

Botswana Market Watch

21 July 2021

GMT		International and Local Data			
	BO	Public holiday			
0/N	JN	BOJ Minutes of June Meeting		Jun F	96.60%
06:00	JN	Machine tool orders y/y		Jun	21,45bn
06:00	GB	Public sector net borrowing		Jun 16	23,60bn
11:00	US	MBA mortgage applications			16.00%
Africa	What happened?	Relevance	Importance	Analysis	
World Bank funding	Following a meeting with leaders of 23 African countries in Abidjan, the World Bank said that African countries called for the largest-ever replenishment of the International Development Association of \$100bn	The IDA is the single largest source of donor funds for basic social services in these countries. The replenishment of the IDA fund is vital for Africa	3/5 (economy, fiscal policy)	In April, the WB launched an early replenishment cycle after massive assistance was paid out to African nations to help deal with the COVID-19 pandemic. The WB aims to complete the replenishment in December, covering the 2023-2025 fiscal years	
Regional trade support	To help offset revenue losses for countries that lower cross-border tariffs, African nations plan to raise about \$8bn for a fund as part of a continent-wide free-trade agreement	Afreximbank previously provided \$1bn for the fund to help cushion sudden revenue losses and encourage participation	3/5 (economy, trade)	Afreximbank said \$1bn would be made available to help countries leverage funding from other multilateral development-finance institutions, export credit agencies, commercial banks, and donors	
Africa vaccine hubs	The Africa Union (AU) said that the US would begin shipping the first batch of coronavirus vaccines it has donated. This comes as African countries face a deadly third wave of infections	The US government said that it would donate 500mn Pfizer vaccine doses to the 100 poorest countries and will seek no favours in exchange	3/5 (economy)	The vaccines will be a welcome boost as the continent is lagging behind in vaccinating its population, with just 1% fully inoculated. This compares with roughly 11% of people globally and over 46% of people in the United Kingdom and the US.	
Global	What happened?	Relevance	Importance	Analysis	
Market Caution	Although equities and other risk assets stabilised yesterday, caution remains with Asian shares paring their initial gains this morning	The recovery narrative is being questioned as new delta COVID cases surge	4/5 (financial markets)	Concerns surrounding the delta variant remain and it may take some strong economic data and signs that infection rates are easing to help get the risk rally going once again	
BoJ Minutes	Minutes from the last BoJ meeting showed that the price outlook was muddled by rising commodities and weak domestic consumption	An uncertain outlook on prices suggests that monetary policy will remain unchanged for now	3/5 (monetary policy)	Rising commodity prices in Japan will increase wholesale inflation, but weak demand means consumer inflation should remain benign for now, supporting loose monetary policy	
Japan Trade Data	Japanese exports jumped in June amid strong demand from the US and China, an encouraging sign for the trade-dependent economy	Japanese exports are seen as an important bellwether for global economic growth	3/5 (economic growth)	The strong trade figures came despite the continued chip shortage, suggesting that underlying global demand dynamics are still improving	

Local F.X. Opening Rates and Comment

	CUSTOMER BUY		CUSTOMER SELL							
	CASH	CASH	TT	TT	Benchmark Yield Curve		Forward Foreign Exchange			
							BWPUSD	BWPZAR		
BWPZAR	1.2675	1.3945	1.2919	1.3811	6m	1.4820				
BWPUSD	0.0864	0.0950	0.0881	0.0940	3y	4.7750	1m	-2.2669		
GBPZAR	15.7375	14.3180	15.3970	14.6163	5y	5.6250	3m	-7.1565		
BWPEUR	0.0733	0.0806	0.0751	0.0791	22y	8.3250	6m	-18.2861		
JPYBWP			9.7169	10.2055			12m	-43.4070		
USDZAR	14.0833	15.2740	14.4134	14.9435						
EURUSD	1.1303	1.2246	1.1568	1.1981						
GBPUSD	1.3072	1.4164	1.3379	1.3857						
					Equities		Economic Indicators			
					BSE Domestic Index	6622.51	GDP	0.7	Bank Rate	3.75
					BSE Foreign Index	1551.29	CPI	8.2		

- Botswana returns from an extended long weekend today. As mentioned in the shortened note yesterday, News flow locally is on the thin side which is to be expected, however internationally investors are focused on the rising Delta COVID-19 cases.
- Markets globally witnessed strong risk off trading conditions at the start of the week and this has tempered somewhat during the Asian session this morning with Asian stock markets on the front foot and US Treasury yields rising off the lows seen earlier in the week.
- FX markets are strongly favouring the dollar at the moment, the USD Index has cleared the 93.00 handle as the safe haven play extends. When looking at a USD Index chart we see the upside trend remaining in tact at present with yesterday's high at 93.17 the target for dollar bulls this morning. Longer term, the year to date high at 93,437 is very much in the cross hairs. In terms of flow, its been a quiet Asian session for the EUR-USD, investors are waiting on tomorrow's ECB decision and statement before making a call on whether or not the policy divergence between the Fed and ECB accelerates.
- Moving over to base metals, which as always is of interest to local readers given the development taking place in the Kalahai Copper Belt we see some pressure in Asia this morning as investors once again favour a more cautious stance and are rotating to the likes of the USD. This is pressuring the broader group and we have seen the benchmark 3m LME contract trading around 0.5% lower on the session at \$9284.50/tonne as we enter the start of the EU session. Nickel has dropped by almost 2% to \$18315/tonne.
- What is interesting to note is that the premium for cash copper over 3m is at a near three week high of \$13.25 following reports of LME inventories hitting a one-year low of 66 975 tonnes
- Local FX markets are likely to play catch up today following the extended break. We still see the 0.0900 mark offering good support at the open however a stronger USD could threaten this level in due course.

ZAR and Associated Comments

- After holding steady for most of domestic trading hours yesterday, the ZAR depreciated in line with the broader sample of EM currencies amidst fears of a global economic slowdown as surging cases of the Delta COVID-19 variant continue worldwide. Meanwhile, the US dollar was supported in the risk-off conditions, with the dollar index (DXY) continuing to edge its way towards March highs of around 93.4, where a break of this level would see the dollar reaching its strongest trade-weighted level since November 2020.
- As for domestic data, the ZAR ultimately took little favour from the release of the SARB's leading indicator, which rose for the fourth consecutive month in May to 128.8. This marks a fresh record high as economic normalisation continues following the easing of lockdown restrictions and indicates an upwards trajectory in GDP remained intact in Q2. Although SA's economy continued to gain traction according to the central bank's leading indicator, its sustainability will undoubtedly be questioned given the latest lockdown restrictions and civil instability. The recent riots have highlighted the economy's major vulnerabilities, being high unemployment and poverty levels, while political uncertainty, poor fiscal dynamics and unstable power supply are also still key risks that could weigh on the economy going forward.
- Despite an announcement from the South African Financial Sector Conduct Authority that Sasria, South Africa's only non-life insurer covering civil commotion, disorder, strikes, riots and terrorism, will settle claims arising from last week's riots, there will nevertheless be a huge hit to third quarter GDP. Should this ultimately result in a contraction, it would bring the economy's recovery to a halt in the near term. Resultantly, growth expectations for the year will need to be revised, which holds implications for SARB rate hike potential. As such, the market will intently focus on this week's SARB update should revisions come on the growth and inflation front due to the probable demand dip following the civil unrest. As for upside inflation risks, supply constraints caused by the riots could push up inflationary pressures, however this temporary factor will unlikely fast track any SARB action given the weaker growth prospects.
- Ahead of the SARB's announcement tomorrow, today's inflation print will steal the focus. The CPI's rise in June is already expected to have eased from a 30-month high reached in May as base effects continue to be filtered out. Base effects aside, inflation dynamics in SA remain fundamentally weak and contained by weak consumption demand. Core inflation, which excludes volatile goods such as food, non-alcoholic beverages, fuel and energy, has remained anchored near the SARB's lower bound of its 3-6% target range. This gives the SARB plenty justification to keep rate hikes on hold, on top of the weaker growth prospects along with riot damage.
- In the spot markets this morning, the ZAR has led EM currencies weaker during the Asian trading session as the unit remains highly sensitive to the current risk-off conditions. Despite global equity markets returning to positive territory, a weakening trend remains entrenched amongst the EM sample of currencies as the USD remains bid with limited catalysts in the day ahead expected to alter current dynamics.

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