Botswana Market Watch

19 August 2021

GMT		International and Local Data			
	BO	Benchmark Interest Rate Decision	Aug 19		3.75
12:30	US	Initial jobless claims	Aug 14		375k
12:30	US	Philadelphia Fed index	Aug	24,20	21,90
14:00	US	Leading Indicators	Jul	0.70%	0.70%

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
FOMC Minutes	The latest Fed meeting minutes showed that most policymakers see the central bank tapering its asset purchases from this year as their goals are being reached	The release has seen risk sentiment turn even more negative with stocks slumping and the USD surging	4/5 (monetary policy)	Although the timing of pace of the taper remains a question, it now seems almost certain that it will be announced at the September Fed meeting at the latest
Aussie Labour Market	Hours worked and underemployment levels rose in Aus in July as the impact of the latest lockdowns is now starting to be felt	A weaker labour market will prevent the RBA from normalizing monetary policy	3/5 (economy/ monetary policy)	Given that the lockdowns have since been extended, the outlook for the labour market is that it could weaken further over the coming weeks with softer wage growth
Oil Prices	Oil prices have slumped to their lowest since May amid concerns over global growth and after the Fed minutes	Softer oil prices could be reflected in easing inflation expectations globally going forward	3/5 (oil markets)	The slide in oil prices reflects expectations of a drop in demand just as OPEC+ has pledged to start increasing production once again

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2841	1.3983	1.3088	1.3848
BWPUSD	0.0854	0.0930	0.0871	0.0921
GBPBWP	16.0359	14.7318	15.6889	15.0387
BWPEUR	0.0732	0.0797	0.0749	0.0781
JPYBWP			9.6285	10.0224
USDZAR	14.4278	15.6406	14.7660	15.3022
EURUSD	1.1209	1.2144	1.1472	1.1881
GBPUSD	1.3170	1.4272	1.3479	1.3963

Benchmark Yield Curve

6m	1.5760
3y	4.7250
5y	5.8250
22y	8.3250

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-1.9793	0.0000
3m	-7.3856	0.0000
6m	-18.9881	0.0000
12m	-44.9768	0.0000

Equities

BSE Domestic Index	6712.69
BSE Foreign Index	1551.22

Economic Indicators

GDP	0.7	Bank Rate	3.75
CPI	8.9		

- Today sees the Bank of Botswana deliver its verdict on interest rates. At the last meeting in June the BoB left rates on hold at 3.75% as officials aimed to look through the inflation pressures stating that inflation was expected to return to within the target range in Q2 2022. Inflation has since rocketed; the latest reading released late last week showed inflation at 8.9% year on year. We have yet to see a topping out of food costs, logistical bottlenecks are increasing shipping costs and energy prices remain high. This does give the governor and the board a reason to hike, but they will be vigilant and cautious given the potential for higher rates to derail any progress made on the economic front.
- Given the impact of energy prices on the overall inflation number it is worth bringing the reader up to speed on developments in the oil markets.
- The rebound seen for oil prices during early trade yesterday was short-lived as the market resumed its decline following the release of the Fed meeting minutes. The minutes suggest that the central bank will be tapering its QE purchases this year, causing a slump for risk assets globally while driving up the USD. As such, oil is now at its lowest since May, with the front-month Brent contract currently trading near $67.45 per barrel while WTI sits below the $65 mark.
- Further pressure on the market stemmed from a mixed official inventory report from the EIA, which showed that while crude stocks continued to drop, gasoline stockpiles surprisingly increased, suggesting that there is the risk that fuel demand could keep weakening as the concerns over the delta variant continue to mount. With the US implementing some new measures to curb the spread of it, China undergoing a surge in infections, and countries like New Zealand implementing full lockdowns, the global demand outlook for oil continues to weaken. This suggests we could see some further losses in the near term, before the market rebounds later in the year as vaccination efforts increase and the threat of the delta variant passes.
- The highlight overnight were the FOMC minutes. It is clear that Fed officials felt that there was still more work that needed to be done in improving labour market conditions before the taper could begin. However, they also felt that those conditions could be met before the end of the year. What was less clear was the exact date when the taper would start, the pace of the taper and whether the surge in inflation was a bigger risk to the economy than a resurgence in infections given the number of vaccinations. What is perhaps clearer is that there is consensus that a taper needs to happen, and that might go some way to explaining the strength in the USD, which continued to appreciate on a trade-weighted basis.
- Moving over to the FX markets, the Fed minutes released last night proved to be the catalyst that helped the USD break through some key technical levels. Talk of tapering has seen overall levels of risk aversion rise. Stock markets have come under pressure, commodity prices have collectively corrected lower and emerging market currencies are on the defensive. Once again, the safe-haven allure of the USD has attracted investors and the USD has surged. There now appears to be an inverse head-and-shoulders pattern on the daily chart of the trade weighted USD which points to the prospect of further USD appreciation in the coming two weeks.
- The local 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 today. A hike would provide additional resilience for the currency given that it would improve the carry offered by the currency, however the bank as mentioned in the comment above will trend cautiously given the potential fall out economically from monetary tightening.

ZAR and Associated Comments

- The ZAR encountered relatively volatile intraday trade yesterday, reversing earlier gains to trade weaker ahead of the release of the Fed's July FOMC meeting minutes which has kept markets on tenterhooks. Domestically, inflation and retail sales data offered little to cheer about. CPI data from Statistics South Africa showed inflation fell to 4.6% y/y in July from 4.9% in June. Meanwhile, core inflation, which excludes food, non-alcoholic beverages, fuel and energy, dropped to 3% y/y from 3.2% in the previous month.
- Even July's supply chain disruptions due to civil unrest were unable to spur any increases in consumer prices, which firmly feeds the view that producers remain unable to pass on persistently higher input costs in a weak demand environment. Despite covering June, the retail sales stats corroborate this as sales growth slowed to 0.6% m/m from May's 2.3% rise. While tighter lockdown restrictions would have played a part, these have compounded pressure on the industry, which still faces weak consumptive dynamics compared to pre-COVID. Looking ahead, we're likely to see a contraction in the months ahead as July's civil unrest will have made a material impact on spending and growth implications. All in all, the data points to continually weak demand-side inflationary pressures due to depressed domestic con-sumptive dynamics, a relatively loose labour market and weak economic growth.
- SARB governor Lesetja Kganyago was also in the newswires yesterday as he spoke of SA's third-quarter growth prospects. The SARB sees the economy contracting on a quarter-on-quarter basis in Q3 due to the impact of "serious unrest" and the economic damage caused by the deadly riots. For 2021, social unrest is estimated to shave 0.4ppts off the GDP growth rate. While the SARB does expect growth to pick up further out, expanding on a seasonally adjusted annualized basis from Q4 through to the end of 2023, the consequences on Q3's growth hit appear to be done and likely pushed SARB rate hikes into 2022, if there were ever meant to be later this year as the SARB's quarterly projection model has suggested.
- While the SARB sees upside risks to inflation from fuel, electricity and administered prices, the above will likely prompt the doves amongst the MPC to hold off on rate hikes this year. Overall, these expectations will add to the downwards bias for the ZAR in the months ahead, as lower interest rates will reduce the appeal of the ZAR's carry trade where foreign investors borrow in low rate devel-oped economies and invest in higher-yielding currencies.
- Externally, the outcome of the FOMC minutes has been the major market mover overnight. While FOMC members remain divided in out-look and the appropriate policy response, most Fed officials agreed at last month's meeting that conditions to allow for

bond purchase tapering could be met later this year. The reaction in the spot markets has been an overall rise in risk aversion due to talk of tapering, with the US dollar trade-weighted index (DXY) surging to its highest levels this year. The ZAR has been amongst the worst hit, trading 0.6% weaker at the time of writing which has been the USD-ZAR breaking through the 15.0000-handle to the topside in early morning trade. The day ahead sees limited data in the way to derail the risk-averse sentiment, suggesting we should continue to see a rising USD weigh on EM currencies..

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