

# Botswana Market Watch

## 6 August 2021

GMT	International and Local Data				
	<b>BO</b>	Nothing out today			
06:00	<b>GE</b>	Industrial production wda y/y	Jun	7.80%	17.30%
12:30	<b>US</b>	Change in nonfarm payrolls	Jul	925k	850k
12:30	<b>US</b>	Unemployment rate	Jul	5.60%	5.90%
14:00	<b>US</b>	Wholesale inventories m/m	Jun F		0.80%
14:00	<b>US</b>	Wholesale sales m/m	Jun		0.80%
19:00	<b>US</b>	Consumer credit	Jun	\$20,50bn	\$35,28bn

Africa	What happened?	Relevance	Importance	Analysis
<b>Food prices fall in July</b>	World food prices fell for the second month in a row in July. The FAO's food price index, which tracks international prices of the most globally traded food commodities, averaged 123.0 points last month compared with 124.6 in June	Although still elevated, the recent decline in food prices will be a relief to many nations, especially emerging markets, given the current inflation concerns	<b>4/5</b>  (monetary policy)	Global food inflation may continue to slow over the coming months as supply conditions normalise. For SA, lower external food prices and a bumper crop domestically suggest that food inflation may peak in the near term, helping to keep inflation expectations contained
<b>Regional trade support</b>	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 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	Afreximbank previously provided \$1bn for the fund to help cushion sudden revenue losses and encourage participation  The scaling up of the vaccine rollout is encouraging as the quicker people are vaccinated, the quicker economies can be reopened	<b>3/5</b>  (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
<b>Africa vaccines</b>			<b>4/5</b>  (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
<b>US Jobless Claims</b>	Initial Jobless claims fell slightly last week to suggest that US workers continue to return to the workforce, albeit in fits and starts	Lower jobless claims increases focus on the NFP data after the weak ADP print	<b>3/5</b> (economy/monetary policy)	Continuing claims are now a fresh pandemic low but the recent spread of the delta variant suggests that the recovery may be inconsistent
<b>BoE</b>	The BoE made no changes to its rates or asset purchases yesterday but signalled that they will gradually withdraw monetary support	The BoE joins other major central banks that are becoming more worried about higher inflation	<b>4/5</b> (monetary policy)	Most major central banks are now edging closer to tightening their policies. Liquidity conditions will start to tighten from early next year if the current economic recovery holds up
<b>Japan Inflation</b>	Japan's stats agency has reshuffled its basket of goods used to calculate CPI as consumer spending patterns have changed	The change in the basket suggests that inflation could once again drop below zero in the coming months	<b>3/5</b> (inflation/monetary policy)	Japan's continually weak inflation and slow recovery from the pandemic means that the BoJ will be able to keep policy as loose as possible for longer than its major DM peers

### Local FX Opening Rates and Comment

	CUSTOMER BUY	CUSTOMER SELL	CUSTOMER BUY	CUSTOMER SELL	Benchmark Yield Curve		Forward Foreign Exchange			
	CASH	CASH	TT	TT				BWPUSD	BWPZAR	
BWPZAR	1.2641	1.3811	1.2885	1.3678	6m	1.5750				
BWPUUSD	0.0872	0.0951	0.0888	0.0941	3y	4.7250	1m	-2.0085	0.0000	
GBP/BWP	15.9436	14.6196	15.5987	14.9241	5y	5.8250	3m	-6.3083	0.0000	
BWPEUR	0.0737	0.0804	0.0755	0.0788	22y	8.3250	6m	-18.0326	0.0000	
JPY/BWP			9.7955	10.2157			12m	-41.5155	0.0000	
USDZAR	13.9224	15.1112	14.2487	14.7843						
EURUSD	1.1349	1.2296	1.1615	1.2030						
GBPUSD	1.3362	1.4477	1.3675	1.4164						
					<b>Equities</b>		<b>Economic Indicators</b>			
					<b>BSE Domestic Index</b>	6702.05	<b>GDP</b>	0.7	<b>Bank Rate</b>	3.75
					<b>BSE Foreign Index</b>	1551.22	<b>CPI</b>	8.2		

- Data released by the Bank of Botswana has shown a strong rebound in sales of rough diamonds during the first half of 2021. The data showed an increase in activity from Debswana with sales rising by 41% over the period compared to the first half of 2020. This comes as the traditional markets of China, the United States and Europe reopen after the hard lockdowns seen in 2020 as a result of the COVID-19 pandemic.
- The export value of the diamonds stood at \$1.702 billion in the first half of the year compared to \$1.209 billion in the same period last year.
- Given that Botswana receives some 70% of its hard currency earnings from diamonds, the significance of the recovery in demand cannot be overstated, as it provides a buffer for the currency and the economy while policy makers continue down the path of diversifying the mining sector and creating an investment backdrop which will lift Botswana towards a middle-income economy over the next decade.
- Looking abroad we have risk off very much evident in Asia as the Delta variant continues to spread and concerns grow surrounding the potential crackdown from Beijing on tech companies in China. In terms of the United States, the chatter in the morning meetings has primarily been around the US labour market and when the Fed will begin the tapering of stimulus programmes. This sets the tone for today's all-important US Non-Farm Payrolls number due for release later this afternoon.
- The pace of hiring in the US economy in June was significant, and expectations are that we will see this increase even further in July. Nonfarm payrolls increased by 850k in June and we could see over 900k jobs added in July as demand for labour remains robust. This should bring down the unemployment rate after it ticked higher in June, owing to an increase in the labour participation rate. Wages, meanwhile, may continue to accelerate, helped along by the still low levels of labour supply. Overall, therefore, the numbers are expected to point to a stronger labour market and greater economic growth prospects, although we are still some way away from recovering fully from the pandemic and will need a few more months of stellar jobs numbers to get the Fed thinking about easing off its stimulus pedal.
- The dollar is currently underpinned as we enter the final day of trade for the week with investors focused on the US Non-Farm payrolls data. Comments made by Minneapolis Fed President Neel Kashkari who stated that he expects a strong labour recovery in the Northern Hemisphere autumn which is only a few weeks away has supported the dollar ahead of today's release, but equally underscored the importance of the employment figures in the equation. We currently have the USD index holding just above 92.30 into the EU open.
- The BWP-USD consolidated yesterday holding north of the 0.0900 mark. News of a strong recovery in diamond sales will provide an element of resilience to the local unit. In terms of the local open, there is no data on the cards and as such influences will likely come from offshore, expect a measured start.

## ZAR and Associated Comments

- Emerging market currencies encountered mixed performances yesterday, with markets struggling for clear cut direction ahead of an anticipated US jobs report due later today. The ZAR mirrored broader sentiment, swinging between gains and losses as it traded in a narrow range for the majority of domestic trading hours. The local unit ultimately closed the day flat at the 14.3800/\$-handle. The dollar, meanwhile, held relatively firm after jumping the day prior on more hawkish Fed speak from FOMC Vice Chair Richard Clarida.
- As of yesterday, the ZAR still looked set to post a weekly gain as it had managed to snap broader dollar strength this week. However, FX markets in general still have to contend with today's US nonfarm payrolls release, which could see intraday volatility in the event of any positive surprises. As for option pricing, USD-ZAR overnight and one-week implied volatilities rose to their highest since last week, where hedging costs were last buoyed amid the Fed's policy announcement.
- While expectations are for US labour market conditions to continue improving in July in line with June's gains, it is evident that the Delta COVID-19 variant brings risk to the reemployment while demand for labour has vastly outstripped supply in recent months. These challenges were seen in Wednesday's private payrolls data which came out substantially lower than expected and may cause investors to alter expectations for today's NFP release. However, recent hawkish Fed speak complicates current market dynamics, as it has kept the dollar supported in the run-up. Although, this does arguably open the market to a downwards surprise, as was the case with Wednesday's payrolls data.
- All in all, FX markets will trade cautiously leading into the session, given the implications that a strong month of hiring has on the US policy outlook. Domestically, overnight moves in the political sphere may cause some volatility in domestic markets as investors price in cabinet changes announced by President Cyril Ramaphosa last night. The cabinet reshuffle involves 10 ministers and 11 deputy ministers in total, including the Ministry of Defence, the Ministry of Health and the Ministry of State Security, which will be brought under the control of the Presidency. Additionally, Tito Mboweni resigned as Finance Minister, with his replacement being chairman of the ANC's economic transformation subcommittee Enoch Godongwana. The President's justification for the changes was to speed up the rollout of covid-19 vaccines, rebuild the economy and ensure stability following recent riots and looting that destroyed businesses in several provinces.
- The significant change in the Finance Ministry risks upsetting markets, given that Mboweni has been a proponent of reducing government debt, the public wage bill and promoting policy reform to bolster economic growth and employment. Thus far, the changes have had a negative reaction in markets, with the USD-ZAR spiking 2.5% higher to 14.7500 overnight before settling roughly 1% higher around the 14.5200-handle. Although the reshuffle was expected, the ZAR may still be entering the weekend on the back foot, with EM currencies generally facing headwinds in early morning trade as the USD remains buoyed ahead of the official US jobs report.

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