

Botswana Market Watch

28 July 2021

GMT	International and Local Data				
	BO	Nothing out			
11:00	US	MBA mortgage applications	Jul 23	-4.00%	
12:30	US	Wholesale inventories m/m	Jun P	1.30%	
12:30	US	Advance Goods Trade Balance	Jun	\$-88bn	\$-88,10bn
18:00	US	FOMC rate decision	Jul 28	0,25%	0,25%
18:30	US	Powell Holds Press Conference Following FOMC Meeting			

Africa	What happened?	Relevance	Importance	Analysis
World Bank funding	Following a meeting with leaders of 23 African countries in Abidjan, the World Bank said that African countries called for the largest-ever replenishment of the International Development Association of \$100bn	The IDA is the single largest source of donor funds for basic social services in these countries. The replenishment of the IDA fund is vital for Africa	3/5 (economy, fiscal policy)	In April, the WB launched an early replenishment cycle after massive assistance was paid out to African nations to help deal with the COVID-19 pandemic. The WB aims to complete the replenishment in December, covering the 2023-2025 fiscal years
Regional trade support	To help offset revenue losses for countries that lower cross-border tariffs, African nations plan to raise about \$8bn for a fund as part of a continent-wide free-trade agreement	Afreximbank previously provided \$1bn for the fund to help cushion sudden revenue losses and encourage participation	3/5 (economy, trade)	Afreximbank said \$1bn would be made available to help countries leverage funding from other multilateral development-finance institutions, export credit agencies, commercial banks, and donors
Africa vaccines	In a boost for a continent currently battling with a deadly third wave of coronavirus infections, countries in Africa are set to receive the first batch of 400mn doses of vaccines from Johnson and Johnson	The scaling up of the vaccine rollout is encouraging as the quicker people are vaccinated, the quicker economies can be reopened	4/5 (economic growth)	According to Strive Masiyiwa, who is a coordinator of the African Union task force team on vaccine acquisition, J&J doses will be used to immunize half of the estimated 800mn people in need of the vaccine on the continent

Global	What happened?	Relevance	Importance	Analysis
China Equity Sell-off	Chinese equities have extended losses to a fourth day amid concerns that the government's crackdowns could spur foreign outflows	Concerns are now spreading to economic growth which will keep weighing on markets	4/5 (equity markets)	The sell-off in Asia has filtered through into the rest of the world with the likes of the Nasdaq having its worst day in more than two months despite some strong tech company earnings
ECB Policy	ECB policymaker de Cos believes that the bank should keep some of the policy flexibility the PEPP programme brings it even after the pandemic is over	The ECB is setting itself up to provide continuous support even after the crisis is over	3/5 (monetary policy)	The PEPP programme's ability to provide more targeted support increases its effectiveness over general QE programmes which will be beneficial to the ECB going forward
Aus Inflation	CPI in Australia spiked to its highest since 2008 in Q2, although most of this acceleration was down to base effects	The spike will unlikely be enough to force the RBA into tightening its monetary policy	3/5 (economy/monetary policy)	Inflation will likely slow notably in Q3 and Q4, with the current lockdowns to slow price growth significantly which will see the RBA backtrack on its recent comments that it could tighten soon

Local F.X. Opening Rates and Comment

	CUSTOMER BUY		CUSTOMER SELL		Benchmark Yield Curve		Forward Foreign Exchange			
	CASH	CASH	TT	TT						
BWPZAR	1.2627	1.3883	1.2870	1.3749	6m	1.5750		BWPUSD	BWPZAR	
BWPUSD	0.0854	0.0938	0.0871	0.0929	3y	4.7750	1m	-2.1158	0.0000	
GBPBWP	16.2135	14.7661	15.8627	15.0738	5y	5.9250	3m	-6.2108	0.0000	
BWPEUR	0.0723	0.0794	0.0740	0.0778	22y	8.3250	6m	-15.0345	0.0000	
JPYBWP			9.5990	10.0733			12m	-34.7978	0.0000	
USDZAR	14.1875	15.3915	14.5200	15.0585						
EURUSD	1.1348	1.2295	1.1614	1.2029						
GBPUSD	1.3317	1.4431	1.3629	1.4119						
					Equities		Economic Indicators			
					BSE Domestic Index	6630.79	GDP	0.7	Bank Rate	3.75
					BSE Foreign Index	1551.22	CPI	8.2		

- Local news flow is on the thin side this morning but that is not to say that the international arena is bereft of influences. Today is the Fed meeting where the FOMC will decide on the next steps for monetary policy for the United States and by extension much of the world as well.
- The Fed meeting will be closely watched given what happened in June when a shift in the Dot Plots roiled markets and saw investors drastically bring forward their bets on the timing of rate hikes. Since then, these bets have been reversed to some degree amid a return of growth concerns, while Fed Chair Powell's recent testimonies have calmed investors' fears over potential tightening in the near term. This week's meeting is unlikely to cause such a stir, but it could still move the markets as any hawkish comments will see the Fed's policy divergence with many of its peers highlighted, which will support the US dollar and drive up UST yields once again, both of which have the ability to pressure emerging and frontier markets in general.
- The international investment community have expressed some concern over the Chinese tech rout which has seen heavy selling of Chinese tech stocks leaving many international holders of these stocks battered and bruised. Money managers have more exposure to China than ever given the rise of the world's second largest economy in the global indexes. Panic selling as a result of state intervention fears driving price action and we are cautious to call an end to it just yet. This has however led to some serious risk off which filtered through to other markets such as base metals yesterday.
- There are however some bargain hunters evident this morning in the base metal markets, we presently have the 3m LME copper price trading 0.38% higher at the time of writing at \$9795.00/tonne while nickel has recovered adding 1.7% this morning to trade at 19685.00/tonne into the start of the EU session
- The dollar index was almost unchanged this morning marking time at 92.485 ahead of the FOMC meeting later today. Safe haven currencies are however underpinned as a result of the risk off trading conditions caused by the tech sell off in China. The JPY opened the session yesterday at 110.34 and closed at 109.76 after touching an intra-day low of 109.57, this morning we are almost unchanged at 109.77. The EUR also managed to ratchet up some gains as did the GBP against the greenback yesterday. The AUD and NZD are steady this morning while flows have generally been lighter than normal in Asia with investors sidelined ahead of the big macro event later today.
- Local FX markets remain cautious, the interbank BWP-USD level has slipped further below the 0.0900 handle. We are unlikely to see a change in sentiment until we have clarity from the US Fed later today

ZAR and Associated Comments

- The USD-ZAR edged higher during intraday trade yesterday for the second session this week, tracking broader dollar moves and pulling back in later afternoon trade as topside resistance remained in place for the currency pair. However, the ZAR could not swing losses as it did at the start of the week with currency markets remaining cautious ahead of the Fed's policy rate announcement. After leading EM currencies weaker though most of the day, the local unit had clawed its way back to close a marginal 0.2% lower at the 14.8000/\$-handle.
- With emerging market currencies such as the ZAR benefitting from lower interest rates and loose offshore monetary policy in developed nations, policy meetings from major central banks create additional volatility in markets as participants position for potential updates to forward guidance. The risk to the ZAR lies in more hawkish communication, which brings forward expectations for the tightening of policy and rate hikes, ultimately reducing the carry trade appeal of the local currency. With the upcoming Fed policy announcement scheduled for today, the dollar has remained buoyed near recent peaks despite edging lower this week, while option markets have continued to price for near term volatility. More specifically, one-week at-the-money implied volatility on the USD-ZAR stands at the highest since late March, while implied volatility for the one-month tenor is the highest it has been since mid-April.
- While broader currency moves have been led by the greenback and risk aversion ahead of the Fed meeting, SA's own growth and fiscal prospects have weighed on the currency. Since June, the ZAR has led declines in the EM currency sample as it has dropped roughly 7% against the USD, while it has also been knocked off the top spot in terms of year-to-date performance. In the newswires yesterday, the IMF joined other international institutions which have recently revised SA's 2021 economic growth forecast higher. Although the multilateral lender revised upped the 2021 growth forecast to 4% from 3.1% due to a bumper first quarter, it noted that growth will have been capped due to additional lockdowns and deadly riots which damaged infrastructure and businesses. This has followed shortly from last week's warning that government should reprioritise its budget to offset relief measures from the riots to keep its fiscal framework intact.
- Ultimately, in the absence of structural reforms to promote inclusive economic growth, further fiscal slippage will see government debt levels rising unsustainably and will continue to weigh on domestic assets and the currency. In the day ahead though, the domestic market will look to a briefing by Finance Minister Tito Mboweni on government's recently announced economic relief package. Externally, focus will turn to the Fed's policy announcement. While the Fed will likely maintain its commitment to accommodative policy, the market remains cautious over potential hawkish communication supporting the USD at the expense of higher beta asset classes and riskier currencies.

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