

Botswana Market Watch

13 July 2021

| GMT | | International and Local Data | Period | Actual/Survey | Prior |
|-------|----|---|--------|---------------|----------|
| 06:00 | BO | GDP for Q1 may be released | 1Q | | -4.1% |
| 12:30 | GE | CPI y/y | Jun F | 2.30% | 2.30% |
| 12:30 | US | CPI y/y | Jun | 4.90% | 5.00% |
| 16:00 | US | Real ave weekly earnings y/y | Jun | | -2.20% |
| 18:00 | US | Fed Hosts Event on Racism and the Economy | | | |
| | | Monthly budget statement | Jun | | -\$132bn |

| 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 |
| UK retail | Retail consortium Q2 sales rose 28.4% y/y, the biggest annual rise since 1995. Some of that is related to base factors, but some also reflects a recovery | Savings through the pandemic can now be deployed and reflect the pent-up demand that exists | 3/5 (economy) | No matter how one looks at these data, they reflect a strong recovery and normalisation of demand. Key to it all has been the vaccination drive and efforts to reopen the economy fully |
| US inflation expectations | A survey conducted by the NY Fed to gauge expectations for inflation, earnings, income growth and spending all increased in Jun | 1yr median inflation expectations rose to 4.8%, the highest since records began | 3/5 (economy) | The most positive element of the survey is that medium-term inflation expectations remained somewhat more anchored, implying a short-term spike |
| Chinese trade | Growth in China's exports in June beat forecasts by rising 32.2% y/y, while imports rose 36.7% y/y as global demand recovers off the back of easing lockdowns | Suggests that global growth is picking up, but that domestic growth in China remains strong | 3/5 (economy) | China has maintained a high productive base despite the logistical disruptions and shortage of semiconductor chips. That bodes well for global growth, although inflation is a concern |

Local F.X. Opening Rates and Comment

| | CUSTOMER BUY | | CUSTOMER SELL | | Benchmark Yield Curve | | Forward Foreign Exchange | | | |
|--------|--------------|---------|---------------|---------|-----------------------|---------|----------------------------|----------|-----------|------|
| | CASH | CASH | TT | TT | | | | BWPUSD | BWPZAR | |
| BWPZAR | 1.2492 | 1.3683 | 1.2732 | 1.3552 | 6m | 1.4250 | | | | |
| BWPUSD | 0.0869 | 0.0951 | 0.0886 | 0.0941 | 3y | 4.7750 | 1m | -2.1353 | 0.0000 | |
| GBPZAR | 15.9689 | 14.5943 | 15.6234 | 14.8984 | 5y | 5.6250 | 3m | -6.2985 | 0.0000 | |
| BWPEUR | 0.0732 | 0.0801 | 0.0749 | 0.0785 | 22y | 8.3250 | 6m | -15.2588 | 0.0000 | |
| JPYBWP | | | 9.8152 | 10.2666 | | | 12m | -35.2560 | 0.0000 | |
| USDZAR | 13.8028 | 14.9709 | 14.1263 | 14.6470 | | | | | | |
| EURUSD | 1.1394 | 1.2345 | 1.1661 | 1.2078 | | | | | | |
| GBPUSD | 1.3337 | 1.4453 | 1.3650 | 1.4140 | | | | | | |
| | | | | | Equities | | Economic Indicators | | | |
| | | | | | BSE Domestic Index | 6626.12 | GDP | -4.1 | Bank Rate | 3.75 |
| | | | | | BSE Foreign Index | 1551.29 | CPI | 6.2 | | |

- Botswana will be keeping a close eye on developments in South Africa as riots and looting take place in Kwa-Zulu Natal and Gauteng.
- Economically, the N3, the national road to the port of Durban has seen trucks being looted and burnt which results in a break in the supply chain for Botswanan companies, while Gauteng is the economic hub of the South Africa and thus holds strategic importance.
- This all started as part of protest action to the imprisonment of Ex-President Zuma on contempt of court charges but rapidly spread to include a criminal element. Many of the looters have stated that the government's actions surrounding the COVID-19 pandemic and the additional lockdown measures taken on Sunday have given them no choice but to steal as their economic circumstances have deteriorated to the point of complete desperation.
- One cannot discount what this means for Botswana as economic hardships are well documented here as a result of the COVID-19 induced lockdowns and thus the government will be watching events unfold with a keen eye. At no point would the current administration wish to risk events such as those in South Africa entering Botswana's sovereign space. However there is talk of Botswana entering another hard lockdown as COVID-19 cases rise.
- Internationally, the US will be the focal point today. As the Senate reopens after a two week recess, the infrastructure bill is the first and most prominent topic to be finalised. While there is some bi-partisan support for the original \$1.2trln, Republicans worry that the Democrat ambitions will not stop there. It remains unclear how all of this infrastructural spending will be financed or what the longer-term consequences will be, but it is fair to say that the Republicans are cautious of giving the green light to any significant spending programmes when they know there may be more to come, and where they do not enjoy sufficient support to block it outright.
- Financial markets will look to the June inflation report for more clues on when the FOMC could begin unwinding its stimulatory measures. Recall that in the FOMC meeting minutes released last week, policymakers said that inflation is expected to remain elevated for the remainder of this year but said that they see inflation moderating into 2022. There does, however, seem to be some differences amongst Fed members, with some central bankers stating that they suspect inflation could persist into 2022 as the economy reopens. While the Fed has signalled that it will not raise rates in response to the recent spike in inflation, policymakers have made it clear that if inflationary pressures persist, that they could begin normalising policy sooner than had previously been communicated.
- While the dollar has found support from expectations that the Fed could normalise monetary policy, traders continue to hold a significant net short position on the dollar. The bearish positioning on the dollar primarily reflects concerns over the US's soaring budget and trade deficits. The fiscal degradation that has materialised over the past year as a result of COVID-19 emergency spending has eroded much of the dollar's resilience and is expected to remain a drag on the currency going forward. Given the Biden administration's push for another massive fiscal package, we are unlikely to see a material improvement in fiscal dynamics in the foreseeable future. Therefore, weak fiscal dynamics will continue to act as a drag on the USD in the months ahead
- As mentioned yesterday, the GDP number for 1Q has been placed back on the calendar by Bloomberg this week. 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

- In a show of idiosyncratic weakness, the ZAR began the new week on the back foot as it sunk 1.35% against the USD to close at 14.4100/\$. Leading EM currencies weaker, the local unit was weighed down by domestic protest action following the jailing of former president Jacob Zuma last week. With police struggling to contain the violence and looting which ensued, this saw massive damage in several of the country's provinces on Monday after riots spilled over from the weekend, while army troops were deployed to assist the embattled police force.
- With many businesses shuttered and transport networks disrupted, yesterday's devastation came at a time when the South African economy can ill afford further disruptions to trade. The currency weakened as much as 2%, bouncing off the 14.5000/\$-handle, and remains open for further losses if the situation is not brought under control. Although these will still likely be short-term in nature, the reality is that both physical damages have been done as well as damage to ZAR sentiment going forward. With such uncertainty brewing on the political landscape, this will keep investors cautious by elevating political risk associated with investment in South Africa.
- Earlier in the day, the World Bank was the latest international forecaster to raise its 2021 GDP forecast for South Africa amid signs of a more robust than previously expected recovery. The World Bank now sees the local economy expanding by 4.0% in 2021 compared to its previous forecast of 3.5%. However, the international lender maintained that structural reforms are crucial for longer-term economic growth and that emergency measures should be put in place to support labour force hiring and entrepreneurship in the wake of pandemic restrictions. Meanwhile, yesterday's data on the more-developed manufacturing sector showed that output declined month-on-month in May. With May being relatively open in terms of economic restrictions, this shows the industry remains hamstrung by challenges such as high input costs, weak demand, a tough business environment, and unstable power supply.
- Due to the ZAR's sensitivity to a change in sentiment both domestically and externally, the influx of adverse developments will maintain the downside bias for the time being. However, competing forces remain at play for the local unit. A weak domestic

backdrop amid sustained high commodity prices could see supportive trade dynamics continue. Meanwhile, this will incentivise the mining sector to up production. On that front, insight into the gradual mining sector recovery will be available today, potentially offering some positivity to domestic sentiment. As for the ZAR, the 14.5000/\$-handle held up as vital support yesterday, suggesting the market is unwilling to push the ZAR much weaker in the near term. However, much still depends on expectations for offshore monetary policy going forward, which may be revised with a US inflation print later in the day ahead.

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