

# Botswana Market Watch

8 July 2021

GMT		International and Local Data	Period	Actual/Survey	Prior
	<b>BO</b>	<b>GDP</b>	<b>1Q</b>		<b>-4.1%</b>
0/N	JN	Current account total	May	¥1807,20bn	¥1321,80bn
0/N	JN	Trade balance	May	¥247,90bn	¥289,50bn
06:00	GE	Trade balance	May		15,50bn
12:30	US	Initial jobless claims	Jul 3		364k
19:00	US	Consumer credit	May	\$18,50bn	\$18,61bn

Africa	What happened?	Relevance	Importance	Analysis
<b>Food prices</b>	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	<b>4/5</b> (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
<b>Cost of slow vaccine rollout</b>	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	<b>4/5</b> (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
<b>Africa vaccine hubs</b>	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	<b>3/5</b> (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
<b>FOMC minutes</b>	Nothing significantly new in the minutes that change the outlook for monetary policy. FOMC board divided on outlook, but prepared to act on inflation when required	Although it will not act now, it wants to be appropriately positioned to be able to act on inflation	<b>3/5</b> (monetary policy)	It is unlikely that the Fed minutes will change expectations much. It was non-committal and highlighted the divergent expectations that will need to converge before the Fed acts
<b>Japan's credit cycle</b>	Bank lending in June rose just 1.4% y/y vs 2.8% in May. This represents the slowest annual rise in eight years as corporate demand for funds subsided	Many companies are already cash-flush, so the weak growth should be seen in this context	<b>3/5</b> (economy)	Beyond the corporate demand for funds, the picture looks a little better as bank lending ex-funds remained more elevated to show that the economy is primed to recover once restrictions end
<b>UK house prices</b>	UK house prices in June rose the most since 1988. However, fewer homes were put on the market to sell, and buyer demand softened	Tax breaks helped the housing market surge. Affordability now a problem	<b>4/5</b> (economy)	As taxes normalise, the housing market will experience a correction of sorts. Although prices are unlikely to correct as much, activity will certainly moderate

## 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	1.2468	1.3671	1.2708	1.3539	<b>Benchmark Yield Curve</b>				<b>Forward Foreign Exchange</b>						
BWPUSD	0.0869	0.0952	0.0886	0.0942	<b>6m</b>	1.4260					<b>BWPUSD</b>	<b>BWPZAR</b>			
GBPGBP	15.8413	14.4619	15.4986	14.7632	<b>3y</b>	4.7750					<b>1m</b>	-2.0085	0.0000		
BWPEUR	0.0736	0.0807	0.0754	0.0792	<b>5y</b>	5.6250					<b>3m</b>	-6.5130	0.0000		
JPYBWP			9.8250	10.2869	<b>22y</b>	8.3250					<b>6m</b>	-15.3368	0.0000		
											<b>12m</b>	-35.4218	0.0000		
USDZAR	13.7761	14.9407	14.0990	14.6175	<b>Equities</b>				<b>Economic Indicators</b>						
EURUSD	1.1321	1.2266	1.1587	1.2000	<b>BSE Domestic Index</b>	6625.74	<b>GDP</b>	-4.1	<b>Bank Rate</b>	3.75					
GBPUSD	1.3233	1.4336	1.3543	1.4026	<b>BSE Foreign Index</b>	1551.29	<b>CPI</b>	6.2							

- Botswana has unearthed another giant diamond in as many weeks. A white 1174 carat diamond stone was presented to the government of Botswana yesterday by Lucara, the Canadian Diamond firm. "This is history in the making, for us and Botswana as well," said the company's managing director Naseem Lahri, adding that the diamond sits in third position among the world's largest gemstones. The diamond comfortably sits in the palm of a man's hand.
- We keeping with mining but shift focus to copper given its relevance as a result of the Kalahari copper belt. Copper recovered yesterday posting gains of some 1.52% on the day driven by falling inventories in China signalled robust demand out of the world's second largest economy. Warehouse stocks tracked by the Shanghai Futures exchange have dropped to the lowest level since February, this drawdown is encouraging with the weaker pricing lifting consumption from the power sector.
- This morning we have copper trading mildly lower with a stronger USD driving the short-term price action. 3m LME copper is currently quoted at \$9429.50/tonne, some 0.25% lower on the day.
- Internationally, the latest FOMC minutes offered no clear-cut view on how the economic recovery would unfold, although there was agreement that the conditions needed to describe the economy as having made substantial progress, had still not been met. Some participants felt that the conditions would be met somewhat sooner than first anticipated, others felt that the data remained too unclear to make that judgement. While the FOMC minutes dropped reference to the pandemic as being a constraint, they did not go far enough to convince investors that the taper was an imminent threat. On the contrary, the communication was non-committal and has translated into a weaker USD which is not entirely surprising given just how much "taper talk" had been priced in ahead of time.
- Clearly from this latest piece of information, the labour market will need to improve significantly further before the Fed will actively talk about a sustained rise in inflation expectations and any threat of an overheating economy. So ultimately, these minutes changed very little for the market and the reaction from investors was therefore justifiably muted. Investors will become increasingly data driven, and the Fed will debate the timing of any taper from meeting to meeting, especially if there have been any fresh developments that change the recovery trajectory.
- Concerning the labour market, US job openings rose a little further to a fresh record high in May, although hiring dipped. As restrictions end and companies move to reposition themselves for stronger demand, the initial ramp up in labour demand will cause some acute pressures, potentially in wages and so this data needs to be carefully monitored. The JOLTS report for May published earlier showed that job openings rose to 9.2mn while conditions will likely reflect labour market shortages.
- In other news, IMF Chief Georgieva warned the Fed not to overreact to the rise in inflation, even it is a little more prolonged than first thought. The IMF fears that a tightening in US monetary policy will tighten global monetary conditions to such a degree that it could impact heavily on capital flow dynamics to emerging markets and cause further difficulties.
- In terms of the FX markets, at the moment, after initially dipping on the FOMC statement, the USD recovered a little further to rise to the strongest levels since early April. Strong JOLTS data that alluded to pressures building in the labour market coupled with inflation concerns also expressed by the IMF will keep the USD somewhat supported. Until there is a statement to the contrary, the market will be looking at the risk that any tapering happens sooner than expected and any piece of strong economic data will only serve to build that argument. For now, the USD remains on the front foot.
- 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

- On the domestic front, the ZAR had an apparent tailwind yesterday as ratings agency S&P Global raised its growth forecast for the South African economy from 3.6% to 4.2% for this year. While the revision comes amid adjusted base effects, the ratings agency also noted greater than expected improvements in SA's terms of trade owing to elevated commodity prices. Furthermore, S&P forecast South Africa's debt-to-GDP ratio at 80.9% for the year ending March 2022, which is more optimistic than National Treasury's estimate of 81.9%. In terms of risks, it was also noted that government may ultimately settle on a wage-hike agreement closer to inflation, which will put further strain on government finances. At the same time, the ratings agency also highlighted the weak pace of economic reforms, which will continue to constrain medium-term growth.
- Nevertheless, the ZAR took the positive aspects from this revision in its stride as it went on to a 0.5% gain to end London trading hours at 14.3300/\$. The ZAR was among a handful of currencies that were stronger against the US dollar on the day yesterday, with riskier currencies broadly kept in check as the dollar remained supported ahead of the Fed's June FOMC meeting minutes.
- Ultimately, there was limited additional guidance offered from the FOMC minutes. Fed officials were of the opinion that substantial further progress on the economic recovery needs to be made, but did agree that a plan for tapering should be put in place should inflation or other risks materialise. While the minutes failed to update investors on a potential timeline, the majority of officials saw inflation risks balanced to the upside and that overall tapering conditions would be met sooner than originally anticipated. As a result, future moves by the Fed will be highly data-driven, and so will general market direction as a result.
- In terms of domestic developments overnight, newswires have been flooded by announcements that former President Jacob Zuma handed himself in to authorities to begin serving his 15-month jail sentence. While unlikely to move markets in the day ahead, this still bodes well for the ruling ANC's battle against corruption and South Africa's broader reform prospects.
- However, in the spot markets, the ZAR has reversed some of yesterday's gains during the Asian trading session, falling alongside the majority of emerging market currencies. Overall, a more hawkish sentiment emanated from the FOMC minutes which has driven the US dollar stronger in early morning trade. Meanwhile, US treasury yields have continued their recent decline as the

reflation trade is put on the backburner. This may ultimately detract from the USD in the coming months if Fed tapering bets temper, but in the meantime, the greenback appears to be holding firm.

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**Report produced by ETM Analytics for BancABC Botswana.**

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