Botswana Market Watch

14 July 2021

GMT		International and Local Data	Period	Actual/Survey	Prior
	BO	GDP for Q1 may be released	1Q		-4.1%
09:00	EZ	Industrial production (wda) y/y	May	22.50%	39.30%
11:00	US	MBA mortgage applications	Jul 9		-1.80%
12:30	US	PPI final demand y/y	Jun	6.80%	6.60%
12:45	EC	ECB's Schnabel Speaks at Peterson Institute			
14:00	CA	Canada central bank rate decision	Jul 14	0,25%	0,25%
16:00	US	Powell to Deliver Semi-Annual Testimony to House Panel			

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
US inflation	Consumer prices rose 5.4% y/y in June in what was the biggest monthly gain since Aug 2008. Core inflation rose 4.5%, the largest jump since Sep 1991	Inflation episode will be stronger than expected and may last longer than expected too	**4/5** (economy, monetary policy)	Concerning policy, it is now important to strip out pandemic related distortions to gauge whether the spike in inflation will indeed be transitory or whether it requires bold Fed action
Virus latest	The delta variant has become a problem in some countries where infections are rising rapidly. Sydney remains in lockdown, while numbers in the UK continue to rise. US cases also on the rise	The highly infectious delta variant will spread regardless of vaccine prevalence, but the fatality rate is low for those that are	**3/5** (economy)	Although concerning and disruptive to countries that have not vaccinated aggressively, the fatality rate is low for those that have, and further lockdowns are unlikely. Nonetheless, it will still constrain the global economic recovery
RBNZ taper	As expected, the RBNZ kept its cash rate unchanged but announced a halt to its NZ$100bn bond purchase programme	The RBNZ is moving pre-emptively to prepare for further normalisation in monetary policy	**4/5** (economy, monetary policy)	The market will now start speculating about the timing of a rate hike. The prospect of an August hike cannot be ruled out as the central bank prepares investors for higher rates to come

Local F.X. Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2802	1.3906	1.3048	1.3772
BWPUSD	0.0869	0.0943	0.0886	0.0934
GBPBWP	15.8827	14.6244	15.5391	14.9290
BWPEUR	0.0737	0.0801	0.0755	0.0785
JPYBWP			9.8250	10.1954
USDZAR	14.1455	15.3312	14.4770	14.9995
EURUSD	1.1311	1.2257	1.1576	1.1992
GBPUSD	1.3264	1.4374	1.3575	1.4063

Benchmark Yield Curve

6m	1.4250
3y	4.7750
5y	5.6250
22y	8.3250

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-2.0573	0.0000
3m	-6.2498	0.0000
6m	-15.3758	0.0000
12m	-34.8953	0.0000

Equities

BSE Domestic Index	6626.12
BSE Foreign Index	1551.29

Economic Indicators

GDP	-4.1	**Bank Rate**	3.75
CPI	6.2		

- It was not surprising to see the Government issue a travel alert to South Africa as the violence in certain parts of Botwana's Eastern neighbour continues despite the deployment of the military and additional police to quell the looting and torching of assets.
- As mentioned yesterday, 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 deteriotated to the point of complete desperation.
- There are building concerns locally about supply chain bottlenecks as the protest action is highest in Kwa-Zulu Natal which is throttling the N3 transport corridor from the port of Durban. In addition there has been widespread issues in the economic hub of Gauteng which has resulted in trucking companies curtailing activities. Given Botswana's landlocked status, this becomes a serious problem if South Africa is unable to restore law and order in the coming days.
- Local and international investors will still be digesting the inflation data released yesterday, with both the headline and core numbers rising beyond expectations. This now places the Fed in an awkward position where it needs to retain credibility, and it can only do so if it acknowledges the inflation episode and is actively seen to be doing something about it. Concerns have arisen that the Fed will be forced to bring forward the timing of any rate hikes out of fear that they may fall behind the curve and inadvertently be forced to do even more. In defence of the FOMC, they will be trying to gauge how much of the spike is pandemic related and how much of it is a genuine shift in inflation dynamics that will need to be tackled.
- Against this inflation backdrop, Fed Chairman Powell's testimony to the House and the Senate over the next two days will be important and could be market moving if he offers any further perspective on the thinking of the Fed. Given the inflation data yesterday, his Q&A sessions will hold great interest as they will likely touch on the inflation trajectory through questions on how he could be so sure that inflation will come back down quickly and not remain stubbornly high for the foreseeable future. Any hint that the Fed will not hesitate to act and could act sooner than expected might very well translate into a firmer USD, higher rates and a jump in risk aversion as investors price in earlier stimulus removal. However, in typical central banking style, it is unlikely that Powell divulges more information on tapering plans today than was contained in the Fed's June meeting minutes. A clear timeline of prospective monetary tightening is unlikely to be seen until late August or September, meaning the market will remain in a reactive state of data watching for the time being.
- In other news related to the infrastructure spending bill, Senate Democrats have agreed to a $3.5trln investment plan that they plan to include in a budget resolution that will be tabled soon. This comes over and above the $600bn bi-partisan deal and will likely face stiff opposition and criticism from the Republicans. How this will all be funded remains unclear. The Democrats will want to roll back some tax cuts and secure more funding from corporates, while the Republicans will be against any efforts to raise the tax burden.
- Moving over to the FX markets,tThe USD surged yesterday on the back of the stronger than expected inflation data. It is threatening to break out of its recent range, but will likely wait for Fed Chairman Powell's testimony today before doing so. At the heart of it all is whether the Fed has the justification to consider tapering any time soon. Notwithstanding the higher inflation, investors remain unclear whether the Fed will go that far and deviate much from its minutes. If it does not, the impetus behind yesterday's move will fade.
- The BWP remains anchored above the 0.0900 mark in the interbank market and we expect this level to hold.

ZAR and Associated Comments

- The USD-ZAR closed higher for the second day this week amid continued domestic social unrest, while a higher than expected US inflation print bolstered the USD. The ZAR hit a three-month low against the dollar as it broke through the 14.5000/$ key support level, while domestic stocks and bonds also suffered. The local unit ended London trading hours at 14.6450/$, 1.60% weaker than the prior day's close, with pressure remaining to the downside overnight as riots continue and death tolls rise.
- Meanwhile, stateside inflation came out higher than expected in June, with the US CPI rising 5.4% y/y and 0.9% m/m, compared to surveyed expectations of 4.9% y/y and 0.5% m/m. Additionally, the generally more stable core CPI was up sharply by 4.5% y/y from a prior reading of 3.8%. With the broader reopening of the economy, surging prices primarily came from the travel and tourism-related sectors. Thus, these price pressures will likely prove temporary, suggesting US inflation will likely not remain at such elevated levels. Nevertheless, the dollar trade-weighted index (DXY) gapped higher yesterday as the surprise print kept the uptrend in inflation intact, prompting a knee-jerk reaction amid bets that it would force earlier tapering of monetary stimulus by the Fed. However, emerging market currencies were more mixed than their major counterparts yesterday. This did little for the ZAR, which led EM currencies weaker for the second day, as tensions ran high that the looting and riots may spread to more provinces.
- In terms of domestic data, on the back of a weak manufacturing production print the previous day, mining production also weighed on the ZAR as the data showed a decline in May. Specifically, output remained higher year on year due to last year's limited productive capacity amid the first round of lockdown restrictions. However, on a monthly basis, output fell by 3.5% in a month of relatively eased restrictions to productivity. These recent prints highlight the risk of a sluggish recovery, one which may take longer than expected. Given high commodity prices though, the outlook is somewhat better than the data may suggest, but this is unlikely to boost business confidence sufficiently as current lockdown restrictions and domestic unrest is likely to hold back much-needed investment going forward.

- In the spot markets, the US dollar has remained buoyed by the market's reaction to the highest headline inflation print in 13 years, which raises questions over the Fed's assumptions that inflation will prove temporary. The ZAR, meanwhile, has continued to underperform the broader EM currency basket overnight and in early morning trade, trading weaker with little signs of the heightened social unrest easing. The day ahead concludes this week's domestic data card, with May's retail sales scheduled for release. While this will provide an update on domestic demand dynamics, this now outdated data will likely be overlooked given current developments and the reintroduction of lockdown restrictions. As such, there is little holding the ZAR back from further declines for the day ahead. Furthermore, the market's focus will turn to a testimony by Fed Chairman Jerome Powell before Congress, with investors looking for any signals on the timing of monetary stimulus tapering and any remarks on the higher inflation print yesterday..

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