

Botswana Market Watch

22 July 2021

GMT	International and Local Data				
11:45	BO	Nothing on the cards			
12:30	EZ	ECB rate announcement	Jul 22	0.00%	0.00%
12:30	US	Chicago Fed activity index	Jun		0,29
12:30	US	Initial jobless claims	Jul 17		360k
12:30	EC	ECB President Christine Lagarde Holds Press Conference			
14:00	US	Existing home sales	Jun	5,95mn	5,80mn
14:00	EZ	Consumer confidence	Jul A	-2,50	-3,30
14:00	US	Leading Indicators	Jun	0.90%	1.30%

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
Equities Advance	Solid corporate earnings out of the US boosted Wall Street yesterday with this filtering through into the Asian session	This shows that fundamentals will still have an impact on stock prices	4/5 (financial markets)	Strong corporate performances are tempering fears over the impact of the delta variant and the threat of rising inflation
US-China Trade	The world's two economic super-powers are shipping goods to each other at the highest pace in years, surpassing pre-pandemic levels	Strong demand from both sides is a good sign that the economic recovery is continuing	3/5 (global trade/economic growth)	The increased level of exports between the two countries comes despite several tariffs from the Trump era still in place, but it looks unlikely that any of these duties will be removed anytime soon
Biden on Inflation	President Biden has dismissed concerns that the US would experience persistent inflation as the economy emerges from the pandemic	GOP is using inflation as a key argument against supporting the next stimulus package	3/5 (fiscal stimulus/economic growth)	Inflation is becoming a political liability for the US government, especially as they look to continue to pump the economy with stimulus and keep unemployment benefits

Local F.X. Opening Rates and Comment

	CUSTOMER BUY		CUSTOMER SELL		Benchmark Yield Curve		Forward Foreign Exchange			
	CASH	CASH	TT	TT						
BWPZAR	1.2573	1.3716	1.2815	1.3584	6m	1.4830		BWPUSD	BWPZAR	
BWPUSD	0.0863	0.0940	0.0880	0.0931	3y	4.7750	1m	-1.9988	0.0000	
GBPGBP	15.8626	14.5593	15.5194	14.8626	5y	5.6250	3m	-6.3570	0.0000	
BWPEUR	0.0732	0.0797	0.0749	0.0781	22y	8.3250	6m	-18.1691	0.0000	
JPYBWP			9.7268	10.1343			12m	-43.1145	0.0000	
USDZAR	13.9860	15.1725	14.3137	14.8442						
EURUSD	1.1324	1.2272	1.1590	1.2007						
GBPUSD	1.3162	1.4260	1.3470	1.3952						
					Equities		Economic Indicators			
					BSE Domestic Index	6630.79	GDP	0.7	Bank Rate	3.75
					BSE Foreign Index	1551.22	CPI	8.2		

- Locally news flow remained focused on the COVID-19 virus and the endeavours to combat the spread of the Delta variant. This is not much different to other countries who are fighting the same battle. A study published yesterday in the New England journal of medicine confirmed that two doses of the AstraZeneca or Pfizer vaccine provide nearly the same protection against the Delta variant as they do against the previously dominant Alpha variant. Reuters reported - *The study found that two doses of Pfizer's shot was 88% effective at preventing symptomatic disease from the Delta variant, compared to 93.7% against the Alpha variant, broadly the same as previously reported. Two shots of AstraZeneca vaccine were 67% effective against the Delta variant, up from 60% originally reported, and 74.5% effective against the Alpha variant, compared to an original estimate of 66% effectiveness.*
- On the mining front, good news from the Fluor Corporation as it announced that Khoemacau Copper Mining (Pty) Limited has recently achieved its first copper and silver concentrate production for its project near Toteng in the Kalahari Copper Belt. Fluor was responsible for the engineering, procurement and construction for Khoemacau's Copper Silver Project. The project is expected to yield an annual average of 62 000/tonnes of payable copper and some 1.9 million ounces of silver concentrate, the lifespan of the mine is expected to be more than 20 years.
- The Kalahari Copper Belt holds much promise for the country as it will diversify the export base and create other hard currency revenue streams. The need for copper over the next decade or two is well documented given the world's push towards decarbonization and green energy, both of which require copper in abundance.
- Moving over to the markets we have see a rotation back into equities and a rise in US Treasury yields this morning as risk off fades somewhat.
- The USD shed ground overnight as risk appetite revived following strong earnings reports on Wall Street. That said, we are trading only marginally off multi-month highs for the USD Index which hit 93.194 yesterday so the market is far from convinced that the risk is off the table, in fact we would suggest that what we have seen is potentially some position squaring ahead of the ECB decision on rates later today. The general view is that the ECB will remain uber dovish which will prompt dollar longs into action once again with the macro driver being general policy divergence between the Fed and the ECB.
- Local FX markets remain cautious, the interbank BWP-USD level has dipped below the 0.0900 level. This does make exports more competitive but conversely imports become pricier which given the inflation dynamics at present will not be welcomed.

ZAR and Associated Comments

- After some further intraday weakness at the start of the day, the ZAR managed to pull back and reverse losses against the US dollar as the greenback's rise this week showed signs of easing. As broader market sentiment improves, haven currencies such as the USD and the Japanese Yen will begin to fall out of favour while riskier currencies advance. The ZAR was ultimately able to capitalise on improving risk appetite as it secured its first daily gain this week, appreciating 0.35% to 14.5750/\$.
- The ZAR's weakness of late has come hand in hand with rising implied volatility levels. Implied volatilities, which measure the cost of hedging rand weakness, have steadily climbed since June, with the rise in shorter-dated contracts outpacing that of longer-dated ones. Specifically, at-the-money volatility for the one-week option is at its highest since March amidst global risk aversion and the upcoming SARB rate announcement, while implied volatilities for longer tenors appeared to steady yesterday. This suggests traders see greater near term volatility and potential weakness for the currency.
- Despite paring losses later in the session yesterday, the ZAR shrugged off a CPI print that showed inflationary pressure moderated in June and will likely continue in the coming months as base effects are filtered out. The headline inflation print fell to 4.9% y/y in June from 5.2% y/y in May. Core CPI, meanwhile, edged marginally higher to 3.2% y/y from 3.1% prior. Despite headline inflation remaining above the SARB's target range midpoint of 4.5%, core CPI increases continue to suggest there has been limited inflation pass-through on broader goods prices.
- Given these dynamics, this ultimately sets up the SARB to keep rates on hold for the remainder of the year in order to support the economy. However, risks to this outlook include significant currency weakness that could ignite cost-push inflation or otherwise prompt SARB action to stabilise markets. As such, today's rate announcement is not expected to offer any immediate changes, with the focus to fall on forward guidance instead. Should the SARB display an overly dovish tone given recent developments, this could see a kneejerk reaction as market pricing continues to suggest rate hikes by year-end, with the ZAR likely to come under pressure in this case.
- Alongside a domestic rate announcement, global markets will also look to the European Central Bank's rate announcement. Given the ECB's recent policy wording change, expectations are for an announcement that it will expand or extend its asset purchase program. A dovish ECB should bode well for market risk appetite in the day ahead and lift riskier assets, but will also likely weigh on the euro and thus support the USD on a trade-weighted basis. As for the ZAR, the local unit may trade more cautiously than the rest of the EM currency sample ahead of the SARB announcement. This has been the case during the Asian trading session this morning, with the ZAR hovering near yesterday's close, failing to capitalise on broader risk-on moves.

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