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Botswana Market Watch

23 July 2021

GMT		International and Local Data			
	BO	Nothing on the cards			
08:30	GB	Markit manufacturing PMI	Jul P	62,50	63,90
13:45	US	Markit PMI manufacturing	Jul P	62,10	62,10
13:45	US	Markit composite PMI	Jul P		63,70
13:45	US	Markit services PMI	Jul P	64,50	64,60

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
ECB	ECB kept rates unchanged with Lagarde suggesting that they won't make the mistake of tightening policy too soon and crimping growth	The ECB's strategic shift means low interest rates and extra support are here to stay	4/5 (monetary policy)	The ECB's new guidance suggests that rates could remain low even if inflation rises above 2% for a brief period. Policy is now tied strongly to the ECB's own forecasts for growth and inflation
US Labour Market	Jobless claims unexpectedly climbed during the week ending 17 July, going against seasonal trends and the recent improvement	US labour data is being closely watched by the Fed and any further weakness will be concerning	3/5 (labour dynamics/ monetary policy)	For now the weakness can be attributed to some one-off factors that have created noise in the data. The positive trend should continue through the coming weeks
Corporate Earnings	Tech giants such as Twitter and Snap beat expectations yesterday, adding to the list of strong earnings reports that have boosted equity markets	Strong earnings reports have helped to offset concerns over the spread of the delta variant	3/5 (equity markets)	Global equities are on track for a modest weekly gain, but the optimistic outlooks suggest that we should see further gains once COVID concerns subside again

Local F.X. Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2695	1.3896	1.2940	1.3763
BWPUSD	0.0863	0.0943	0.0880	0.0934
GBPBWP	15.9181	14.5630	15.5738	14.8664
BWPEUR	0.0733	0.0802	0.0751	0.0786
JPYBWP			9.7366	10.1750
USDZAR	14.1212	15.3219	14.4522	14.9904
EURUSD	1.1296	1.2242	1.1561	1.1977
GBPUSD	1.3209	1.4310	1.3518	1.4001

Benchmark Yield Curve

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

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-1.9890	0.0000
3m	-6.2303	0.0000
6m	-15.0540	0.0000
12m	-34.7978	0.0000

Equities

BSE Domestic Index	6630.79
BSE Foreign Index	1551.22

Economic Indicators

GDP	0.7	**Bank Rate**	3.75
CPI	8.2		

- The Health Ministry moved forward the start date of the second phase of the COVID-19 vaccination programme. This is due to the dwindling numbers of adults in the 55 plus category who were targeted in the first phase of the campaign. The second phase was due to begin in August but officially kicked off yesterday. *"The reason for not inviting the whole phase two cohort at a go is to avoid congestion at vaccination sites," the statement said. "The ministry, therefore, advises adults aged 45 to 54 to register and visit their nearest vaccination site with effect from 22 July, 2021."*
- The President Mokgweetsi Masisi encouraged all citizens to receive the jab when it was their turn. Xinhua reported - *During his visit to the Bokaa Clinic and Boswelakoko vaccinating center in Kweneng District on Thursday, he advised residents to continue following COVID-19 protocols because the vaccine is not a cure and those who have been vaccinated can still become infected with the disease. He warns citizens about the new, easily transmissible Delta variant. Masisi is currently touring the country, stopping at vaccine distribution centers to see how the rollout is going.*
- Globally there is a race to vaccinate as the new Delta variant ravages many countries. News out of Australia this morning is that New South Wales state reported the biggest daily rise in COVID-19 infections this year. This has prompted authorities to lockdown the city of Sydney even further. There is also a strong chance that the stay-at-home orders will be extended past their current end date of the 30th July.
- Moving over to the markets we see an interesting picture developing into the close of the week. Asian stocks have traded mixed with investors preferring to take some money off the table ahead of the deluge of PMI data due today. This despite a good Wall Street finish overnight following some strong earnings numbers. Equally, there have been some concerns expressed as to the rising global infection rates for the Delta variant. Granted vaccination rates are high in the developed world and this should keep the economic recovery there on track, the question is more around the emerging and frontier markets where we have low vaccination rates, here the outlook is somewhat murkier.
- FX markets watched the ECB closely taking in comments by the ECB President Christine Lagarde before making a further call on the outlook for the dollar. The ECB certainly played a tune that supported the dollar, saying that they would keep interest rates at record lows for an extended period to boost sluggish inflation, warning that the spread of the Delta variant posed a risk to the regions recovery. This sets the stage for strong policy divergence with investors now setting themselves up for the Fed meeting next week where more discussions on tapering is expected, even though Chairman Powell has repeatedly stated that the labour market recovery remains well short of their target. Thus, given the backdrop we would not be surprised to see a strong finish for the greenback with the March highs in the cross hairs for dollar bulls.
- 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

- Cautious trade prior to the SARB rate announcement saw the ZAR trade in a tight range around 14.5500/$ through most of the day, failing to capitalise on broader sentiment supporting riskier assets and emerging market currencies. Externally, the euro weakened as the European Central Bank pledged to keep rates lower for longer to meet its stricter 2% inflation target. This supported the trade-weighted dollar index (DXY) as a result, which was otherwise pressured by weekly jobless claims data rising to a two-month high.
- With global FX markets lacking an outright trend, the ZAR took direction from domestic events, ultimately leading EM currencies lower as the SARB held its key policy rate at 3.5%. The relatively dovish tone emanating from the announcement was more so than the market was expecting, with the ZAR taking the brunt of the policy announcement, weakening 1.35% from intraday highs to close at 14.7000/$.
- The central bank flagged Q4 as the beginning of its rate hike cycle, despite revising its 2021 inflation forecast slightly higher to 4.3% from 4.2% at the previous meeting and seeing short-term inflation risks balanced to the upside. As for growth prospects, the SARB left its 2021 GDP growth forecast unchanged at 4.2%. It noted Q1's higher than expected growth of 4.6%, compared to expectations at the May meeting of 2.7%, was likely negated by the country's recent civil unrest. While the SARB noted fiscal risks have eased, weaker growth prospects and investor sentiment will continue to weigh on domestic assets and the ZAR. The SARB ultimately opted to keep rates low to support the economy through the longer than expected third round of harsher lockdown restrictions and recent devastating civil unrest. Furthermore, structural factors continue to point to inflation being contained due to weak demand-side pressures. Unemployment remains staggeringly high, while potential economic growth continues to be hampered by unreliable electricity supply, with another bout of load shedding being unexpectedly announced yesterday.
- While the SARB's quarterly projection model suggests we will see one 25bps rate hike in the fourth quarter, we still see this as optimistic and likely to occur further out in 2022. Ultimately, a dovish SARB bodes ill for the ZAR, especially as South Africa's emerging market peers look to their own rate hike cycles. The local currency has continued to trade on the back foot against a buoyant dollar in the spot markets this morning, while riskier assets have generally struggled through liquidity-thinned trade with Japanese markets shut for a long weekend. In terms of data, markets will have July's provisional PMI prints out of the UK and Europe this morning and US PMIs later in the day. Given the somewhat diverging paths of monetary policy in Europe and the US, with the ECB generally more dovish than the Fed, the data holds the potential to induce bets on that front should the Eurozone's recovery show signs of faltering against the US' continued strength. Despite existent expectations that the US economy will reach a stage where the Fed will taper asset purchases before the ECB does, the data could still keep the USD bid into the weekend and thus pressure riskier currencies..

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