Botswana Market Watch

16 July 2021

GMT		International and Local Data	Period	Actual/Survey	Prior
	BO	GDP for Q1 may be released	1Q		-4.1%
09:00	EZ	CPI y/y	Jun F	1.90%	2.00%
09:00	EZ	Trade balance nsa (EUR)	Apr		10,90bn
12:30	US	Advance retail sales m/m	Jun	-0.50%	-1.30%
12:30	US	Retail sales ex. auto and gas	Jun	0.20%	-0.80%
13:00	US	Fed's Williams Partakes in event on culture in workplace			
14:00	US	Michigan consumer confidence	Jul P	86.50	85.50
14:00	US	Business inventories m/m	May	0.40%	-0.20%
20:00	US	Net long term TIC flows	May		$100,70bn

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
Powell testimony	In his second day of testimony, Fed Chairman Powell was grilled on inflation and bank regulation following the strong earnings results	Concerns are that inflation will be allowed to run higher than is considered prudent	4/5 (economy, monetary policy)	However, Powell again stuck to the Fed line that monetary stimulus would only be removed once the economy is strong enough to warrant doing so, despite buoyant inflation
US labour market	Weekly jobless claims fell to the lowest level in 16 months, falling to 360k, while continuing claims also fell 126k	Data confirms the steady improvement in the labour market into Q3	4/5 (economy)	This data accords with the JOLTS data, which reflected a high number of job openings. As govt unemployment ends, hiring will improve
Oil prices	Oil prices have recorded their largest weekly drop since March, with investors pricing in the prospect of a compromise deal to lift production	More supply into the market will help ease some of the pricing pressures and support global growth	3/5 (economy)	Furthermore, OPEC has said that it would expect to increase oil production next year, especially with the higher prices offering a strong incentive for producers to pump more oil

Local F.X. Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2563	1.3740	1.2805	1.3608
BWPUSD	0.0864	0.0944	0.0881	0.0935
GBPBWP	15.9941	14.6294	15.6480	14.9342
BWPEUR	0.0732	0.0800	0.0749	0.0784
JPYBWP			9.7268	10.1648
USDZAR	13.9587	15.1328	14.2858	14.8054
EURUSD	1.1338	1.2287	1.1603	1.2021
GBPUSD	1.3284	1.4395	1.3595	1.4083

Benchmark Yield Curve

6m	1.4840
3y	4.7750
5y	5.6250
22y	8.3250

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-2.1255	0.0000
3m	-6.2595	0.0000
6m	-15.1613	0.0000
12m	-35.0513	0.0000

Equities

BSE Domestic Index	6627.27
BSE Foreign Index	1551.29

Economic Indicators

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

- The Statistics office released the June CPI reading mid morning yesterday and it made for some sobering reading. The June year on year print came in at 8.2% versus 6.2% in May while the month on month figure came in at 0.6% versus 0.5% in May.
- The main drivers of the rise has been a pick up in prices in the following area's Transport 3.8%, Housing, water, electricity and gas 1.5%, Food and Non-Alcoholic beverages0.9% and miscellaneous goods and services 0.6%.
- Core inflation rose by some 0.1% year on year coming in at 6.8% compared to 6.7% in May.
- Transport being the major driver is not surprising given the rise in logistical costs over the period. The Baltic Dry Index which gives an aggregated line of sight into shipping costs hit a year to date high in June of 3418 after starting 2021 at 1374.
- Given the impact of fuel on the inflation reading we would also like to draw the readers attention to developments in the oil markets. Oil prices are heading for the largest weekly declines since March as the spread of the delta variant and some apparent progress in talks between Saudi Arabia and the UAE weigh on the market. The front-month Brent contract is trading near $73.40 per barrel as a result, while WTI trades near $71.60 after sliding almost 2% yesterday. These losses came despite the release of OPEC's monthly report yesterday, which suggested that demand will continue to outstrip production well into 2022.
- OPEC's monthly report suggested that the need for additional supply from the cartel will continue to climb and remain well above the group's current production while exceeding pre-virus levels by June next year. The report could be seen as pushing those who are holding out on an OPEC deal to reach an agreement so that supply levels can rise and attempt to balance the market. Reports have suggested that the UAE is nearing an agreement with Saudi Arabia, but details remain thin, and it remains to be seen if the rest of OPEC's members are also on board. For now, therefore, the risks to the market are still skewed to the upside once the concerns over the spreading of the virus start to fade.
- Regionally, following a meeting with leaders of 23 African countries in Abidjan, Ivory Coast, on Thursday, the World Bank said that African countries called for the largest-ever $100bn replenishment of the International Development Association (IDA), the international lender's fund for the world's poorest countries. The World Bank member countries typically replenish the IDA every 3 years. Note that the IDA had set its previous financing package at $82bn to cover the 2021-2023 fiscal years. That said, in April, the World Bank launched an early replenishment cycle after massive assistance was paid out to African nations to help countries deal with the COVID-19 pandemic. The World Bank aims to complete the 20th replenishment of the IDA in December, covering the 2023-2025 fiscal years.
- Moving over to the FX markets, strong labour market data yesterday, coupled with Yellen comments on inflation and the grilling Fed Chairman Powell experienced, have lifted rates concerns and resulted in the USD experiencing some gains to end the week on a firmer footing. That being said, it continues to struggle to punch through technical resistance towards 92.84 on the USD index as it awaits a fresh catalyst. Today's retail sales data may offer that, although ahead of the weekend many investors might feel reluctant to trade in size.
- The BWP consolidated and 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 hovered in a narrow range around 14.5000/$ through most of the day yesterday in the wake of deadly riots which gripped the country. While the situation remains volatile, it appears to be stabilising with some calm returning to markets. Nevertheless, the local unit ultimately traded close to 0.50% weaker against a strengthening US dollar by the end of domestic hours, securing its third loss in four days as it closed at 14.5750/$.
- Fitch Ratings joined the newswires yesterday as it noted the ongoing civil unrest would have a limited impact on sovereign creditworthiness. However, the ratings agency said the riots had highlighted the risks from high inequality and unemployment on social and political stability. While credit ratings will unlikely be affected, fiscal implications have still stemmed from the ongoing violence. The associated risks would come from easing fiscal policy in reaction to the riots, while the unrest could encourage public-sector trade unions to increase pressure on government to agree to their wage demands, which would result in further fiscal degradation in years to come.
- As such, the longer-term implications on the currency from the past week's developments point to a downwards bias while muddying near term dynamics. The ZAR could still gain on the back of a weaker dollar once risk aversion subsides and sentiment improves. This week the US dollar has stretched to a three and a half month trade-weighted high, having risen roughly 3.30% from May lows. Should the market begin to see an imminent correction for the dollar, given the Fed's continued rhetoric that tapering is still some way off and the amount of US fiscal easing over the past year, the ZAR could capitalise on this while still taking favour from supportive trade dynamics.
- Realistically, with supply chain disruptions potentially impacting exports and another hit to the country's productive capacity and output from the riots, risks are balanced to the downside for the ZAR. With the currency's nature as a higher beta asset being realised over the past week, the market will likely struggle to move the unit back to June lows around 13.5000/$. Additionally, COVID-19 risks remain rife as vaccination programs have been disrupted and we are likely to see a surge in infections following the riots and looting sprees.
- As the week comes to a close, the ZAR sits at the bottom of the emerging market currency pile, 2.3% down from last week's close. This past week has also seen the local currency slip from the top spot of currency performers against the USD on a year-to-date basis, with the Brazilian Real claiming the prize after its own stellar week. Externally, yesterday concluded the Fed's Powell's second day of his bi-annual testimony, in which he noted current inflation is unique in history and that the Fed is closely

watching incoming data to see whether its assumptions of temporary inflation are correct. Thus, markets are likely to remain cautious around major US data releases, with today's focus turning to retail sales and consumer confidence data. Investors will look for indications of potential inflationary pressures building and the strength of the economic recovery, which would offer the USD a tailwind heading into the weekend..

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