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Botswana Market Watch

6 July 2021

GMT		International and Local Data	Period	Actual/Survey	Prior
	BO	GDP	1Q		-4.1%
09:00	BO	BWP to place BWP9bn 7-Day Certificates			
09:00	EZ	ZEW economic sentiment	Jul		81.30
09:00	GE	ZEW economic sentiment	Jul	75.00	79.80
09:00	EZ	Retail sales y/y	May	8.90%	23.90%
13:45	US	Markit composite PMI	Jun F		63.90
13:45	US	Markit services PMI	Jun F	64.80	64.80
14:00	US	ISM non-manufacturing composite PMI	Jun	63.80	64.00

Africa	What happened?	Relevance	Importance	Analysis
Food prices	Expectations of rising inflation the world over have come roaring back in 2021, underpinned in part by soaring commodity and food prices. The latest FAO Food Price Index showed that international food prices continued to surge in May	With weather conditions still shaky in some of the world's largest food-growing regions and demand still robust, food prices are expected to remain elevated	4/5 (economy, monetary policy)	The FAO Food Price Index (FFPI) averaged 127.1 points in May, 4.8% higher than in April and 39.7% above the same month in 2020. The May increase represented the biggest month-on-month gain since October 2010. It also marked the twelfth consecutive monthly rise in the value of the FFPI to its highest value since Sep 2011
Cost of slow vaccine rollout	A study done by the World Bank showed that the slow rollout of COVID-19 vaccines in Africa could cost the continent $14bn a month in economic output	Less than 0.5% of the continent's roughly 1.3bn people are fully immunized, according to Bloomberg data	4/5 (economy)	African is struggling to secure vaccines as wealthy countries hoard vaccines for their citizens. This has ultimately resulted in a much slower rate of vaccination in Africa than in other parts of the world
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
OPEC+ abandons meeting	OPEC+ members called off output talks on Monday after clashing last week when the UAE rejected a proposed 8m extension to the output curbs	In the end, no new deal to increase production has therefore been agreed	4/5 (economy, market, politics)	Last week, the UAE agreed with Saudi to lift production in stages, but the UAE remains frustrated by the low base off which the increases will be calculated. UAE believes the market is short of oil.
RBA	As expected, the RBA announced unchanged interest rates this morning, leaving its benchmark rate at 0.10%, the level it has been at since Nov 2020	The RBA has made it clear that it will not be in any hurry to do away with its stimulus efforts	3/5 (central bank)	The RBA will be one of the slower central banks to respond as its vaccination drive has been slow, and the risks of opening up too soon are high. They will persist with the support.
Japanese wages	Japan's inflation-adjusted wages for May have risen 2.0% y/y, in what is the biggest monthly gain since June 2018. Overtime pay in May also rose 20.7% y/y in the biggest monthly jump on record	Although these data overstate the improvement thanks to the low base, they still represent a strong rise	2/5 (economy)	Although the data highlight just how big the impact on growth has been, it also highlights the potential for recovery through the remaining months of the year, once the vaccination rollout gathers more pace

Local F.X. Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2365	1.3553	1.2603	1.3423
BWPUSD	0.0869	0.0952	0.0886	0.0942
GBPBWP	15.9539	14.5647	15.6088	14.8682
BWPEUR	0.0732	0.0802	0.0749	0.0786
JPYBWP			9.8545	10.3175
USDZAR	13.6632	14.8122	13.9834	14.4917
EURUSD	1.1396	1.2350	1.1663	1.2083
GBPUSD	1.3327	1.4438	1.3639	1.4126

Benchmark Yield Curve

6m	1.5740
3y	4.7750
5y	5.3250
22y	6.7750

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-2.0183	0.0000
3m	-6.7616	0.0000
6m	-15.2880	0.0000
12m	-40.7306	0.0000

Equities

BSE Domestic Index	6622.38
BSE Foreign Index	1551.29

Economic Indicators

GDP	-4.1	Bank Rate	3.75
CPI	6.2		

- Botswana's energy regulator has granted a license for a 100MW solar project to a local firm Shumba energy, this is the first independent power producer setting up a project of this scale. Currently the country's 600MW national energy demand is met by the state owned coal fired power plants and imported power, mainly from South Africa and Mozambique. The size of this project will underpin the sector and allow for further expansion and industralisation, but in a greener format. The first phase of 50MW is expected to start within the next six months with the funding almost concluded. It is envisaged that the entire project will cost some $80m.
- This brings us to developments in the oil sector which is always closely watched given its impact on inflation in the country. Yesterday's OPEC+ meeting ended without a deal being reached, leading oil prices to rise once again with the front-month Brent contract trading above $77.50 per barrel for the first time in more than two years. The spat between the UAE and the Saudis was left unresolved, meaning that no output increases will be coming over the next few months unless the two can come to an agreement. Without any new planned supply increases, inventories will continue to be drawn down at a fairly notable pace, with the rising deficit to keep prices elevated.
- The U.S. comes back online today after yesterday's Independence Day celebrations. Investors will need to consider the longer-term prospects for the USD, given the growing expectation that the Fed will be in no hurry to normalise monetary policy despite all the talk of tapering. The reality, for now, is that the Fed remains fully committed to stimulating, as is the Federal government, and the combination of these policies has resulted in persistently wide twin deficits. That will keep some pressure on the USD.
- Whether that will be sustained or not may come down to the guidance offered by the FOMC minutes that are scheduled for tomorrow. Minutes may give investors further insight into the outlook for U.S. monetary policy. Only a deviation from the current policy course will need to be adjusted for. However, the topic of tapering has been broached and is nothing new. Unless there are specifics related to timing, the information is likely to be absorbed without too much trouble or volatility.
- In the way of data, the latest services PMI will hold some interest. The uptrend in the ISM services PMI showed signs of re-emerging in May when the index rose from 62.7 to 64.0 - its highest level since records began in 1997. However, whether this momentum can extend into the end of Q2 remains to be seen, as analysts surveyed by Bloomberg pencilled in expectations for a slight decline to 63.6 in June. Nevertheless, sentiment in the services sector is running extremely high at present as the economy reopens. Recall that the services sector was the worst hit through the COVID-19 pandemic. As the monetary stimulus implemented by the Fed and the U.S. government filters through into an economy already recovering due to easing COVID-19 constraints, the services sector will undoubtedly continue to stage a strong recovery through 2021.
- Moving over to the financial markets, the technical bull flag formation on the USD index did not complete and instead has been replaced by a reversal pattern of sorts. The USD is trading heavy as investors price in the probability that the FOMC will not look at reducing its stimulus efforts any time soon. The FOMC minutes due tomorrow could reiterate this point which would only exacerbate the weakness in the USD as FOMC officials make it clear that although they are considering tapering, that they will not do anything that undermines the economic recovery. The USD appears to be on the defensive this morning, although firm direction may need to wait until after tomorrow's FOMC news.
- Local investors will await the potential release of the GDP figures as well as contend with the 7-Day Bill auction which takes place at 11.00am local time.

ZAR and Associated Comments

- The ZAR treaded water yesterday not far from last week's close, as emerging market currencies were a mixed bag and the US dollar flat amid US holiday-thinned trade, resulting in limited opportunities in FX markets. On the back of a US payrolls report Friday, which did little to speed up Fed tapering expectations, the ZAR traded positively against the USD initially. Yet, domestic political developments and the continuation of the second week of level 4 lockdown restrictions weighed on the currency and local stock markets. As a result, gains were pared and the local unit closed flat against the USD at 14.2600/$.
- Domestic markets shrugged off the economy-wide Standard Bank PMI earlier in the day as it left more to be desired despite the headline gauge holding above the 50-neutral mark for the ninth consecutive month. Specifically, the PMI fell for the second month to 51 from 53.2 in May as demand conditions were hampered in June by the reintroduction of harsher lockdown restrictions. With this marking the second consecutive month of stalling growth, it also suggests current lockdown restrictions added more to the already underway trend. While current limitations are not as economically damaging as those seen last year, there are still clear risks of the private sector falling back into contractionary territory, especially given the fragile business environment constrained by long-term structural challenges.
- Should these risks play out, SA may ultimately fall behind on growth projections and lag other emerging and developed nations as the global economic recovery progresses. While this could still keep domestic trade dynamics supportive for the ZAR in the near term, the longer-term implications will be on the economy's readiness for rate hikes, both domestically and abroad. Having said that, SA's finances remain in a solid place compared to last year as recently noted by the SARB, but such could be subject to change in the event of subsequent.

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