4360						
					Equities		Economic Indicators			
					BSE Domestic Index	6596.58	GDP	-4.1	Bank Rate	3.75
					BSE Foreign Index	1550.85	CPI	3.2		

- Africa Mining Services has received a contract for open pit mining services of the T3 pit at the Motheo copper project owned by Sandfire resources. MiningReview reported the following - *The contract, which has an estimated value of US\$496 million, is the largest single operational contract for the new Motheo project covering a period of seven years and three months, with provision for a one-year extension. The contract was awarded following a competitive three-stage tender process which saw a number of key factors taken into consideration when selecting the preferred contractor. These included citizen economic empowerment, safety culture, equipment suitability and availability, commercial terms and identified improvement opportunities.*
- We continuously monitor news flow surrounding the development of the mining sector as it holds significant importance both in the short and longer term prospects for the country. Botswana has copper reserves which will serve the country well in diversifying its income flow at a time when the world is entering a commodity super cycle. Infrastructure spending and the decarbonisation of the world will underpin the price of copper for the next decade at least.
- Out of the US, there is some data for investors to sink their teeth into. The most important will be the inflation print as investors look for guidance on how strongly inflation pressures will manifest. The second is the weekly jobless claims figures, which will update investors on how quickly the labour market is recovering. Although the recent payrolls figures were mildly disappointing, the recovery path remains intact, and investors anticipate a significant tightening in the labour market through H2 2021.
- The annual May CPI figure will once again be skewed owing to base effects. Consensus expectations are for further acceleration to 4.7% from 4.20% in April. Given the distortions created, it is difficult to judge just how inflation pressures are building from these figures. The m/m figures provide a more accurate picture, and there it is expected that we could see a slowdown in inflation from 0.8% to 0.4% in May from April. Still, this suggests that inflation pressures are building within the economy, creating some concerns amongst policymakers and investors. How long these pressures are sustained remains the question, as it will take a stronger economic recovery to keep underlying dynamics so supportive of prices once effects from supply-side factors begin to fade. Therefore, any high readings in the near term will be eyed carefully but still put down to transitory factors, keeping the Fed on its current monetary policy path for now.
- On the political front, the Biden administration continues to seek a bipartisan deal on infrastructure that will further boost the economy. A group of ten Senators from both sides of the aisle are exploring how infrastructure needs can be met without a massive rise in debt levels. The group of ten will seek ways to make the spending targeted and as fiscally neutral as possible, although that will likely mean that Biden will have to compromise on his \$1.7trln target.
- In terms of the FX markets, today's CPI and weekly jobless claims data will hold some interest for USD traders. Robust inflation and a steady improvement in the labour market will likely translate into a rally in the USD. In the background, that will all need to be seen against the ECB decision on monetary policy. Should the ECB commit to ultra-loose monetary policy, this could likely give the USD bulls more encouragement. Overall, it appears as though the tide may be swinging mildly back in the USD's favour, at least in the short term.
- In terms of the local markets we expect a measured start given all the global influences at play. FX traders will be reluctant to adopt fresh positions ahead of the US data deluge which has the ability to unseat any thought process.

ZAR and Associated Comments

- The USD-ZAR extended its current upwards trend for the third day yesterday as positioning ahead of US CPI data due today continued to support the dollar. Additionally, ahead of an ECB policy decision today, FX volatility has been relatively subdued this week, with few currency pairs making much progress. After enduring range-bound trade for most of the day, late afternoon moves ultimately saw the ZAR dip 1.10% against the USD to close at a one-week low of 13.7400/\$.
- However, the local unit was looking more resilient earlier in the day as it was encouraged by gains in domestic equity markets, which took impetus from positive business confidence data yesterday. The SACCI business confidence index (BCI) rose to 97 in May from 94 in April, marking the highest level since 2018. Also released yesterday, the quarterly BER BCI rose higher than expected, coming in at the 50-neutral mark in Q2 from 35 in the first quarter of 2021. This was the highest reading for the latter index since Q4 2014, with confidence in all five sectors making up the index rising and notably sharp rebounds occurring in the manufacturing, retail trade, and motor trade sectors.
- For the economy as a whole and overall business sentiment, the improvement can be largely attributed to the revival in exports as the global recovery continues, which has supported the trade balance and, by extension, the ZAR. In addition, higher commodity prices have helped improve the business environment and offset the adverse effects of oil prices on inflation and the continued pressure on disposable income. Furthermore, more robust trade dynamics has helped offset the shock to government tax intake. While this won't be permanent, it does buy the country some time to deal with its structural challenges and high government debt levels. However, this will ultimately keep the ZAR vulnerable to correction as economic normalisation continues.
- For the day ahead, insight into the productive side of the economy will come from mining and manufacturing production statistics for April. Base effects aside, the mining sector will continue to benefit from a favourable external environment, but overall growth in both sectors will continue to be held back by rolling power outages which have not improved through Q2. Current account data for Q1 will also be available this morning, with the surplus expected to increase further due to support from the trade account which remains near record highs.
- In the spot markets, the USD remains on the front foot ahead of a US inflation print which has stoked market concern for upside surprises. Investors will likely remain on edge in the coming months as the market gauges when the Fed may begin to adjust monetary policy to rising inflation, but a higher than expected print today could provide the USD with some short-term strength. Meanwhile, the ZAR has held steady ahead of a slew of domestic data prints. However, the market may ultimately overlook these given the pick in the external calendar for the day ahead..

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