

Botswana Market Watch

3 August 2021

GMT	International and Local Data				
09:00	BO	BWP8bn 7-day certificates on offer			
09:00	EZ	PPI y/y			Jun 10.20% 9.60%
14:00	US	Durable goods orders m/m			Jun F 0.80%
14:00	US	Factory orders			Jun 1.10% 1.70%
18:00	US	Fed's Bowman Gives Welcoming Remarks at Fed Conference			

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
Tencent Slump	Tencent shares have slumped 10% this morning after Chinese regulators hinted that the gaming industry could be in its crosshairs	Tencent's slump has dragged shares lower across Asia this morning	4/5 (equity markets)	Investors in Chinese equities remain nervous given last week's sell-offs and any suggestions that a new industry is being targetted will lead to outflows
US PMI	The ISM Manufacturing PMI edged lower in July as declining inventories continued to decline. The inventories subcomponent hit a fresh record low of 25	Despite the drop, the manufacturing sector remains robust and will remain so as conditions normalise	3/5 (economic growth)	Inventory drawdowns are weighing on economic growth at the moment amid supply constraints, but a rebuild in the months to come will see growth supported once again
RBA	The RBA left rates and its yield target unchanged this morning, while maintaining its outlook on when its bond-buying will be tapered	The less dovish than expected meeting will support the AUD as a QE extension was priced in	4/5 (monetary policy)	The RBA is sticking with plans to slow its bond purchases to A\$4bn a week even though economic uncertainty is rising. The bank believes the economy will bounce back very quickly

Local F.X. Opening Rates and Comment

	CUSTOMER BUY		CUSTOMER SELL		Benchmark Yield Curve	Forward Foreign Exchange				
	CASH	CASH	TT	TT			BWPUSD	BWPZAR		
BWPZAR	1.2540	1.3752	1.2782	1.3620	6m	1.5750				
BWPUSD	0.0869	0.0950	0.0886	0.0940	3y	4.6250	1m	-2.2035 0.0000		
GBPZAR	15.9666	14.5763	15.6212	14.8799	5y	5.8250	3m	-6.3180 0.0000		
BWPEUR	0.0732	0.0802	0.0749	0.0786	22y	8.3250	6m	-15.2783 0.0000		
JPYBWP			9.7071	10.1648			12m	-35.4023 0.0000		
USDZAR	13.8570	15.0298	14.1818	14.7046						
EURUSD	1.1400	1.2351	1.1667	1.2084						
GBPUSD	1.3337	1.4450	1.3650	1.4137						
					Equities		Economic Indicators			
					BSE Domestic Index	6703.94	GDP	0.7	Bank Rate	3.75
					BSE Foreign Index	1551.22	CPI	8.2		

- The government debt issuance programme remains topical conversation given that the Bank of Botswana chose not to issue bonds at its last auction which took place on Friday last week. The BoB adopted the “safe approach” of issuing very near dated debt out to 12 months which may have been as a result of the dismal performances of the bond auctions previously.
- Investors have stated that government needs to accept the fact that they will be paying higher yields if they are to attract interest of offshore investors given the fact that many consider the local financial markets as saturated with local debt and unable to absorb much more.
- Granted, Botswana has the best credit rating of its peers on a regional basis but it still does not have the liquidity or visibility of someone like South Africa. Equally it offers yields which are seen as somewhat low compared to its peers. . We believe the government is well aware of the challenges, Finance and Economic Development minister, Peggy Serame has been quoted as saying the following - *“Amongst the initiatives undertaken is to increase visibility of government securities through publishing of the annual issuance calendar, more frequent auctions, meeting with local fund managers and other potential investors,” she said.*
- *“Engagements are taking place between the ministry, the BoB and market participants in order to address impediments to increased bond issuance. The other planned initiatives during the year cover reaching out to the general public through public education and information dissemination of the securities.”*
- Internationally the quasi cold war between Washington and Beijing continues. The Chinese government has according to three US based sources issued new procurement guidelines which erect further barriers for foreign suppliers. Hundreds of items from x-ray machines to magnetic resonance imaging equipment have been cited as requiring 100% local content. The issue is that when China joined the World Trade Organisation, it agreed not to issue such directives, the procurement instruction also violates the spirit of “Phase One” of the trade deal with the United States. Beijing has not released the document publicly and has not responded to queries on it.
- Keeping with Asia, the tech giant Tencent has crashed this morning with the shares falling by their most in over a decade. This comes post the Chinese state media branding online video games as “spiritual opium” raising fears that the tech sector is squarely in the regulators crosshairs and that sharp controls are almost certainly in the pipeline. The stock fell by more than 10% in morning trade wiping some \$60 billion off its market cap. Now the relevance to local markets is not direct, however it does impact sentiment and make investors more cautious across the emerging market spectrum.
- The dollar has effectively stalled this morning as it pivots around the 92.00 handle with the market assessing the impact of the Delta variant surging across the Southern United States and the lack of a timeline regarding the infrastructure bill. The big focal point for the Asian session has been the aussie dollar which is currently well bid following an a surprise move by the Reserve Bank of Australia by not reserving its decision to taper bond purchases. The tone of the RBA statement was upbeat and tended to look past the current COVID lockdown. In terms of the euro, not much in the way of interest to take the single currency in either direction with option strikes at 1.1880 and 1.1900 keeping a lid on the move higher.
- The BWP-USD has anchored itself above the 0.0900 which will be welcome news for importers. We expect this level to be the support for the session going forward. Investors are reminded of the auction this morning were BWP7bn worth of 7-day certificates will be on offer

ZAR and Associated Comments

- The ZAR led the broadly appreciative EM sample of currencies yesterday, ultimately securing a 1.30% gain as it closed at 14.4150/\$ while taking quarter-to-date losses below one per cent. Risk appetite remained broadly supportive through the session while the US dollar dipped after a gauge of US manufacturing activity fell for the second month.
- With the ZAR favouring the risk-on trading conditions, the local unit shrugged off a dismal domestic PMI print. The Absa manufacturing PMI plunged in July to its lowest level in over a year and was its largest monthly decline on record. Specifically, the PMI fell to 43.5 in July from 57.4 in June, which marks a turn into contractionary territory. The sharp decline resulted from the reintroduction of lockdown restrictions by the government aimed at curbing the spread of the Delta variant and the unprecedented looting and civil unrest in KZN and parts of Gauteng, which disrupted supply chains and economic activity. Although the violence has subsided, the adverse impact of the looting and protests is likely to continue to be felt in the months ahead, which will impede any recovery from July’s slump.
- The effects of the riots and protests were also seen in July’s vehicles sales statistics released yesterday. Naamsa vehicle sales rose 1.7% y/y in July, which compares poorly to June’s 20.2% y/y rise. While base effects begin to fade and annual growth rates normalise, July’s sales were still undoubtedly held back by the riots. Exports, notably, fell by 33.1% y/y, likely due to issues surrounding the civil unrest and the inability to transport the vehicles to SA’s port. This likely held implications for the ZAR, albeit short term, but will nevertheless be visible once July’s trade balance data is released.
- While the Absa PMI figure recorded falling factory and business confidence in July, the end of the month held the same for foreign investors’ sentiment to SA assets. Inflows to emerging market ETFs continued last week for the third consecutive week as improvements in risk appetite supported EM stocks and bonds broadly. However, that was not the case for ETFs tracking SA assets, which recorded net outflows of \$85.5 billion. This was due to equity outflows amounting to \$89.8 billion, while ETFs tracking domestic bonds still managed to attract inflows of \$4.3 billion. Was it not for a dovish Fed which drove the dollar weaker at the end of last week, these outflows may have seen the ZAR approaching month-end firmly on the back foot.
- Thus, there are still risks remaining for the local currency, with asset outflows both a cause itself and a symptom of the country’s other underlying risks. However, the ZAR remains supported by loose offshore monetary dynamics, while the USD bears currently

test the greenback's quarterly outperformance. For the day thus far, the USD has continued to trade broadly softer, with the ZAR hovering above yesterday's close at the time of writing.

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Report produced by ETM Analytics for BancABC Botswana.

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