

Botswana Market Watch

30 July 2021

GMT	International and Local Data				
08:00	BO	BWP 300m of 91, 182 and 364 Day bills on offer			
09:00	EZ	CPI estimate y/y		Jul	2.10%
09:00	EZ	GDP sa y/y		2Q A	13.40%
09:00	EZ	Unemployment rate		Jun	7.90%
12:30	US	BLS Employment cost index q/q SA		2Q	0.90%
12:30	US	PCE core y/y		Jun	3.70%
13:45	US	Chicago PMI		Jul	63,70
14:00	US	Michigan consumer confidence		Jul F	80,80

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
US GDP	US GDP figures missed estimates yesterday, coming in at a growth rate of 6.5% when annualised, lower than the 8.4% predicted as inventories dragged	The current trend suggests that the US will return to pre-pandemic output levels soon	4/5 (economic growth)	Looking past the headline figure, consumer growth remained robust and the inventory drawdown suggests that growth could accelerate in the coming quarters as stockpiles are replenished
German Inflation	Inflation in Germany jumped to the highest level since 2008 in July, fuelling the debate over whether the price growth is still transitory	Although inflation is surging across Europe, the ECB will unlikely be moved in their policy stance	4/5 (economics/monetary policy)	The sharp rise in prices was a result of several temporary factors such as sales tax cuts last year and changes to the basket, suggesting that price growth should ease over the coming months
US-China Trade	China's ambassador to the WTO has said that there is scope for the country to work with the US and other Western countries to ease the current trade conflict	Talks could lead to a rewrite of many major WTO rules and China's trading tactics	3/5 (trade policy)	Discussions could focus around China's massively distorting subsidies to many industries and the lack of any dispute resolution mechanisms

Local F.X. Opening Rates and Comment

	CUSTOMER BUY		CUSTOMER SELL		Benchmark Yield Curve	Forward Foreign Exchange	
	CASH	CASH	TT	TT		BWPUSD	BWPZAR
BWPZAR	1.2650	1.3765	1.2894	1.3633	6m	1.5750	
BWPUSD	0.0869	0.0944	0.0886	0.0935	3y	4.7750	1m -2.1450 0.0000
GBPZAR	16.0287	14.7457	15.6819	15.0529	5y	5.9250	3m -6.8348 0.0000
BWPEUR	0.0732	0.0795	0.0749	0.0779	22y	8.3250	6m -16.3508 0.0000
JPYBWP			9.7366	10.1140			12m -37.7618 0.0000
USDZAR	13.9773	15.1597	14.3049	14.8317	Equities		
EURUSD	1.1403	1.2354	1.1670	1.2087	BSE Domestic Index	6628.58	GDP 0.7 Bank Rate 3.75
GBPUSD	1.3389	1.4506	1.3703	1.4192	BSE Foreign Index	1551.22	CPI 8.2

- We would like to draw the readers attention to the fact that Bloomberg Global Commodity Spot Index is now at an all time high breaking above the last high of 492.31 seen on the 31st March 2011. We are currently quoted at 493.64 as we enter the final day of trade for the July 2021 month. The rise in the index has been as a result of surging soft commodity prices. Extreme weather has driven sugar and coffee to multi-year highs while the threat of drought in North America is underpinning the likes of corn, torrential rains in the EU have threatened crops there and supply chain bottlenecks have added complexity across the board. Global gas prices have risen with the EU expected to have a shortage this winter and copper and oil although lagging in terms of performance have hardly fallen out of bed. Copper is expected to experience a second leg higher in due course with supply concerns mounting. All in all, it makes a good argument for us being firmly in the next commodity super cycle.
- The policymakers will undoubtedly keep an eye on developments here given the pass through effects for local inflation. The BoB has in tandem with most other central banks taken the view that the current inflationary pressures are going to be transitory and that pressure should dissipate in 2022. Granted we may see inflation normalise in the coming months but the reset of prices higher is likely to remain. This will undoubtedly place pressure on households with the poorest as always the most vulnerable and hardest hit by inflationary episodes.
- Internationally news flow is currently focused on the spread of the Delta variant of COVID-19. Asia has been particularly hard hit, however the rest of the world has not been spared and concerns are growing as to what impact this will have on the rest of 2021 from an economic perspective. Reuters reported the following this morning - *Japan's government on Friday proposed states of emergency through Aug. 31 in three prefectures near Olympic host Tokyo and the western prefecture of Osaka, as COVID-19 cases spike to records, overshadowing the Summer Games. Existing states of emergency for Tokyo - its fourth since the pandemic began - and southern Okinawa island should also be extended to Aug. 31, Economy Minister Yasutoshi Nishimura, who is spearheading Japan's pandemic response, told a panel of experts in announcing the proposed expansion. Prime Minister Yoshihide Suga is expected to formally announce the move later on Friday after the experts approved it.*
- Moving over to the markets we have Asian equities broadly down on the day with sentiment sour as a result of the spread of the Delta variant as well as the fall out that took place early in the week as China aimed to clamp down causing a mass sell off of Chinese tech stocks. The region is set to record its worst month since March 2020
- The dollar index has managed to gain a foothold after closing below the 92.00 mark overnight. Pressure came as a result of the lacklustre data released yesterday with GDP headlining. The Q2 GDP reading for the world's largest economy came in at an annualised rate of 6.5% yesterday missing market expectations by a wide margin. Bloomberg's consensus forecast had the print pencilled in at 8.5% y/y. Investors pushed back the timing of taper expectations from the Fed and this put tactical long dollar traders to the sword.
- The BWP-USD has regained the 0.0900 level yesterday as the weakness in the dollar pushed the pair higher. The BWP is not alone in its stellar performance with other regional currencies such as the Kwacha and ZAR all making gains.

ZAR and Associated Comments

- The ZAR strengthened on the back of a notably weaker us dollar in the wake of the Fed's FOMC policy announcement, which the market took as too dovish to support the greenback's lofty levels. Since the beginning of June, the trade-weighted dollar index (DXY) rose roughly 3.75% to last week's highs around 93.2. Just this week, the DXY has shaved off 1.15% as of yesterday as it has lost appeal amongst investors amidst lower US Treasury yields and improved risk appetite. As for the local currency, the ZAR's advance yesterday was equally notable as it led EM currency gains on the day. The dollar's slide saw the USD-ZAR break through its 200-day moving average around 14.7300 in morning trade, with the currency pair ultimately declining 2% to close at 14.5500.
- Data earlier in the day did little to halt the ZAR's advance, with money supply growth decelerating sharply in June to a record low of 0.12% y/y from 1.82% y/y in the prior print. Meanwhile, private sector credit growth also surprised to the downside, contracting 0.54% y/y compared to a 0.42% y/y decline in May. Lockdown restrictions reinstated in June continued to exacerbate SA's weak credit cycle and will see business activity levels suffer for as long as uncertainty surrounding the virus and restrictions remain in place. The data underscores the low potential for demand-side inflationary pressure to begin lifting consumer prices despite producer price inflation continuing to rise. Further data released yesterday showed SA's producer price index (PPI) accelerated in June, jumping 7.7% y/y. Higher producer prices may eventually filter through to consumer prices, but, as yet, manufacturers remain unable to pass on all cost increases, which will continue to see profits and investment squeezed. Ultimately, this will give the SARB more room to support the economy as it remains primarily CPI-focused in its decisions.
- The political sphere was also active in the newswires yesterday. President Ramaphosa hinted that a cabinet reshuffle might be on the cards, with the news seen as a positive development. Meanwhile, reports emerged that government is looking to establish a state bank, using African Bank as a building block. The SARB is currently looking to sell its stake in the bank, which presents government with an opportunity to use African Bank's existing license to form its long-touted state bank. While this may help provide banking and financial services to a larger portion of the population, there are clear risks from the historically poor performance of state-run entities, which have strained SA's weak fiscus, as well as potential destabilisation of the broader financial system.
- As for the day ahead, June's trade and government budget balances round out this week's domestic data card. The trade balance is expected to have maintained a robust surplus given the continued economic normalisation of SA's main trading partners. Still, it will indicate whether the ZAR's decline since June was in part linked to trade dynamics. Externally, markets may shrug Eurozone GDP and inflation data this morning, given last week's dovish guidance from the ECB. Later on, US core personal consumption expenditure (PCE) data will hold focus as it remains the Fed's preferred measure of inflation. This may provide some support to

the USD into the weekend if inflationary pressures continue to build, while some profit-taking may equally limit losses for the greenback this week after yesterday's moves across broader FX markets..

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