BancABC part of atlasmara

Botswana Market Watch

2 July 2021

GMT		International and Local Data	Period	Actual/Survey	Prior
	BO	GDP	1Q		-4.1%
	BO	Monthly Bond aucton			
09:00	EZ	PPI y/y	May	9.50%	7.60%
12:30	US	Change in nonfarm payrolls	Jun	695k	559k
12:30	US	Trade balance	May	$-70,90bn	$-68,90bn
12:30	US	Unemployment rate	Jun	5.70%	5.80%
12:30	EC	ECB's Lagarde Speaks			
14:00	US	Durable goods orders m/m	May F		2.30%
14:00	US	Factory orders	May	1.30%	-0.60%

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 corporate tax	The OCED hosted talks this week in which 130 countries which made up roughly 90% of the world's GDP, backed the 15% minimum agreement	Governments will quickly sign up to any agreement that would help lift tax revenues from multi-nationals	3/5 (economy)	The initiative is expected to raise some $150bn in additional tax revenue, which, when split across 130 countries, is not a lot of money. Big DM economies are likely to benefit the most from this
US Labour market	For the 2nd day in succession, there was encouraging labour market data out of the US as weekly jobless claims dropped by 51k and layoffs fell to a 21yr low	The labour market in the US is steadily recovering, and constraints on labour will intensify	4/5 (economy)	Ahead of the all-important non-farm payrolls data today, the labour data seen so far is painting a picture of a solid recovery that is strengthening. Inflation becomes more of a concern.
US infrastructure bill	The US House of Representatives yesterday approved a $715bn surface transportation and water infrastructure bill	This will be another boost to the economy, although spread over many years	3/5 (economy)	This will be the first such bill. There will be others to come as the Democrat-led Congress seeks to try and bolster spending on social services as well

Local F.X. Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2702	1.3830	1.2947	1.3697
BWPUSD	0.0877	0.0955	0.0894	0.0946
GBPBWP	15.6694	14.4000	15.3304	14.7000
BWPEUR	0.0741	0.0806	0.0758	0.0791
JPYBWP			10.0215	10.4192
USDZAR	13.8964	15.0648	14.2221	14.7389
EURUSD	1.1369	1.2318	1.1636	1.2051
GBPUSD	1.3219	1.4322	1.3529	1.4012

Benchmark Yield Curve

6m	1.5760
3y	4.7750
5y	5.3250
22y	6.7750

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-2.0183	0.0000
3m	-6.2985	0.0000
6m	-15.2490	0.0000
12m	-35.2755	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		

- The mining sector continues to develop with the Kalahari copper belt and to a lesser degree coal deposits receiving strong investor interest. Copper deposits will deiversify the country's hard currency earnings away from just tourism and diamonds and assist in building a middle tier economy. We expect the demand for copper to remain robust for at least the next decade as massive infrastructure projects related to green energy sweep the globe. There is also a strong push towards electric vehicles from the likes of the US, the EU and China which will drive demand.
- Further investment in the services sector is needed to support the growth needed in the country and Botswana is well poised to become a regional player in both the information technology and telecommunications sector. The government has instituted a number of strategic endeavours in these area's which is expected to start yielding positive results in the coming years.
- Internationally, the US jobs data held focus yesterday. The weekly jobless claims overall reflected a firm improvement, just as the ADP data did the day before. Although continuing claims rose slightly, this is a lagging indicator. Instead, investors focused on the drop in initial claims and that layoffs fell to a 21yr low, which will drag the continuing claims lower in the months ahead. It has raised expectations for the nonfarm payrolls data today and turned it into a significant, market-moving event.
- Given the sensitivity of financial markets to inflation dynamics at the moment, the June US job report will undoubtedly be eyed closely this week. The nonfarm payrolls will be key in determining inflation expectations going forward. While recent labour market data has disappointed, helping to quell inflation fears, inflation concerns remain elevated, underpinned by expectations for a further recovery in the jobs market in the months ahead. Assumptions for a solid recovery in the labour market are supported by vaccinations, a reopening economy, and another massive fiscal stimulus package. Although inflation risks remain elevated, we remain of the view that the Fed is unlikely to budge from its current ultra-accommodative policy stance until at least the latter part of 2022.
- With the U.S. economy recovering at a faster pace than many of its key trade partners, the country's trade balance is expected to remain anchored deep in deficit territory in the foreseeable future. The credit cycle in the U.S. is strong, and it is living well beyond its productive capacity funded by debt-funded imports. At face value, this leaves the USD fragile. However, with so much priced in, any information that would lead one to believe that the Fed will more squarely focus on normalising monetary policy will bolster the USD in the short to medium term.
- Locally the BWP is in a holding pattern. Not much to report back on as we close out the week. However investors are going to focus on the next debt auction which will be telling. The last auction was less than successful as mentioned earlier in the week. Investors may demand higher yields than the government is prepared to pay at present.

ZAR and Associated Comments

- The EM currency basket showed mixed performances through yesterday as broader risk-on moves were limited ahead of the official US jobs report scheduled for later today. However, a late afternoon surge from the dollar saw most emerging market and major currencies end domestic hours in the red. It was no surprise that the ZAR swung between gains and losses through the day, given its reputation as a bellwether for EM sentiment. After sticking to a narrow trading range around the 14.3000/$-handle for most of the day, the local currency ultimately sold off to close near 14.4300/$ as traders backed the US dollar and a potentially stronger than expected US non-farm payrolls print.
- Stateside, yesterday's jobless claims figures were mixed but were ultimately unable to stop the dollar from extending to near three-month highs on a trade-weighted basis. Specifically, initial jobless claims were lower in the week of June 26, but continuing claims came out higher than expected in the week prior. Nevertheless, the consensus is for strong hiring to have occurred in June due to the end of COVID-related US unemployment benefits, which would corroborate Wednesday's higher than expected private payrolls data.
- With the USD remaining well bid this week, pressuring the ZAR and EM currencies more broadly, there was limited scope for domestic data releases yesterday to offer the local currency any support. Despite the Absa manufacturing PMI coming in at 57.4, well above the 50-neutral mark, business conditions and the broader economic recovery remain highly fragile. Survey results show that all five sub-components which make up the headline PMI were above the 50-neutral point in June. However, the assessment of expected business conditions already turned less positive in June following South Africa's move to adjusted level 3 from level 2 in mid-June, which suggests the move to level 4 lockdown restrictions will likely have dented sentiment by greater extent towards the end of the month.
- With yesterday concluding the heavy domestic data week, the ZAR is likely to trade at the mercy of broader sentiment as we head into the weekend. In the spot markets currently, EM currencies have continued to trade weaker against the USD, with the greenback remaining firm ahead of the US non-farm payrolls print scheduled for later in the day. The ZAR is currently trading amongst the weakest in the EM sample of currencies, with yesterday's 0.75% decline seeing the USD-ZAR break above its 100-day moving average for the first time since late March, spurring further weakness in early morning trade.

Contacts

Mogamisi Nkate	+267 3674335	email: mnkate@bancabc.com
Phillip Masalila	+267 3674621	email: pmasalila@bancabc.com

Kefentse Kebaetse +267 3674336 email: kkebaetse@bancabc.com
Maungo Sebonego +267 3674338 email: msebonego@bancabc.com

Report produced by ETM Analytics for BancABC Botswana.
Disclaimer