Botswana Market Watch

15 July 2021

GMT		International and Local Data	Period	Actual/Survey	Prior
	BO	GDP for Q1 may be released	1Q		-4.1%
12:30	US	Empire manufacturing	Jul	18.70	17.40
12:30	US	Import price index y/y	Jun		11.30%
12:30	US	Initial jobless claims	Jul 10		373k
12:30	US	Philadelphia Fed index	Jul	28.00	30.70
13:15	US	Industrial production m/m	Jun	0.60%	0.80%
13:15	US	Manufacturing production m/m	Jun	0.30%	0.90%
13:30	US	Powell to Deliver Semi-Annual Testimony to Senate Banking Pane			

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
Chinese economy	China's GDP rose 7.9% y/y in Q2 vs the Q1 growth rate of 18.3% y/y. The outcome was a little softer than expected and reflects the impact of Covid restrictions	The data reflects a solid expansion but also how underlying momentum is a little weaker than thought	3/5 (economy)	No doubt, the bumpy and volatile global economic recovery, the resurgent virus and the waning base effects have all assisted in detracting from the growth outcome in the Chinese data
Fed's Powell	Powell testified to the House Financial Services Committee and continued to pledge the Fed's support to ensure that the economic recovery completed	Powell played down the recent spikes in inflation, writing them off to the reopening of the economy	4/5 (monetary policy)	With the Fed enjoying greater flexibility in its mandate, the probability is high that it will tolerate inflation and carefully look at the data for indications that the spike will indeed be temporary
US bank profitability	Four of the largest retail banks posted massive Q2 results this week as anticipated losses from NPL through the pandemic failed to manifest	Offers a sense of just how much assistance govt programmes to support the economy helped	2/5 (economy)	This is a clear indication that the efforts of the Fed and the government helped to protect the size of private sector balance sheets that might've otherwise needed to be massively recapitalised

Local F.X. Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2510	1.3718	1.2751	1.3586
BWPUSD	0.0864	0.0946	0.0881	0.0937
GBPBWP	15.9906	14.5962	15.6447	14.9003
BWPEUR	0.0730	0.0800	0.0747	0.0784
JPYBWP			9.7071	10.1750
USDZAR	13.8993	15.0748	14.2250	14.7487
EURUSD	1.1359	1.2309	1.1625	1.2043
GBPUSD	1.3283	1.4392	1.3594	1.4080

Benchmark Yield Curve

6m	1.4830
3y	4.7750
5y	5.6250
22y	8.3250

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-1.9988	0.0000
3m	-6.3863	0.0000
6m	-15.2978	0.0000
12m	-35.2853	0.0000

Equities		Economic Indicators			
BSE Domestic Index	6627.27	GDP	-4.1	Bank Rate	3.75
BSE Foreign Index	1551.29	CPI	6.2		

- The closure of schools earlier in the week was not unexpected given the rise in COVID-19 cases. Schools will be closed from this Friday until the 16th August. We remain cautious and vigilant as the government may well impose stricter lockdown measures should the spread of the virus continue unabated which would place the economic recovery on hold once again.
- One of the major stumbling blocks to getting a grip on the spread of the virus is the shortage of vaccines. This is not just a Botswana problem but is a global one with many countries scrambling for what is available in an attempt to immunise their populations.
- Internationally there have been a number of developments both overnight and this morning in Asia which sets the stage for today's trading session.
- Fed Chairman Powell addressed the House Financial Services Committee yesterday and predictably stuck to the Fed's script, pledging as much support as was needed to ensure that the economic recovery completed. He did face questions on the recent spike in inflation, but again it was characterised as a result of the post-pandemic reopening and the supply constraints that existed. The Fed continues to view the spike in inflation as temporary, and the Fed will therefore remain conservative in its response to it. (see additional commentary in the ZAR section)
- This morning we had some weaker Chinese data which has spurred hopes that the country would implement further stimulus in the form of monetary easing to underpin growth. The Chinese GDP reading for 2Q came in at 7.9% year on year which although impressive missed market consensus which has it coming in at 8.1% according to a Reuters poll.
- Moving over to the FX markets, the spike in the USD faded as Fed Chairman Powell played down the need to act sooner than the timing contained in the dot plots. The USD has retreated away from its recent highs, which it failed to breach on three separate occasions, as investors focused on the Fed's tolerance to the rise in inflation which is considered temporary. While the data in the U.S. remains strong, there will be some reluctance to sell the USD aggressively, and so as we approach the weekend, the USD is expected to slip into consolidation mode waiting for the next major catalyst to drive a directional move.
- The BWP slipped further but remains anchored at 0.0900 mark in the interbank market, this level has provided strong support in the past and we expect it to once again prove to be the level to beat for those wishing to be short the local currency.

ZAR and Associated Comments

- The ZAR hit a three and a half month low in intraday trade against the USD yesterday with heightened volatility continuing due to deadly riots and amassed damage in several of the nation's provinces. The cost of hedging against rand weakness also surged with implied volatilities for one-month and three-month option tenors rising to their highest since mid-April.
- However, the USD-ZAR ran into some resistance as it headed towards its 200-day moving average at 14.8300, while the local unit was also offered some reprieve from a weakening dollar in afternoon trade. Meanwhile, greater army presence appeared to quell the domestic unrest, with reports of more army troops to be deployed, which managed to stave off further losses for domestic equities and the ZAR.
- Amidst domestic tensions, some positive news flow came in the way of retail sales data which surprised to the upside in May. Specifically, retail sales growth swung from a contraction of 0.60% m/m in April to expand 2.10% m/m in May, beating expectations of a less pronounced increase to 0.90% anticipated by analysts surveyed by Bloomberg. The easing of lockdown restrictions continued to help drive the rebound in retail sales growth. However, the recovery in the retail sector is unlikely to be sustained going forward amid the reintroduction of restrictions in June and civil unrest this month. Despite the continued recovery, the implications of current developments would be for weaker demand dynamics to persist. However, should current sentiment impact broader economic activity and demand as we advance, this may ultimately prove supportive for SA's trade surplus given high commodity prices and now the weakening of the currency.
- While this may underpin ZAR resilience, US monetary policy and implications for the USD remain front and centre for global markets. Yesterday, the greenback weakened on remarks by Fed Chairman Jerome Powell as his Congressional testimony began. Powell reiterated that tapering of the Fed's $120 billion monthly bond purchases is still some way off, as labour market slack remains despite recent employment gains. Though the Fed will continue the debate over when to start tapering economic support in future FOMC meetings, Powell's words managed to convince the market that it is in no rush to tighten policy. He maintained that US monetary policy would offer "powerful support" to the economy "until the recovery is complete".
- This ultimately saw a weaker dollar on a trade-weighted basis, on which the ZAR capitalised as swung losses in afternoon trade to close 0.90% stronger at 14.5100/$. Overnight, however, the USD has steadied as the market awaits the second day of Powell's Congressional testimony, where he is likely to face further questions on the recent inflation spike. With domestic tensions easing amid military presence, it looks as though the ZAR may once again take direction from broader market dynamics. EM currencies have been mixed in earlier morning trade given the steadier dollar, while positive GDP, industrial production and retail sales prints all out of China have provided a slight boost for riskier assets. For the day ahead, more comments from Powell will likely dominate headlines, while progress on the US economic recovery could support the greenback later in the day with US initial jobless claims, industrial and manufacturing production all scheduled for release.

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