

Botswana Market Watch

9 July 2021

GMT		International and Local Data	Period	Actual/Survey	Prior
	BO	Nothing on the cards			
06:00	GB	Manufacturing production y/y	May	29.30%	39.70%
06:00	GB	Total trade balance (GBP)	May		-935mn
10:00	UK	BOE's Bailey speaks on panel with ECB's Lagarde			
14:00	US	Wholesale inventories m/m	May F	1.10%	1.10%
14:00	US	Wholesale sales m/m	May		0.80%

Africa	What happened?	Relevance	Importance	Analysis
Chinese PPI	June's PPI moderated to 8.8% y/y vs May's more pronounced 9.0% y/y reading. Pass through to CPI is limited, but high PPI will undermine the recovery efforts	High input costs will need to be absorbed in a way that encroaches on margins, not CPI	3/5 (monetary policy)	Robust commodity prices have impacted industrial products that will be utilised for the production of consumer goods. Producer inflation is expected to remain elevated through H2 2021.
US jobless claims	Although the trend in initial claims has been lower, last week's data showed a slight uptick, although continuing claims continued to drop	It does not reflect anything other than a slight tick higher in a generally declining trend	3/5 (economy)	The recovery in the labour market is ongoing, as reflected by the continuing claims moderating and representing re-hiring. Furthermore, JOLTS data shows job openings are sky high
ECB guidance	The ECB yesterday announced a tweak to their inflation target to give it greater flexibility but will not characterise it as average inflation targeting around 2%	It simply allows the ECB to ignore any short-term rise through 2.0% without acting mechanically	4/5 (monetary policy)	The move has not been described as one to promote flexibility, but rather that the 2% target is cleaner and simpler to communicate and could tolerate a slight deviation from the target
Global	What happened?	Relevance	Importance	Analysis
FOMC minutes	Nothing significantly new in the minutes that change the outlook for monetary policy. FOMC board divided on outlook, but prepared to act on inflation when required	Although it will not act now, it wants to be appropriately positioned to be able to act on inflation	3/5 (monetary policy)	It is unlikely that the Fed minutes will change expectations much. It was non-committal and highlighted the divergent expectations that will need to converge before the Fed acts
Japan's credit cycle	Bank lending in June rose just 1.4% y/y vs 2.8% in May. This represents the slowest annual rise in eight years as corporate demand for funds subsided	Many companies are already cash-flush, so the weak growth should be seen in this context	3/5 (economy)	Beyond the corporate demand for funds, the picture looks a little better as bank lending ex-funds remained more elevated to show that the economy is primed to recover once restrictions end
UK house prices	UK house prices in June rose the most since 1988. However, fewer homes were put on the market to sell, and buyer demand softened	Tax breaks helped the housing market surge. Affordability now a problem	4/5 (economy)	As taxes normalise, the housing market will experience a correction of sorts. Although prices are unlikely to correct as much, activity will certainly moderate

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										
BWPZAR	1.2454	1.3629	1.2694	1.3498	6m	1.4260			1m	BWPUSD	BWPZAR					
BWPUUSD	0.0869	0.0951	0.0886	0.0941	3y	4.7750			3m	-2.0085	0.0000					
GBPWP	15.8333	14.4704	15.4907	14.7718	5y	5.6250			6m	-6.3278	0.0000					
BWPEUR	0.0733	0.0803	0.0751	0.0787	22y	8.3250			12m	-15.2978	0.0000					
JPYBWP			9.7759	10.2259												
USDZAR	13.7613	14.9120	14.0838	14.5894												
EURUSD	1.1364	1.2312	1.1630	1.2045												
GBPUSD	1.3226	1.4329	1.3536	1.4019												
								Equities				Economic Indicators				
								BSE Domestic Index	6627.76	GDP	-4.1	Bank Rate	3.75			
								BSE Foreign Index	1551.29	CPI	6.2					

- News flow on the mining sector remains front and centre currently. Mining.COM reported that *Australia's Sandfire Resources (ASX: SFR) [said on Wednesday](#) it had been granted a mining licence for its Motheo copper project in Botswana's Kalahari Copper Belt. The Perth-based miner said the milestone was one of the two major conditions required for finalizing the final permitting process for the A\$279 (\$208m) million project. The Kalahari Copper Belt, which extends for nearly 1,000 km from northeast Botswana to western Namibia, is believed to be one of the world's emerging but mostly under-explored copper-silver regions in the world. The 3.2 million tonnes per annum open pit mine could help Botswana curb its dependence on diamond mining, a sector that accounts for 70% of the nation's export revenue*
- Keeping with copper, the red metal shed ground overnight with investors expressing concern about the growing number of COVID-19 infections across the globe as well as rising stockpiles. The benchmark 3m LME contract finished some 1.4% lower on the day.
- South Korea will raise covid restrictions to their highest level in the Seoul from Monday in an attempt to curb the rising infections. The country reported the highest number new daily infections of 1275 cases yesterday with health officials warning that this could double by the end of July. The narrative is the same in many countries across the globe and this is leading to fears of a slowdown in the economic recovery.
- On the political front, the U.S. has moved to add more Chinese companies to the blacklist over the alleged human-rights abuses in Xinjiang. There are another five companies that will be added to the list over allegations of forced labour. This is in keeping with an evolving theme where the U.S. is looking to hold China accountable for unfair labour and trade practices and force dialogue around the synchronisation of Chinese economic practices with those of the world.
- Keeping with the US, not much in the way of market-moving data following a relatively calm week should see consolidation in U.S. markets persist into the weekend. Only wholesale sales and inventories will be released today if anything will reflect the ongoing theme of a recovery that is gathering momentum but not to the point of overheating. The ratio of sales to inventories will be interesting to see whether restocking is happening at pace in anticipation of future demand or whether producers are still holding back on full production.
- In terms of the FX markets, non-committal trends in the trade-weighted USD look set to continue as we head into the weekend. Trading through the past week has offered very little in the way of clear-cut direction, and that is despite recent data pointing to an ongoing recovery. There seems to be a lack of conviction on the growth and inflation theme, given how much has already been priced in, and traders seem uncertain of any clear-cut direction. The market is clearly looking for another catalyst to spark the next major move.
- Bloomberg has the Q1 GDP data now shelved for release so we are no closer to understanding the economic trajectory during the COVID-19 pandemic. This leaves locals to focus offshore once again into the close of the week.

ZAR and Associated Comments

- The USD-ZAR tested the upper part of its current 14.2000-14.4000 range yesterday following Wednesday evening's release of the Fed's June FOMC meeting minutes. While the minutes highlighted risks to growth and the US economy, it ultimately confirmed that Fed asset purchase tapering would likely occur this year and, thus, earlier than originally anticipated.
- The USD-ZAR currency pair traded to an intraday high of 14.4400, 0.8% weaker on the day, but reversed in afternoon trade, with the greenback coming under pressure alongside falling US Treasury yields. The benchmark 10-year US Treasury fell to an intraday low of 1.25%, whereas it was trading at 1.45% just a week ago. This compounded pressure on the USD, as it secured losses against traditional haven currencies such as the Japanese Yen and Swiss Franc, which were buoyant amid risk-off trade in global equity markets. Resultantly, the USD ended weaker on a trade-weighted basis, with losses sustained against the Euro as well, despite being otherwise firmer against riskier currencies.
- While the ZAR is also classified as a risk-sensitive currency, it took its cues from broader dollar sentiment yesterday, ultimately trading a marginal 0.2% stronger to close at the 14.3000/\$-handle. On the local front, the slow progress in vaccinations to date has seen COVID-19's resurgence, with excess deaths rising to the highest since January, according to the South African Medical Research Council. Market indecision has been evident in the ZAR's range-bound trade of late, which may suggest the market could be awaiting the dollar's reaction to lower Treasury yields. While the third domestic wave of COVID-19 infections remains a real risk, support for the ZAR has held up resiliently. Nevertheless, a downside bias is likely to remain on the local unit as the country moves through the pandemic's third wave and subsequent waves, should a slow vaccination drive persist.
- On the political front, the High Court in Pietermaritzburg is expected to hand down a ruling today on whether former President Jacob Zuma should have his current arrest halted pending an application to the Constitutional Court to rescind his sentence. Meanwhile, the High Court in Johannesburg is set to rule whether ANC Secretary-General Ace Magashule's suspension should be overturned. With longer-term implications coming from the latter development, the ZAR is likely to trade at the whim of broader sentiment today. On that note, sentiment amongst Asian equity markets has been dim this morning following spillover from yesterday's losses across the global equity spectrum. The local unit has tracked broader EM currency lower this morning, which will likely persist into the weekend as the domestic market awaits an update on COVID-19 restrictions..

Contacts

Mogamisi Nkate	+267 3674335	email: mnkate@bancabc.com
Phillip Masalila	+267 3674621	email: pmasalila@bancabc.com
Kefentse Kebaetse	+267 3674336	email: kkebaetse@bancabc.com
Maungo Sebonego	+267 3674338	email: msebonego@bancabc.com

Report produced by ETM Analytics for BancABC Botswana.

Disclaimer

The information provided herein has been prepared solely for informational purposes and is not an offer to buy or sell or a solicitation of an offer to buy or sell the securities or instruments mentioned or to participate in any particular trading strategy. These materials have been based upon information generally available to the public from sources believed to be reliable. No representation is given with respect to their accuracy or completeness, and they may change without notice. BancABC on its own behalf and on behalf of its affiliates disclaims any and all liability relating to these materials, including, without limitation, any express or implied representations or warranties for statements or errors contained in, or omissions from, these materials.