

Botswana Market Watch

27 July 2021

GMT	International and Local Data				
09:00	BO	9bn 7-day certificates to be sold			
08:00	EZ	M3 money supply sa y/y			Jun 8.20% 8.40%
12:30	US	Durable goods orders m/m			Jun P 2.10% 2.30%
13:00	US	House price index m/m			May 1.80%
13:00	US	S&P CoreLogic Case-Shiller house price composite-20 y/y			May 14.88%
14:00	US	Consumer confidence			Jul 124,00 127,30
14:00	US	Richmond Fed manufacturing index			Jul 20,00 22,00

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 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 CUSTOMER CUSTOMER CUSTOMER											
	BUY	SELL	BUY	SELL	Benchmark Yield Curve			Forward Foreign Exchange			
	CASH	CASH	TT	TT	6m	1.5750		1m	BWPUSD	BWPZAR	
BWPZAR	1.2686	1.3860	1.2931	1.3727	3y	4.7750		3m	-6.2108	0.0000	
BWPUSD	0.0858	0.0937	0.0875	0.0928	5y	5.9250		6m	-15.0345	0.0000	
GBP/BWP	16.0874	14.7335	15.7394	15.0405	22y	8.3250		12m	-34.7978	0.0000	
BW/PEUR	0.0727	0.0794	0.0744	0.0778							
JPY/BWP			9.6776	10.1038							
USD/ZAR	14.1906	15.3828	14.5232	15.0500							
EUR/USD	1.1333	1.2278	1.1598	1.2013							
GBP/USD	1.3275	1.4382	1.3586	1.4071							
					Equities		Economic Indicators				
					BSE Domestic Index	6630.79	GDP	0.7	Bank Rate	3.75	
					BSE Foreign Index	1551.22	CPI	8.2			

- Botswana has officially deployed troops to Mozambique to assist its fellow SADC member in quelling the insurgency in the northern part of Mozambique. The troops were seen off by the President Mokgweetsi Masisi at Sir Seretse Khama International Airport north of Gaborone on Monday morning. *“Complex as the security situation in the SADC region may be, as in the past, Botswana’s foreign policy goals have been and remain very clear. Botswana’s security cannot be attained without that of her neighbours,” he said. “Today we witness yet another milestone in our set out objectives of propelling the peace agenda to our region in following through on the SADC Mandate aimed at facilitating the peaceful conditions in the northern part of the Republic of Mozambique.*
- In other news, PV reported that *Johannesburg-based renewables developer Sturdee Energy today announced it had secured a commitment from state-owned electric company the Botswana Power Corporation to purchase the electricity to be generated by Botswana’s first two private solar projects. Sturdee said it had begun the permitting and project development process for a planned 3 MWac solar plant at Bobonong, in the east of the Southern African country, and for a 1 MWac array at Shakawe, in northwestern Botswana. The South African developer said the two projects would cost \$5.5 million and would be expected to generate more than 10 GWh of solar electricity in their first year of operation.*
- The international news flow has been vigorous this morning with politics and COVID-19 appearing on most of the vendors front pages.
- What will be welcomed by the international community is the news that North and South Korea have restored the severed hotlines as part of the effort by the leaders of the two countries to rebuild ties. There have been multiple letters exchanged between South Korean President Moon Jae-in and North Korean leader Kim Jong Un since April and these are seen as the first tentative steps to rebuild trust and ties between the two estranged neighbours.
- In Washington the Democrats and Republicans have begun to argue again over the details of the \$1.2trn infrastructure plan sought by the Democratic President of the United States, Joe Biden. This once again raises doubts over the speed at which the US Senate will be able to start the formal debate process. It is hoped that the process is started within the next week.
- The USD remains underpinned with the USD index holding north of the 92.50 mark as we enter the new trading session. Investors remain focused on the Fed meeting which takes place on Wednesday this week and are unlikely to place firm directional risk on before we have cleared the big macro event. Cable has managed to claw back above the 1.3800 mark yesterday following encouraging data which showed an improvement in the COVID-19 stats due to a successful vaccination campaign. The same cannot be said for the AUD who took it on the chin yesterday touching a low of 0.7356 as Australia’s largest cities remained under strict lockdown.
- Local FX markets remain cautious, the interbank BWP-USD level has slipped further below the 0.0900 handle. We are unlikely to see a change in sentiment until we have clarity from the US Fed. Investors are reminded of the 7-Day Certificate auction today.

ZAR and Associated Comments

- The USD-ZAR traded to an intraday high just shy of 15.0000 yesterday, a near four-month high. However, strong resistance to higher moves and the US dollar coming under broad pressure saw the local unit recover its losses at the start of the week.
- Monday saw the easing of some lockdown restrictions, the first day of alcohol sales in a month and the announcement of a new relief package for businesses and individuals affected by lockdowns and looting, which ultimately turned the mood somewhat more favourable for the ZAR. Despite mixed performances in the EM basket of currencies, the ZAR was ultimately able to capitalise on USD weakness during the day, gaining 0.55% to close at 14.7700/\$.
- While the USD-ZAR scales back from recent highs, its trend over the past two months suggests the local unit is far from being out of the woods just yet, with its dip yesterday primarily linked to the pressured greenback. SA’s economic recovery has been dealt a significant setback from the third wave of COVID-19 infections, lockdowns and riots. The implications on monetary policy was highlighted in last week’s more dovish SARB rate announcement, increasing the potential for a longer term weakening trend for the ZAR as this comes at a time when developed nation central banks are becoming increasingly hawkish. Having said that, DM central bank policy remains generally loose and thus continues to support EM inflows. However, policy guidance amongst major central banks has been diverging, with the main divergence coming from the US. As the market continually gauges at what point the Fed will begin to tighten the monetary taps, which will happen sooner should US inflationary pressure persist, we will likely see EM currencies such as the ZAR trade at the mercy of broader policy guidance.
- As such, market participants will be fixed on this week’s FOMC update, with the policy announcement scheduled for tomorrow. While the meeting may include material discussions surrounding asset purchase tapering, the Fed will likely remain cautious in its wording to the market. Thus, we may only find out how much tapering detail was discussed in the next release of the meeting’s minutes. However, any indication that the Fed is becoming worried over inflationary pressure could bolster bets that tapering may be announced sometime later in H2.
- In terms of domestic developments, it was announced yesterday that the Public Servants Association would accept the public sector wage offer from government, being the third union to do so. After an extensive balloting process, members gave the union the mandate to accept the wage offer. However, the PSA noted it would accept the interim offer on expectations that its standing demands will be taken forward through negotiations.
- In the spot markets, the ZAR has traded slightly weaker in early morning trade, while focus for the next two days will likely be dominated by the Fed’s FOMC meeting. In response, hedging costs against ZAR weakness will remain buoyed this week, with one-week implied volatility on USD-ZAR options continuing to track higher.

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