Botswana Market Watch

12 July 2021

GMT		International and Local Data	Period	Actual/Survey	Prior
	BO	GDP for Q1 may be released	1Q		-4.1%
0/N	JN	Machine orders y/y	May	6.30%	6.50%
06:00	JN	Machine tool orders y/y	Jun P		141.90%
09:00	EC	ECB's Guindos speaks at Omfif			
16:00	US	Fed's Kashkari Speaks at Townhall			

Africa	What happened?	Relevance	Importance	Analysis
Chinese PPI	June's PPI moderated to 8.8% y/y vs May's more pronounced 9.0% y/y reading. Pass through to CPI is limited, but high PPI will undermine the recovery efforts	High input costs will need to be absorbed in a way that encroaches on margins, not CPI	3/5 (monetary policy)	Robust commodity prices have impacted industrial products that will be utilised for the production of consumer goods. Producer inflation is expected to remain elevated through H2 2021.
US jobless claims	Although the trend in initial claims has been lower, last week's data showed a slight uptick, although continuing claims continued to drop	It does not reflect anything other than a slight tick higher in a generally declining trend	3/5 (economy)	The recovery in the labour market is ongoing, as reflected by the continuing claims moderating and representing re-hiring. Furthermore, JOLTS data shows job openings are sky high
ECB guidance	The ECB yesterday announced a tweak to their inflation target to give it greater flexibility but will not characterise it as average inflation targeting around 2%	It simply allows the ECB to ignore any short-term rise through 2.0% without acting mechanically	4/5 (monetary policy)	The move has not been described as one to promote flexibility, but rather that the 2% target is cleaner and simpler to communicate and could tolerate a slight deviation from the target

Global	What happened?	Relevance	Importance	Analysis
Japanese machinery orders	Machinery orders grew for the 3rd straight month in May. Core machinery orders grew 7.8% m/m in May, while manufacturing orders grew 2.8% on the month	Encouragement that there would be an economic recovery under way save for the pandemic	3/5 (economy)	Economic recoveries reflect the degree to which the pandemic has subsided and for this reason will remain patchy as the world works through wave after wave in different jurisdictions
Chinese monetary policy	The PBoC cut its RRR for banks by 50bp freeing up $154bn that banks can utilise to lend and underpin the economic recovery	Reflects how growth is losing steam and how the authorities want to stimulate	3/5 (monetary policy, economy)	It is difficult to describe it as anything more than a tweak to monetary policy, but it is significant that they felt the need to stimulate at this point
Oil market	Oil prices have remained little changed as an impasse in production discussions serves to keep supplies tight. The risk for prices is that a deal is reached	OPEC's internal stalemate persists. In the absence of a deal current production holds	4/5 (market)	Preventing the price from rocketing higher is the belief that an increase in OPEC production will come and the increase in the prodiction of US energy firms that increased production.

Local F.X. Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2555	1.3706	1.2797	1.3574
BWPUSD	0.0878	0.0959	0.0895	0.0950
GBPBWP	15.7819	14.4719	15.4405	14.7734
BWPEUR	0.0740	0.0807	0.0758	0.0792
JPYBWP			9.9036	10.3175
USDZAR	13.7207	14.8820	14.0423	14.5600
EURUSD	1.1390	1.2344	1.1657	1.2077
GBPUSD	1.3329	1.4440	1.3641	1.4128

Benchmark Yield Curve

6m	1.4255
3y	4.7750
5y	5.6250
22y	8.3250

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-2.0183	0.0000
3m	-6.3375	0.0000
6m	-15.3465	0.0000
12m	-35.4510	0.0000

Equities / **Economic Indicators**

BSE Domestic Index	6627.76	**GDP**	-4.1	**Bank Rate**	3.75
BSE Foreign Index	1551.29	**CPI**	6.2		

- The traditional funding mechanism for fossil fuel projects has come under pressure of late. Many funders of these projects have been an increasing pressure from shareholders and ESG proponents to shed these investments or not take up new ones as a result of the move towards green energy. Botswana on the other hand is currently racing to get 6 new coal mines up and running as well as a new rain link for the export of the commodity. The country has some 200 billion tonnes of untapped coal which it aims to export to boost its strategy of diversification in the mining sector. Demand for the fuel is still strong out of Asia and which suggests that the government may have to look east for funding.
- Bloomberg reported - *"We have that window," Charles Siwawa, CEO of Botswana's Chamber of Mines, said in an interview. "We have a lot of coal and even if we gain $10 billion between now and when they want us to stop, for us it means a lot for our economy."* The key is obviously getting the product to market, with a rail link of some 125 kms to South Africa needed. This should cost in the region of $150 to $200m according to a presentation made to Chinese investors. Given the country's fiscal profile and the opportunity at hand we do not see funding presenting much of a hurdle if targeted to those with a vested interest.
- Internationally, investors have focused on the next major risk surrounding COVID and that is the various strains that are currently coming to the fore. These strains have yet to be fully understood and the efficacy of the various vaccines are in question. There is also talk now of people becoming infected with more than one strain of the virus which is increasing the mortality rate.
- In terms of the FX markets, after two days of retreat, the USD appears to have stabilised in neutral territory not favouring any clear-cut direction one way or another. All eyes this week will be on the inflation outcome as well as the earnings reports for investors to gauge with hard data how corporate America is faring given the circumstances. Any higher-than-expected inflation or strong earnings reports will simply galvanise the view that the US is on a strong recovery path and that a taper will be warranted through 2022. Much of that is however priced in and so the ultimate effect on the USD in the short-term may be more muted.
- The GDP number for 1Q has been placed back on the calendar this morning by Bloomberg. The reason for the delay has been a rebasing process which the statistics office has been completing. The market has been eagerly awaiting the number which will give further insight into the state of the economy and how far we have come in terms of the recovery following the initial COVID-19 shocks.

ZAR and Associated Comments

- Market conditions remained favourable for the ZAR at the end of last week, as the local unit went on to secure its third daily gain against the USD on Friday. Emerging market sentiment was given a broad boost following further easing by the PBoC, where the central bank announced cuts to reserve requirements for Chinese banks. However, along with this are growing concerns that rising infections of mutated COVID-19 strains will impede the global economic recovery.
- The ZAR went on to a 0.55% gain against the USD on Friday, closing at the 14.2200/$-handle, as a series of rulings from domestic High Courts bolstered the South African judicial system and broader reform prospects. In Johannesburg, the High Court dealt a blow to ANC Secretary-General Ace Magashule, as it upheld his suspension from the ruling party. Meanwhile, the Pietermaritzburg High Court ruled against Zuma's application to have his sentence delayed pending today's hearing by the Constitutional Court of the ex-president's application to have his conviction and sentencing reviewed. Although a constructive ruling for the ANC's fight against corruption and misconduct, Zuma's arrest has allegedly sparked widespread unrest over the weekend, with authorities failing to contain violent protests which have disrupted key trade routes around SA's economic hubs.
- These protests were condemned by President Cyril Ramaphosa last night as he addressed the nation while also announcing an extension of level 4 lockdown restrictions. Ramaphosa also announced some changes to regulations, with restaurants allowed to operate at 50% capacity and gyms to reopen. However, alcohol sales remain prohibited, which will keep pressure on the hospitality industry.
- Developments over the weekend will likely weigh on the ZAR at the start of the week. The local unit is already leading losses against the USD in early morning trade, having retreated back above the 14.3000/$-handle. As such, the ZAR will likely shrug off the domestic data card at the start of the week, with manufacturing production due today and mining production and retail sales scheduled for Tuesday and Wednesday, respectively. Externally, investors will also look towards US inflation data due tomorrow and testimonies by Fed Chairman Jerome Powell later in the week. Markets will remain sensitive to any talk of tapering, suggesting we could see heightened intraday volatility this week. At the same time, the US inflation print holds the potential to either underwhelm or overwhelm, where the implications on Fed policy will likely drive trade in the week ahead.

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