

## Botswana Market Watch

## 23 August 2021

GMT		International and Local Data		
		Nothing out	Aug 19	3.75
08:00	EZ	Markit/BME manufacturing PMI	Aug P	62,00
08:30	GB	Markit manufacturing PMI	Aug P	59,00
12:30	US	Chicago Fed activity index	Jul	0,09
13:45	US	Markit PMI manufacturing	Aug P	63,00
13:45	US	Markit composite PMI	Aug P	59,90
13:45	US	Markit services PMI	Aug P	59,90
14:00	US	Existing home sales	Jul	5,84mn
				5,86mn

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	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
<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	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
<b>Africa vaccines</b>	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
<b>Japanese PMI</b>	Manufacturing PMI data reflected a slowdown in Aug, while the services PMI fell by the fastest pace since May 2020	Reflects the ongoing impact that the virus is still having on economic activity	2/5 (economy)	The PMI remained above 50, denoting expansion, but it was the rate of expansion that fell off and which is a reminder that infections still matter
<b>Bargain hunting</b>	Overall, there appears to have been some bargain hunting that has crept into markets as China reflected no new infections and PMIs hold up above 50	After some heavy losses sustained, there's an element of bargain hunting, but sentiment is fragile	3/5 (market)	Overall, this might be a breather within a longer-term sell-off, but after the week of losses that has just unfolded, it would be completely understandable to see investors looking for bargains.
<b>UK retail sales</b>	Retail sales data for July surprised in dropping by more than expected official data showed on Friday. The Euro 2020 and bad weather blamed	The recovery in consumption-driven growth remains fragile, although the trend is still up	3/5 (economy)	Notwithstanding the Euro 2020 and some bad weather, ONS officials were quoted as arguing that the effects of resurgent delta variant infections were also behind the disappointing outcome

### Local FX Opening Rates and Comment

	CUSTOMER BUY		CUSTOMER SELL		Benchmark Yield Curve		Forward Foreign Exchange			
	CASH	CASH	TT	TT						
BWPZAR	1.2860	1.4026	1.3108	1.3892	6m	1.5740		BWPUSD	BWPZAR	
BWPUSD	0.0845	0.0920	0.0861	0.0912	3y	4.7250	1m	-1.9500	0.0000	
GBPGBP	16.1306	14.8046	15.7816	15.1131	5y	5.8250	3m	-6.0938	0.0000	
BWPEUR	0.0721	0.0785	0.0738	0.0770	22y	8.3250	6m	-14.7128	0.0000	
JPYBWP			9.5008	9.9003			12m	-34.1835	0.0000	
USDZAR	14.6134	15.8489	14.9559	15.5060						
EURUSD	1.1250	1.2189	1.1514	1.1925						
GBPUSD	1.3102	1.4195	1.3409	1.3888						
					<b>Equities</b>		<b>Economic Indicators</b>			
					BSE Domestic Index	6726.07	GDP	0.7	Bank Rate	3.75
					BSE Foreign Index	1551.12	CPI	8.9		

- Stable production at Moruplue A and B power plants have gone a long way to de-shackle Botswana from relying on external sources of electricity. Data released by Statistics Botswana showed the country importing 24.1% less electricity in the first quarter of 2021. The country imported some 37.5% of its total needs with South Africa's Eskom being the main source. Given the troubles Eskom is facing, we can only view the current strategy of making Botswana self-sufficient in the medium term and an exporter of electricity in the longer term as a good one.
- The past week has been a volatile one for global financial markets. The USD has capitalised on that volatility and uncertainty. Still, early trading out of Asia this morning raises the prospect that the move in the near term may have played itself out ahead of the Jackson Hole symposium that is due to start on the 27th. In an interesting turn of events, the symposium will now be held virtually in what many have interpreted as a sign that the pandemic still features prominently in the Fed's thinking. Add to this comments from the Fed's Kaplan that he may need to change his views of an early taper if the delta variant continues to spread, and the USD might well come in for some correction given just how far it has rallied in the past two weeks.
- The timing of the taper is driving market sentiment at the moment. Any data or comments that bring forward the timing of a taper and the USD surges. The opposite also holds true. This weekend's Jackson Hole symposium is, therefore, an important event. In the run-up to this event, the USD might very well take a breather as investors lighten up on any long USD positions to head into the event square. Then there are also the very fluid events in Afghanistan that hold the potential to change. The combination may tilt the scales in favour of many taking to the sidelines until the dust has settled.
- Taking a look at the dollar at the start of the week, we see the world's reserve currency correcting lower. The retreat may be tentative given the broader trend, but it appears that some profit-taking is in order for now. After two weeks of gains, the USD is now on the defensive, and it may be that the upcoming Jackson Hole symposium is a big enough event that investors will be reluctant to take on any more large directional positions. It implies that some consolidation may be in order at the start of the week until the Fed gives its detailed assessment. Asian stocks have started on the front foot, and immediately, the USD has corrected a little lower.
- The local unit may receive a boost at the start of the week with the dollar on the back foot. The BWP remains contained under the 0.0900 in the interbank market however this level may be tested should the sentiment towards frontier and emerging markets remain positive.

## ZAR and Associated Comments

- Last week, the ZAR ended on the back foot as it declined 0.80% against the US dollar on Friday, being the second-worst performing EM currency on the day, faring only better than the Mexican Peso. Meanwhile, the US dollar trimmed some of its weekly gains as the world's reserve currency showed signs of pulling back from recent 9-1/2-month highs.
- Despite a weaker dollar on the day, as the euro and haven currencies such as the Japanese Yen and Swiss Franc steadied, the ZAR struggled to capitalise even after the announcement that the SA government would allow all those aged 18 and over to be vaccinated. While this will undoubtedly aid SA's recovery going forward and limit further COVID-19 infections where another spike is forecasted for December, domestic assets and the ZAR were unable to shrug off the overall dim market sentiment which emanated from last week. The ZAR was ultimately the worst-performing EM currency over the week as it fell 3.80% against the surging dollar, closing at the 15.3000/\$-handle, its weakest since March.
- With the ZAR continuing to show high susceptibility to changes in external sentiment, the outlook for the local unit will be linked to broader dollar moves and prospects for US monetary policy tightening for as long as this is the case. In this morning's trade thus far, the ZAR and other higher-beta currencies appear to be making a sharp U-turn from last week's losses, capitalising on broad dollar weakness at the start of the week. However, there are no clear indications that the dollar's rally has run its course, especially with Fed officials meeting later in the week where taper talk will remain the theme amongst newswires.
- On the data front for the day ahead, August's provisional manufacturing PMIs are due for release today, with Eurozone data scheduled for this morning followed by Stateside data in the afternoon. As has been the case in previous releases, disparities amongst these data hold the possibility of showing varying paces of recovery and thus the possibility of diverging outlooks for monetary policy amongst developed economies.
- This week's domestic data card holds the SARB's leading indicator for June and second-quarter unemployment stats, which are due for release tomorrow, while producer price inflation data is scheduled for Thursday. Meanwhile, according to South Africa's National Joint Operational and Intelligence Structure, new threats of countrywide violence and protest action have been circulating amongst social media platforms. If uncontrolled, these threats could weigh on domestic assets at the start of the week. However, unlike the protests which rocked July, measures will likely be in place to maintain civil stability.
- The ZAR has largely shrugged off this news during the Asian trading session as it leads a broadly stronger EM currency basket at the start of the week. Looking at the week ahead, the US PCE core price index will round off the week and will likely take most focus given it is the Fed's preferred measure of inflation. Markets will also turn to the Fed's annual Jackson Hole symposium ahead of the weekend, where comments on the tapering of Fed asset purchases will be crucial for market direction in the near term.

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