

Botswana Market Watch

26 July 2021

GMT		International and Local Data				
08:00	BO	Nothing on the cards		Jul	102,00	101,80
11:00	GE	IFO business climate				
14:00	UK	BOE's Gertjan Vlieghe speaks on demographics, debt and income		Jun	800k	769k
	US	New home sales				
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 vaccines		In a boost for a continent currently battling with a deadly third wave of coronavirus infections, countries in Africa are set to receive the first batch of 400mn doses of vaccines from Johnson and Johnson	The scaling up of the vaccine rollout is encouraging as the quicker people are vaccinated, the quicker economies can be reopened	4/5 (economic growth)	According to Strive Masiyiwa, who is a coordinator of the African Union task force team on vaccine acquisition, J&J doses will be used to immunize half of the estimated 800mn people in need of the vaccine on the continent	
Global		What happened?	Relevance	Importance	Analysis	
China Reforms		China has cracked down on private education firms, a \$100bn sector that could jeopardise foreign investment in the economy	Chinese stocks have plunged as a result amid concerns of more sweeping reforms	4/5 (economy)	Reforms have hit the education and tech sectors and could be expanded as the government looks to extend its control and keep foreign influence at bay	
US Corporate Earnings		Over 87% of US corporates have so far beaten earnings estimates, helping to propel the current surge in equity markets	Strong earnings and positive outlooks are offsetting concerns over the delta variant	4/5 (equity markets)	The blockbuster earnings are likely to continue with major mining companies due to report following a string run of price gains for commodities	
US Infrastructure Bill		US Speaker Pelosi is still pushing for a larger infrastructure plan and won't put it to a vote until the Democrats get what they want	More fiscal support could ease some of the growing economic pressures	4/5 (fiscal policy)	Pelosi's actions have been rebuked by the Republicans, but the Democrats can pass their bill if they agree on a budget blueprint	

Local F.X. Opening Rates and Comment

	CUSTOMER				Benchmark Yield Curve		Forward Foreign Exchange		
	BUY	SELL	BUY	SELL	6m	1.4830	1m	BWPUSD	BWPZAR
	CASH	CASH	TT	TT					
BWPZAR	1.2809	1.3986	1.3056	1.3851	3y	4.7750	3m	-6.2108	0.0000
BWPUSD	0.0863	0.0941	0.0880	0.0932	5y	5.6250	6m	-15.0248	0.0000
GBPZAR	15.9054	14.5825	15.5613	14.8863	22y	8.3250	12m	-34.7490	0.0000
BWPEUR	0.0732	0.0799	0.0750	0.0783					
JPYBWP			9.7464	10.1648					
USDZAR	14.2486	15.4540	14.5826	15.1196					
EURUSD	1.1307	1.2250	1.1572	1.1985					
GBPUSD	1.3198	1.4299	1.3507	1.3990					
Equities		Economic Indicators							
BSE Domestic Index	6630.79	GDP	0.7	Bank Rate	3.75				
BSE Foreign Index	1551.22	CPI	8.2						

- The government has defended the state alcohol ban with President Mokgweetsi Masisi accusing Kgalagadi Breweries Limited (KBL) of putting profit ahead of the people. MMEGI Online reported the following - *Masisi, in his response to the incensed KBL over the alcohol ban, called the application 'challenging' his executive decision as unnecessary and without any merit since the brewer's interest was only driven by the need to 'maximise profit'. According to his founding affidavit, Masisi said it was unfortunate that commercial interests drove KBL to challenge him whilst hospitals are full and people continue to die. "The loss of lives cannot be compared to the pure economic gain that the applicant seeks to protect. The country is in a state of a public health emergency, public safety is key and is the priority," he said.*
- In other news, the Ministry of Finance confirmed that it is in discussions with international lenders for a \$600 facility which would be used to finance and support projects under NDP 11 and it planned to tap the funds before the end of 2021. The government has issued a request for proposal to a number of international commercial banks and talks are on-going with strong interest received. The facility would be credit wrapped with guarantees by the Multilateral Investment Guarantee Agency (MIGA), a World Bank institution which provides political risk insurance and credit enhancement guarantees.
- International news flow this morning has focused around the US - China meeting in the eastern Chinese city of Tianjin. Deputy Secretary of State Wendy Sherman met with Vice Foreign Minister Xie Feng and discussions were frosty at best. Xie according to Reuters was quoted as saying - *The United States "wants to reignite the sense of national purpose by establishing China as an 'imaginary enemy'."* Relations have deteriorated rapidly since the first meeting in March with the US hitting China with import bans over labour concerns in the Western region in conjunction with being extremely critical of China's policy in Hong Kong and Xinjiang. Talks will continue today before Sherman heads to Geneva where she will meet with the Russians to discuss nuclear arms control.
- The USD remains at a multi-month high at the start of the week with investors shifting focus towards the Fed meeting which takes place on Wednesday this week. The world's reserve currency remains on the front foot against the euro and is at a 12 day high against the yen with better performing equity markets enhancing risk sentiment this morning. Volumes have been low in Asia with however there was some interest in the yuan which sold off post the PBOC instructed Shanghai banks to raise mortgage rates to stem the overheated property sector. Looking ahead we expect EU flows to be equally unimpressive with a lack of data adding to the to the apathy.
- 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

- The ZAR depreciated into the end of the week, losing another 0.95% on Friday against a broadly stronger US dollar. While the USD remained favoured against most higher-beta currencies last week, the local unit had the aftermath of deadly domestic riots to contend with, as well as a less hawkish SARB last week Thursday. This saw the ZAR underperform the broader EM sample of currencies as it led declines last week, tumbling 2.85% to close at 14.8500/\$.
- Despite a general improvement in market sentiment last week, with global equity markets rallying in the latter of the week, FX markets have had a more challenging time rebounding against a buoyant USD. COVID-19 risks remain a genuine concern for markets, those being levelled-up economic restrictions, while the greenback has remained bid ahead of an upcoming Fed FOMC rate announcement later this week. Recall, the last FOMC meeting in June culminated in a significant surge for the dollar as the market received a surprise from the Fed fast-tracking its expectations for eventual rate hikes by one year. Since then, the dollar's rise has gone largely unobstructed as the trade-weighted DXY sits roughly 3.5% higher than it did at the beginning of June. This has led to the gradual easing of dollar shorts, which according to the latest CFTC data released on Friday, the market turned net long dollars for the first time since March 2020. More specifically, the net long dollar position was \$399.69 million in the week ending July 20, compared with a net short position of \$4.06 billion in the prior week.
- All this to say, that the tide may be turning against EM currencies which have capitalised on dollar weakness in the wake of COVID-19's market rout last year. Furthermore, optimism surrounding South Africa's growth prospects will likely have been undone by the recent riots and looting. In order to support businesses and individuals affected by the riots and lengthier lockdown restrictions, President Ramaphosa announced a new relief package last night as he also eased the nationwide restrictions. The new relief package includes a monthly welfare grant of R350 until March 2022 and a R400 million state contribution to a relief fund for uninsured businesses affected by the looting. On the latter addition, the IMF noted that South African should aim to re-prioritise its budget to offset relief measures for businesses and individuals affected by riots and accelerate reforms to promote inclusive economic growth.
- While the dollar's broader path remains to be seen, near term risks associated with SA investment are amplified, while the fiscus remains under pressure with tax intake likely to take a dip this quarter. In the near term, this ultimately sets the ZAR to remain on the back foot, with the local unit struggling to capitalise on a broadly weaker dollar in early morning trade. Friday's moves saw the USD-ZAR break above its 200-day moving average with limited resistance, suggesting the market may be comfortable with higher levels, especially ahead of Wednesday's Fed rate announcement.

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