

Botswana Market Watch

5 July 2021

GMT		International and Local Data	Period	Actual/Survey	Prior
	BO	GDP	1Q		-4.1%
01:45	CH	Caixin composite PMI	Jun	50.6 A	53.80
07:55	GE	Markit services PMI	Jun F	58.10	58.10
08:00	EZ	Markit composite PMI	Jun F	59.20	59.20
08:30	GB	Markit composite PMI	Jun F		61.70
08:30	EZ	Sentix investor confidence index	Jul	29.90	28.10

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)	Africa 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	The Africa Union (AU) said that the US would begin shipping the first batch of coronavirus vaccines it has donated. This comes as African countries face a deadly third wave of infections	The US government said that it would donate 500mn Pfizer vaccine doses to the 100 poorest countries and will seek no favours in exchange	3/5 (economy)	The vaccines will be a welcome boost as the continent is lagging behind in vaccinating its population, with just 1% fully inoculated. This compares with roughly 11% of people globally and over 46% of people in the United Kingdom and the US.

Global	What happened?	Relevance	Importance	Analysis
China services activity	Growth in China's services activity fell to a 14m low, negatively affected by resurgent Covid-19 cases in Southern China. The Caixin/Markit PMI fell to 50.3	It has given rise to concerns that China's economy may be starting to lose momentum	3/5 (economy)	This data follows on from China's official PMI data that also reflected a slowdown in June. Although both indicators remained in expansion territory, a fresh wave of infections could detract.
Japanese services activity	The services sector in Japan shrank for the 17 th consecutive month in June as Covid-19 dampened demand both at home and for Japanese exports	Below 50 for the 17 th successive month signals an economy still struggling with its recovery	4/5 (economy)	Unfortunately, it remains a story about Covid infection rates and whether or not economies can open up or not. Largely vaccinated populations can recover more sustainably.
US labour market	US jobs data last week was strong, with the payrolls numbers being the strongest in 10 months, although the unemployment rate did rise to 5.9% in Jun from 5.8%	Data alluded to recovery, but not one strong enough to warrant a significant change in policy	3/5 (economy)	It was a surprising reaction to the data. Many investors were caught off-guard, but that might be a function of a market that was positioned too aggressively for a USD rebound.

Local F.X. Opening Rates and Comment

CUSTOMER				CUSTOMER				CUSTOMER				CUSTOMER																	
BUY		SELL		BUY		SELL		BUY		SELL		BUY		SELL															
CASH		CASH		TT		TT		CASH		CASH		TT		TT															
BWPZAR	1.2373	1.3612	1.2612	1.3481	Benchmark Yield Curve <table border="1"> <tr><td>6m</td><td>1.5760</td></tr> <tr><td>3y</td><td>4.7750</td></tr> <tr><td>5y</td><td>5.3250</td></tr> <tr><td>22y</td><td>6.7750</td></tr> </table>	6m	1.5760	3y	4.7750	5y	5.3250	22y	6.7750	Forward Foreign Exchange <table border="1"> <tr><td></td><td>BWPUSD</td><td>BWPZAR</td></tr> <tr><td>1m</td><td>-2.0085</td><td>0.0000</td></tr> <tr><td>3m</td><td>-6.2790</td><td>0.0000</td></tr> <tr><td>6m</td><td>-15.2198</td><td>0.0000</td></tr> <tr><td>12m</td><td>-35.1878</td><td>0.0000</td></tr> </table>		BWPUSD	BWPZAR	1m	-2.0085	0.0000	3m	-6.2790	0.0000	6m	-15.2198	0.0000	12m	-35.1878	0.0000
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BWPUSD	0.0869	0.0955	0.0886	0.0946																									
GBPBWP	15.8884	14.4575	15.5447	14.7587																									
BWPEUR	0.0732	0.0805	0.0750	0.0789																									
JPYBWP			9.8840	10.3785																									
USDZAR	13.6725	14.8276	13.9930	14.5068	Equities <table border="1"> <tr><td>BSE Domestic Index</td><td>6622.38</td></tr> <tr><td>BSE Foreign Index</td><td>1551.29</td></tr> </table>	BSE Domestic Index	6622.38	BSE Foreign Index	1551.29	Economic Indicators <table border="1"> <tr><td>GDP</td><td>-4.1</td><td>Bank Rate</td><td>3.75</td></tr> <tr><td>CPI</td><td>6.2</td><td></td><td></td></tr> </table>	GDP	-4.1	Bank Rate	3.75	CPI	6.2													
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EURUSD	1.1381	1.2333	1.1648	1.2067																									
GBPUSD	1.3272	1.4379	1.3583	1.4068																									

- The market is squarely focused on the debt issuance programme at the moment. The country will require additional funding in the coming years to support the economy which has been ravaged by the COVID-19 pandemic, but equally it will be issuing debt to support various expansion projects in the pipeline which will move the country along in its quest to become a middle tier economy in the coming decade.
- The government is accessing its needs, and those of the broader market. The jury is out on ability of the local investment community to absorb massive amounts of debt which leaves the international community as the natural buyers of government bonds. Botswana has a great credit rating versus its peers and thus is really only a question of what government is prepared to pay investors for lending them money.
- It is against this backdrop that we have the government issuing debt on Friday. The Bank of Botswana placed BWP55m of the Sep 2043 bond at a bid to cover ratio of 3.73. The yield was 8.25%. Previously the bank allotted BWP101m in March at 6.62% and before that it allotted BWP115m in January at a yield of 6.092%
- In other news, Mmegi reported the following - *The Bank of Botswana (BoB) has paid the government a timely P2.9 billion return, being the proceeds of the central bank's investment activities in 2020, BusinessWeek has learnt. The BoB paid government P848 million as a pre-set dividend and about P2.1 billion as residual income arising from investment activities, helping government coffers at a time when a P6 billion deficit is projected for this year. Government, as the BoB's sole shareholder, has an agreement with the central bank under which it receives a pre-set dividend determined by the balances of the Government Investment Account (GIA) and residual income from investment activities.*
- Internationally, it will be a quiet start to the week with the U.S. enjoying a long weekend for Independence Day yesterday. The long weekend may explain some of the position squaring seen on Friday, and so the moves on the USD and bonds need to be understood and seen in this context. Some re-establishment of positions may therefore materialise through the course of the week ahead.
- What was interesting about Friday's market response is that it came on the back of some strong data that at least matched investors' expectations. Instead of utilising this as a guide that the economy was recovering and may indeed warrant a tapering in monetary policy, the market treated it as good news. Stocks went higher and the USD weaker. It is difficult to discern whether it was the fundamentals that supported the move or whether it was just some position squaring heading into the long weekend.
- Friday's developments raise the significance and importance of the FOMC minutes scheduled for Wed. They will offer greater clarity on the probability of a taper or monetary policy normalisation. They may also contextualise the debates around inflation and the probability that inflation becomes more problematic than just a temporary spike. Average wages in the most recent payrolls numbers continued to climb, and that trend will persist for so long as the market tightens up.
- Friday produced a wild trading session. Data that ordinarily could've helped the USD surge stronger and extend its recovery had the opposite effect and it corrected. It is unclear whether that was related to position squaring ahead of the long weekend, or whether the market explanation of the labour data being positive enough to bolster taper talk, but not positive enough to trigger an actual move by the Fed, is correct. It is more likely to be the former and so the upcoming FOMC minutes may see some of Friday's USD weakness reverse.

ZAR and Associated Comments

- The USD-ZAR dipped at the end of the week as the much anticipated US jobs report released on Friday afternoon seemed to paint a mixed picture on stateside labour market dynamics and ultimately failed to support the USD. Despite a strong nonfarm payrolls print, which showed 850k jobs were added in June, this was accompanied by a slight rise in the unemployment rate to 5.9% from 5.8%. Meanwhile, the labour force participation rate remained flat, suggesting the increase in unemployment was not due to new entrants into the labour force despite US COVID-19 benefits ending in June.
- All in all, an uneven recovery should support the Fed's views that accommodative monetary policy is still needed for some time and that the market may be getting ahead of itself, even with recent indications from the Fed that it will begin to consider tapering supportive policy in the coming months. Resultantly, the much-awaited jobs report failed to bring forward expectations of the Fed's tapering timeline.
- The USD-ZAR ultimately fell 1.2% on Friday as it was led lower by the dollar leg, closing around the 14.2500-level. Earlier in the day, the currency cross encountered resistance at the 14.5000-handle, which it tested for the first time since early May. With the ZAR also the strongest EM currency performer on the day, this suggests the move was partly specific to the local currency as the market deemed current levels as oversold.
- Domestically, developments in the week ahead will centre around the conviction of former president Jacob Zuma, where the litmus test for the South Africa judicial system is still ensuing. The Constitutional Court agreed to hear Zuma's application to have his conviction on contempt charges and 15-month sentence set aside, stating that he was convicted without trial.
- With politics taking centre stage, the June print of the economy-wide Standard Bank PMI scheduled for release today may be somewhat overlooked, barring the ongoing recovery showing heavy signs of weakness. Nevertheless, it will still offer insight into the effects of the reintroduction of harsher COVID-19 restrictions during the month. In the spot markets thus far, the ZAR has continued to hover around last week's close of 14.2500/\$ with sentiment neither risk-on nor downbeat during Asian market hours. The USD, on the other hand, has traded firmer on a trade-weighted basis following Friday's dip. Still, we may not see substantial moves in the day ahead as US markets will be shut for Independence Day, with liquidity-thinned trade and muted sentiment likely to be the order of the day.

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