

Botswana Market Watch

17 August 2021

GMT	International and Local Data				
	BO	BWP 8.5bn 7-Day certificates on offer			
09:00	EZ	GDP sa y/y	2Q P	13.70%	13.70%
12:30	US	Advance retail sales m/m	Jul	-0.20%	0.60%
12:30	US	Retail sales ex. auto and gas	Jul	0.10%	1.10%
13:15	US	Industrial production m/m	Jul	0.50%	0.40%
13:15	US	Manufacturing production m/m	Jul	0.60%	-0.10%
14:00	US	Business inventories m/m	Jun	0.80%	0.50%
14:00	US	NAHB Housing market index	Aug	80	80

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
Afghanistan	The Taliban insurgency has continued with the group now controlling almost the entire country	The turmoil has added to the levels of geopolitical risk within the region	4/5 (geopolitics)	There hasn't been an immediate market reaction but the risks are longer-term with the possibility of global terror attacks now rising as a result
Fedspeak	Boston Fed Chief Rosengren says he is supportive of announcing a start to tapering in September if the US gets another strong jobs report	Rosengren joins the chorus of hawkish members, increasing the odds of an announcement soon	3/5 (monetary policy)	The next labour report will receive added focus, but there are downside risks following last week's plunge in confidence levels that the economy's momentum may be slowing
RBA	Minutes from the last RBA meeting show that the bank is ready to act if the economy shows signs of faltering	The bias for the RBA is turning more dovish as lockdowns have extended	3/5 (monetary policy)	The assumptions are that the economy will rebound quickly, but slowing global growth could present a headwind that will keep the RBA dovish for longer

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	1.2726	1.3981	1.2971	1.3846	6m	1.5740			
BWPUSD	0.0854	0.0937	0.0871	0.0928	3y	4.7250	1m	-2.1158	0.0000
GBP/BWP	16.1468	14.7218	15.7975	15.0285	5y	5.8250	3m	-6.2205	0.0000
BW/PEUR	0.0726	0.0797	0.0743	0.0781	22y	8.3250	6m	-15.0345	0.0000
JPY/BWP			9.5597	10.0224			12m	-34.8758	0.0000
USDZAR	14.2988	15.5164	14.6339	15.1807					
EURUSD	1.1297	1.2240	1.1562	1.1975					
GBPUSD	1.3264	1.4371	1.3575	1.4060					

Equities		Economic Indicators			
BSE Domestic Index	6711.32	GDP	0.7	Bank Rate	3.75
BSE Foreign Index	1551.22	CPI	8.9		

- Local news flow is on the thin side this morning but that is not to say the global stage does not have some rich pickings.
- Geopolitics is front and centre this morning. Newswires in the US are awash with coverage of the developments in Afghanistan and it is fair to say that the Biden administration is coming in for some heavy criticism. President Biden addressed these developments in a televised statement last night where he defended his actions, stating that there was no good time to withdraw, that the action had to be taken, that the objectives had been a decade ago. He went on to add that it was regrettable the Afghan army did not make better use of the assistance the US had granted them, capitulating at the first sign that the Taliban were approaching and engaging. He used this as justification that if the army were not ready now, they would not have been in the future and that it was not America's place to fight the Afghan civil war. While many can sympathise with Biden in wanting to withdraw, how the US withdrew is the point of criticism. The transitional arrangements were inadequate, and the Afghan government's collapse took place in a matter of days, far quicker than anticipated. This has raised overall levels of geopolitical tensions in the region and Europe, which is bracing itself for another influx of immigrants fleeing the Taliban.
- Given the importance of copper to the longer term income of Botswana we draw the readers attention to developments in that market this morning. Copper fell overnight with the benchmark 3m LME contract shedding 1.35% on the session to close at \$9442.00/tonne. This morning we have noted some bargain hunting in the Asian session given the sharp fall yesterday and we have the red metal up just short of 0.5% on the day at \$9488.50/tonne into the EU open. The market is heavily headline driven at the moment which is resulting in an increased level of volatility
- The big news this morning is Bloomberg reporting on the halting of the operations at Alashankou land port in Xinjiang after confirming three coronavirus cases, researcher Shanghai Metals Market said, without saying where it got the information. That's disrupting imports from neighboring Kazakhstan, which accounted for 444,800 tons of China's copper concentrate and 141,300 tons of refined metal imports in the first half.
- Moving over to the dollar, Boston Fed President Rosengren undid some of the damage to the USD yesterday that was done by the consumer confidence data last Friday by stating that one more month of strong job growth could prompt the Fed to start tapering as early as Sep. Recall that tapering in itself is not tightening. It amounts to pressing less hard on the accelerator and given the underlying strength to the U.S. economy, the taper could indeed be justified. This has helped to stabilise the USD, which will also benefit from a rise in global geopolitical tensions as developments in Afghanistan continue to unfold in a concerning and destabilising way.
- Domestic traders will have the standard 7-day Certificate auction to contend with today. The FX markets are expected to remain well contained with investors reluctant to adopt a firm view ahead of the decision by the Bank of Botswana on rates later this week.

ZAR and Associated Comments

- The new week began with somewhat more risk aversion than where the last ended. The USD steadied after Friday's data-driven tumble, rising through the session yesterday, while the likes of the Japanese Yen and Swiss Franc also received a haven bid. The ZAR, meanwhile, traded gradually weaker through domestic market hours as EM currencies broadly struggled for traction.
- Data out of China earlier in the day showed retail sales and industrial production rose less than expected in July amid an outbreak of delta COVID-19 infections, economic pressure which would have been exacerbated in the weeks that have followed. This ultimately highlights risks that all EMs face in the event of slow vaccination drives, while the data yesterday saw SA assets worse hit, given China is one of SA's largest trading partners. Nevertheless, risk-off trade was broadly felt, with the ZAR ending 0.60% weaker against the USD at 14.8200/\$.
- Adding to the tentativeness at the start of the week, markets will also have a firm eye on FOMC minutes due tomorrow. Given an unexpected dovish tone at the last meeting, the minutes may well hold a few other surprises which could bolster the USD in the near term. The eventual end of excessive stimulus by the Fed, and rate hikes later down the line, will ultimately see the end of "easy" money flowing to emerging markets. While loose stateside financing conditions will persist for some time still, it is notable that investors have become less bullish on EM ETFs in recent months. According to data compiled by Bloomberg, investors withdrew money from US-listed ETFs which buy EM stocks and bonds last week at the fastest pace since September 25, ending four weeks of straight inflows. Meanwhile, ETFs investing in SA assets incurred outflows of \$2.3 million due to \$4.1 million of outflows from stocks, while bond ETFs still attracted \$1.8 million of inflows.
- Recall, this was in the wake of a bumper US nonfarm payrolls print and US CPI data showing annual inflation persisted above the 5%-mark in July, which likely boosted Fed tapering expectations while driving the USD firmer. If the latest CFTC data is also anything to go by, this trend may well persist in the near term, with the data showing the market's net long USD position continued to increase in the week ending August 10. Surprisingly, the net long position on the ZAR increased, albeit marginally, to \$0.15 billion from \$0.13 billion the week prior, yet was still below the recent peak of \$0.26 billion seen in late June. Given the week coincided with significant ZAR depreciation, we may see a slight pullback in the market net long ZAR position; however, the outlook for the USD remains solid amidst all the taper talk.
- Overnight Fed speak has indeed continued to bolster the USD. Boston Federal Reserve President Eric Rosengren has said that another month of solid job gains could satisfy the Fed's requirements and prompt a September taper announcement. As a result, the USD has surged ahead during Asian trading hours, broadly pressuring EM and major currency markets. The ZAR has continued to trade amongst the weakest in the EM sample of currencies, given its susceptibility to changes in market sentiment, and looks set to stay that way until later today, where US retail sales and industrial production data may offer fresh direction.

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