

Botswana Market Watch

7 July 2021

GMT		International and Local Data	Period	Actual/Survey	Prior
06:00	BO	GDP	1Q		-4.1%
09:00	GE	Industrial production wda y/y	May	18.20%	26.40%
11:00	EC	European Commission Publishes Summer Economic Forecasts			
18:00	US	MBA mortgage applications	Jul 2		-6.90%
19:30	US	Fed's Bostic Discusses Economy	Jun 16		

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
OPEC+ abandons meeting	OPEC+ members called off output talks on Monday after clashing last week when the UAE rejected a proposed 8m extension to the output curbs	In the end, no new deal to increase production has therefore been agreed	4/5 (economy, market, politics)	Last week, the UAE agreed with Saudi to lift production in stages, but the UAE remains frustrated by the low base off which the increases will be calculated. UAE believes the market is short of oil.
RBA	As expected, the RBA announced unchanged interest rates this morning, leaving its benchmark rate at 0.10%, the level it has been at since Nov 2020	The RBA has made it clear that it will not be in any hurry to do away with its stimulus efforts	3/5 (central bank)	The RBA will be one of the slower central banks to respond as its vaccination drive has been slow, and the risks of opening up too soon are high. They will persist with the support.
Japanese wages	Japan's inflation-adjusted wages for May have risen 2.0% y/y, in what is the biggest monthly gain since June 2018. Overtime pay in May also rose 20.7% y/y in the biggest monthly jump on record	Although these data overstate the improvement thanks to the low base, they still represent a strong rise	2/5 (economy)	Although the data highlight just how big the impact on growth has been, it also highlights the potential for recovery through the remaining months of the year, once the vaccination rollout gathers more pace

Local F.X. Opening Rates and Comment

CUSTOMER											
	BUY	SELL	BUY	SELL	Benchmark Yield Curve			Forward Foreign Exchange			
	CASH	CASH	TT	TT							
BWPZAR	1.2454	1.3705	1.2694	1.3573	6m	1.4140		1m	-2.0768	BWPUSD	BWPZAR
BWPUSD	0.0869	0.0955	0.0886	0.0946	3y	4.7750		3m	-6.2888		
GBPWP	15.8654	14.4335	15.5222	14.7342	5y	5.3250		6m	-15.3953		
BWPEUR	0.0734	0.0807	0.0752	0.0792	22y	6.7750		12m	-35.2170		
JPYBWP			9.8348	10.3378							
USDZAR	13.7618	14.9292	14.0843	14.6062							
EURUSD	1.1353	1.2300	1.1619	1.2034							
GBPUSD	1.3250	1.4358	1.3560	1.4048							
				Equities			Economic Indicators				
				BSE Domestic Index	6624.11	GDP	-4.1	Bank Rate	3.75		
				BSE Foreign Index	1551.29	CPI	6.2				

- The government is facing legal challenges following its alcohol ban. Anheuser-Busch InBev's division Kgalagadi Breweries Ltd. has filed a lawsuit saying there is no scientific basis for the move and stated that some 200 000 jobs are under threat. The suit filed in the High Court of Gaborone was filed yesterday and the government has not made an official statement as yet.
- Botswana is not alone in facing legal issues related to the banning of alcohol to stem the COVID-19 pandemic. The banning of alcohol is a favoured strategy of the South African government to preserve hospital beds due to alcohol related injuries and to stem social gatherings. South African Breweries took legal action in January, and there is no resolution over the 4th prohibition put into effect late last month.
- In other news, Minergy Coal, Sese Power, Jindal Africa and Maatla Resources on shortlist to build Botswana's first independent power producer 300MW coal power plant, according to the state procurement agency. The plant will need to be a complete turnkey solution and it can be located anywhere in Botswana. Under the Integrated Resources Plan which was published in December, this will be the only non-renewable IPP project that the government will allow over the next 20 years.
- Moving over to international developments, Financial markets have become uncertain ever since the FOMC decision and the labour data which followed. Investors are now actively considering the timing of any taper and are responding to the data outcomes with disproportionate force. The market has become difficult to trade and understand, so today's FOMC minutes will be dissected for further clarity, hoping that it gets given.
- The June FOMC minutes will be closely analysed given the notable shift in tone seen at the meeting, which roiled markets and brought forward bets of policy tapering. Investors will be looking to see just how hawkish the Fed has turned and which members brought forward their dot plot forecasts for rate hikes. Since the meeting, however, the Fed has clearly telegraphed that it is not looking to tighten anytime soon and is waiting to see a more sustained improvement in the labour market. According to data released last week, the labour data showed that the economy.
- The shift at the Fed is part of a much broader theme. Many central banks are now looking through the pandemic and an exit from the current expansionary monetary policies. As economies open up, the desperate need to support decreases. Most investors' concern is that the recent performances by markets have become so dependent on cheap money that it is difficult to see them remaining supported without it. It generates market volatility which might eventually be expressed in a spiking VIX, although for now, that is still being kept in check.
- In terms of the FX markets, at the moment, the market appears a little schizophrenic. It is whipsawing around aggressively and reflects the degree of uncertainty currently doing the rounds. It is an environment characterised by significant events that signal a material shift in medium to longer-term monetary policy. Today's FOMC minutes will be important. Any additional guidance that can be gleaned from them will be used to build a baseline view on future U.S. monetary policy. It is market-moving, and the USD appears to be waiting for the event to pass before adopting any clear-cut direction.
- Local investors will await the potential release of the GDP figures while the BWP remains above the 0.0900 mark into the start of today's trading session.

ZAR and Associated Comments

- The USD-ZAR attempted a downwards break yesterday, but a resurgent greenback pressured major and emerging currencies broadly ahead of the Fed's FOMC meeting minutes due later this evening. With markets cautious that the dollar may catch a potential tailwind from the June meeting's minutes, the ZAR's earlier gains, which took it below the 14.2000/\$-handle for the first time in over a week, were ultimately reversed as the unit retreated against a buoyant USD.
- With the USD holding steady overnight, investors are positioning for a reaction that may result in Fed policy tapering bets being brought forward, similar to what occurred at the June meeting. Given the mixed rhetoric from Fed officials since the last meeting, investors will closely analyse just how hawkish the Fed has turned. That said, the minutes could swing sentiment either way as the central bank maintains that it will wait to see a sustained improvement in labour market conditions.
- While the Fed's last meeting drove the USD to a near 3% trade-weighted gain in June, this did not stop inflows into EM stocks and bonds, which continued at quite a pace and almost tripled from the month prior, according to data from the Institute of International Finance (IIF). This suggests that the outlook remains positive for EMs while DM yields remain low in comparison. That said, idiosyncratic risks do exist for specific EMs. China accounted for the majority of the flows, and thus some more vulnerable emerging markets could still be subject to outflows as the prospects of Fed tapering rise.
- Meanwhile, political developments surrounding former president Jacob Zuma have been front and centre domestically. In a statement yesterday by the ANC's National Executive Committee, the ruling party urged the public to observe the law and slated threats by supporters of the former president to block his arrest.
- On the domestic data front, SARB reserve data are scheduled for release this morning. The previous print showed net reserves rose to the highest on record. While these will help shield the economy from external shocks and thus support the ZAR, the SARB is not actively building reserves to do this. The drop in the price of gold and the USD's rise in June will likely have dented reserves, but these data will hold limited market-moving potential as all eyes turn to the Fed's FOMC meeting minutes later this evening. In the spot markets, the ZAR has snapped the general risk-off sentiment seen during the Asian market hours this morning as it looks to recoup some of yesterday's moves which saw the unit decline 1% against the USD to close at the 14.4000/\$-handle. However, the US dollar has broadly held onto yesterday's gains, suggesting small trading ranges may be the order of the day as markets remain tetchy over further potential surprises from the Fed.

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