Botswana Market Watch

11 August 2021

GMT		International and Local Data			
	BO	Nothing on the cards			
11:00	US	MBA mortgage applications	Aug 6		-1.70%
12:00	US	New York Fed's Logan Speaks at Financial Crisis Forum			
12:30	US	CPI y/y	Jul	5.30%	5.40%
12:30	US	Real ave weekly earnings y/y	Jul		-1.40%
16:00	US	Fed's George to Speak to Business Economists			
18:00	US	Monthly budget statement	Jul	$-255bn	$-174,20bn

Africa	What happened?	Relevance	Importance	Analysis
Food prices fall in July	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	4/5 (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
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
Aussie lockdowns	Melbourne will remain locked down until the 19th Aug in the latest announcement as 20 more Covid cases are reported	These lockdowns may risk the economy slipping into a 2nd recession in 2 yrs	4/5 (Covid)	Australia's vaccination effort has been sluggish, and the economy has not experienced a significant wave as yet, implying it remains vulnerable
Fedspeak	Chicago Fed President has said that the current spike in inflation should not prompt the Fed to respond and that the labour market needs to improve more	Evans has made a case for the Fed to be in no rush to taper and to ensure the economy is strong	4/5 (economy, monetary policy)	That being said, Evans did also indicate that it was possible and maybe even likely that the necessary parameters to taper could be met later this year when a taper discussion would be appropriate
Japanese money supply	M2 money supply rose 5.2% y/y in July from 5.8% y/y in Jun. This reflects the slowest increase since May last year	The data shows a weaker desire to hoard cash as confidence returns	3/5 (economy)	Although it might reflect less desire to hoard cash, it also reflects the potential for weaker consumption which will reflect in weaker overall growth

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2655	1.3846	1.2899	1.3712
BWPUSD	0.0854	0.0934	0.0871	0.0925
GBPBWP	16.1609	14.7838	15.8112	15.0918
BWPEUR	0.0729	0.0797	0.0746	0.0781
JPYBWP			9.6776	10.1140
USDZAR	14.2191	15.4184	14.5524	15.0848
EURUSD	1.1248	1.2190	1.1512	1.1926
GBPUSD	1.3276	1.4383	1.3587	1.4072

Benchmark Yield Curve

6m	1.5740
3y	4.7250
5y	5.8250
22y	8.3250

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-2.2376	0.0000
3m	-7.1175	0.0000
6m	-18.1058	0.0000
12m	-41.6520	0.0000

Equities / **Economic Indicators**

BSE Domestic Index	6705.04	GDP	0.7	Bank Rate	3.75
BSE Foreign Index	1551.22	CPI	8.2		

- Local data is on the thin side this week however focus will gradually start to shift towards next week's CPI reading which will give further insight into the price pressures faced by the broader economy. The last print came out at 8.2% year on year and anything north of this may well raise calls for the Bank of Botswana to take action even though the bank has remained steadfast in its message that it will be looking through the current inflation cycle.
- There are a number of drivers which have merged to create the lofty inflation readings at present. High energy prices and elevated soft commodities are major contributors and it does not look like these will pare back any time soon. Droughts in South America, less than optimal rainfall in the United States and China which continues to restock all driving soft commodity prices higher which then translates into higher food prices.
- Given the impact of fuel prices on the number it is also important to keep an eye on developments in the energy markets.
- Oil prices rebounded yesterday, supported by rising stock markets and a fourth straight weekly drawdown in US inventories, according to the API data. US crude stockpiles dropped by 816k barrels last week, according to sources familiar with the API figures. Investors will be looking to the official figures today for confirmation of this, with estimates suggesting a drawdown of nationwide stocks by around 750k barrels. With yesterday's price gains, the front-month Brent contract is trading near $70 per barrel, while WTI is just north of $68.
- This brings us to today's undoubted highlight from a data perspective and that is the US CPI reading for July. Given the sensitivity of financial markets to inflation and monetary policy dynamics at the moment, traders will pay close attention to the July CPI report. The report could offer some guidance on the path of monetary policy. While the headline figure will be watched closely, investors will also keep an eye on underlying inflation as they look to gauge whether the strong price growth seen recently is transitory or here to stay. Despite a resurgence in COVID-19 infections, central bank speakers have turned slightly more hawkish, with policymakers talking more and more about the winding of bond purchases and eventual rate hikes. A stronger than expected CPI print will bolster bets for the Fed to begin normalising policy earlier than communicated.
- Moving onto the FX markets, the USD remains on the front foot this morning with all eyes turning to the inflation report later today. Expectations are that the USD will likely remain well supported with the inflation data more likely to surprise to the topside than down. The trajectory remains higher although momentum does appear to be waning. Nonetheless, this is one reason why the Fed would want to taper and these high levels of inflation which far exceed the target, place considerable pressure on the Fed to respond.
- No change to the BWP, it remains anchored just below the 0.0900 level in the interbank market. All eyes on the US data due for release later today.

ZAR and Associated Comments

- The ZAR traded weaker for the fifth consecutive day yesterday, ultimately ending 0.50% in the red as it closed above the 14.8000/$-handle. While the local unit was not alone in trading lower against the still-buoyant US dollar, the ZAR did lead EM currencies weaker during the day, with sentiment remaining particularly dim in the wake of cabinet changes last week. However, the ZAR's losing streak has coincided with broader moves in currency markets over the past week, the major theme being US labour market health and Fed taper talk, which has bolstered the USD.
- Although for June, yesterday's domestic manufacturing data came out weaker than expected even prior to the production dip which likely ensued during the riots in the following month. While still recording year-on-year expansion, manufacturing output contracted from the prior month as it fell 0.7%. Given the current backdrop of rising manufacturing costs, weak demand, and deteriorating business and investor confidence, a sluggish recovery is likely ahead for the sector. Rising global demand is one of the few buffers still present. As such, its contribution to economic growth as we advance is likely to be minimal.
- With sluggish output growth and weak business confidence, SA's economic recovery is ultimately in the balance, as is the future resilience of the ZAR by extension. With stateside taper talk likely commencing and other emerging market central banks looking to hike rates in the near future, should the SA's growth prospects continue to languish, this will ultimately pressure the SARB to hold back from tightening policy at too aggressive a pace. With a lower interest rate differential, the appeal of SA's relatively high yields to foreign investors will be reduced. Alongside this, higher fiscal risks will also accompany lower-trend growth should the government fail to reign in expenses and debt requirements.
- A more recent update to SA's business conditions comes with the SACCI business confidence index due later this morning. Although sentiment amongst business players has improved, businesses continue to face risks that could keep the index from rising further. 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, suggest that business sentiment likely took a knock in July. 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 further weigh on sentiment and impede the economy's growth recovery prospects.

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