Botswana Market Watch 12 August 2021

GMT		International and Local Data			
	BO	Nothing on the cards			
06:00	GB	Manufacturing production y/y	Jun	13.60%	27.70%
06:00	GB	Visible trade balance (GBP)	Jun		-8481mn
06:00	GB	Total trade balance (GBP)	Jun		884mn
09:00	EZ	Industrial production (wda) y/y	Jun	11.00%	20.50%
12:30	US	PPI final demand y/y	Jul	7.10%	7.30%
12:30	US	Initial jobless claims	Aug 7		385k

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
Japanese inflation	Wholesale prices for July rose 5.6% vs the forecasted amount of 5.0%. Raw material prices across a broad range are driving inflation	Global commodity price inflation has played a clear role in boosting inflation	4/5 (economy)	It comes as a warning to other countries that may be experiencing a similar rise in raw import costs that will keep the pressure on consumer prices
US inflation	On the month, US inflation in Jul decelerated to 0.5% vs the 0.9% m/m growth posted in June. Y/Y, growth remained at 5.4%	The data has given rise to speculation that US inflation may be topping out	4/5 (economy)	Building the case that inflation may have peaked core inflation which decelerated to 4.3% y/y from 4.5% y/y in June.
UK housing	Partial removal of the cut to property taxes has caused a slight drop in demand, with the gauge declining to +79 from +82 in June	As more property tax breaks are removed, demand pressures will ease, and prices might correct slightly	3/5 (economy)	They are, however, unlikely to correct too far given the low rate environment and the recovering economy. Prices in certain higher density nodes might very well correct a little more

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2512	1.3744	1.2753	1.3611
BWPUSD	0.0854	0.0937	0.0871	0.0928
GBPBWP	16.2124	14.7814	15.8616	15.0894
BWPEUR	0.0728	0.0798	0.0745	0.0782
JPYBWP			9.6482	10.1241
USDZAR	14.0583	15.2542	14.3878	14.9242
EURUSD	1.1273	1.2214	1.1537	1.1950
GBPUSD	1.3318	1.4429	1.3630	1.4117

Benchmark Yield Curve

6m	1.5750
3y	4.7250
5y	5.8250
22y	8.3250

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-1.9793	0.0000
3m	-6.3570	0.0000
6m	-15.1125	0.0000
12m	-34.9635	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		

- Given the historical significance of gold as an asset class as well as its reflection of the broader macro conditions inherent in the global market, we would like to draw the reader's attention to movements in gold over the past couple of days.
- The entire financial system remains fixated on the release of US data and what this means for the timing of the tapering of monetary stimulus by the US Federal. A US Non-Farm payrolls number that was way clear of expectations on Friday sent gold into a death spin on Friday and Monday, while yesterday's underwhelming CPI reading has allowed gold to rally sharply yesterday recording its largest gain in three months.
- At the moment it is all about the timing of the taper and how this influences US Treasury yields and the dollar. Developed market bond yields have been ticking higher and this has provided a natural cap on gold. The question now is how much more volatility will we experience until the Fed actually pulls the trigger, we expect volatility to remain elevated given the liquidity, abundance of dollars in the system as well as the bubble conditions in many other asset classes.
- Emerging markets have experienced similar levels of uncertainty, especially given their reliance on an abundance of dollars in the system to boost their attractiveness. The fact of the matter is as follows, even if the Fed does embark on a taper towards the end of the year, they will still be adding stimulus although not at same pace until their bond purchases amount to zero. It is only following this that they will begin to hike rates, and they cannot hike too aggressively given that they will not wish to derail any economic recovery.
- Keep in mind, there is over $4trn worth of new money in the system that did not exist at the start of COVID-19 as a result of the Fed stimulus programme, much of this is now underpinning the greenshoots of the economic recovery in whatever form. Granted it has massively elevated asset prices in some areas but the Fed is equally aware of the addiction of corporate America to low rates and will be mindful of being too aggressive in withdrawing support
- Local data is on the thin side at the moment and thus the focus for the day ahead will once again be centred on offshore developments. Fed speakers will have taken yesterday's inflation reading on board and will look to today's weekly jobless claims for further guidance on the timing of any taper. Fed speakers yesterday indicated their preference for the taper to start before the end of the year, and any further gains in the labour market on top of the buoyant inflation reading will likely strengthen the argument for tightening. Today's weekly jobless claims will take on some added significance.
- It seems like the market was already primed for a higher-than-expected inflation reading. Although inflation remained elevated, it was not enough to spark a further rally in the USD. Instead, investors used any strength to book some profits and the ultimate result was a retreat in the USD which coincided with a correction lower in U.S. bond yields. Equity markets held up well and overall risk aversion subsided, despite indications from Fed speakers that the environment was ripe for some Fed tapering. For now, investors are focused on the building underlying momentum in the economy..
- 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 dollar remained on the front foot leading into a US CPI release, with the trade-weighted USD index (known as the DXY) firming towards 93.2, not far from this year's high of 93.437 reached at the end of March. However, the dollar dipped following the inflation print which showed signs that stateside price increases were beginning to slow. Specifically, annual inflation remained at 5.4% but decelerated in July as the CPI rose 0.5% m/m compared to June's 0.9% increase.
- This offered some reprieve to emerging market currencies, with the ZAR snapping a 5-day losing streak yesterday while leading EM currencies higher on the day. After touching a two-week high of 14.9000 earlier in the session, it was the weaker dollar that ultimately saw the USD-ZAR tumble 1.15% following the US CPI release to close at 14.6400.
- However, domestic data was far from positive, with the SACCI business confidence index falling to a nine-month low of 93.2 in July from 96.2 in June. The fall in the index was unsurprising as the unprecedented looting and civil unrest in KZN and parts of Gauteng, which disrupted supply chains and economic activity, dented sentiment. As such, the ZAR expectedly shrugged off the data, but the broader message to investors remains. Business conditions in SA were already challenging, and last month's looting and changes to COVID-19 restrictions will only have made things worse. The concern from now on is that these events, particularly the former, dent sentiment in a more persistent manner such that investment decisions are put on hold or cancelled altogether, which would weigh heavily on an already-struggling economy.
- All in all, weak fundamentals will ultimately keep the ZAR vulnerable to depreciation, especially in risk-off periods where it trades at the mercy of broader market sentiment and USD dynamics. In the near term, with the US CPI print out of the way, the dollar may be in for a minor pullback. However, annual inflation remains high and has been at or above the 5%-mark for three months running. This will likely bolster tapering bets and keep the USD supported further out. Slowing monthly inflation has eased pressure on the Fed, but the overriding commentary from central bank officials has markets setting their sights on the Fed's tapering timeline.
- As for the ZAR, sooner stateside policy tightening will likely lead to further depreciation, all else held equal. Should growth prospects and sentiment improve, however, this will allow the SARB to keep up with the pace of global rate hike cycles. On the growth front, an update may come today from June's mining production statistics. Due to elevated commodity prices, mining output has propped up SA's growth projections, while current trade balance dynamics has offered some support to the ZAR. While several headwinds are facing SA's mining sector, including the slow pace of structural reforms and unstable power supply, strong prints in the short term could offer some positive directional impetus for domestic assets. However, June saw the reintroduction of harsher restrictions and the effects on mining output remain to be seen.

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