

Botswana Market Watch

25 August 2021

GMT	International and Local Data				
08:00	BO	Nothing on the cards			
11:00	GE	IFO business climate			Aug 100,50
12:30	US	MBA mortgage applications			Aug 20 -3.90%
	US	Durable goods orders m/m			Jul P -0.30% 0.90%

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
Virus latest	Japan will be expanding its state of emergency to 8 more prefectures. Sydney is experiencing a wave with hospitals under pressure, and European cases are still spiking	The delta variant is causing much angst and frustration to policymakers who would like to open up their economies	3/5 (economy)	For those countries that have been heavily vaccinated, the lockdowns are likely to be limited. For other countries like Australia, they will still need to persist with restrictions to protect their healthcare system
US infrastructure bill	The Democrat-controlled House voted to advance Biden's domestic agenda after the party bridged internal divides and was able to generate a compromise	The final bill will likely be far smaller than the \$3.5tn first targeted and spread over many years	3/5 (economy)	If successful, the effect would be mildly positive and would replace a current infrastructure bill that will be ending sometime in Sep. The ultimate boost might be less than first anticipated
UK retail sales	CBI data yesterday shows that retail sales surged in Aug by the most in seven years, leading to orders reaching a new high and stocks to their lowest on record	Pent up savings and an open economy through the holiday period boosted demand	3/5 (economy)	Disruptions to logistics remain ever-present, and the situation is far from normalised, but there was a significant boost to GDP through Q3, which will extend through Q4 barring restrictions

Local FX Opening Rates and Comment

CUSTOMER				BENCHMARK YIELD CURVE				FORWARD FOREIGN EXCHANGE			
BUY	SELL	BUY	SELL								
CASH	CASH	TT	TT								
BWPZAR	1.2698	1.3965	1.2943	6m	1.5760			BWPUSD	BWPZAR		
BWPUSD	0.0845	0.0928	0.0861	3y	4.7250			1m	-2.4424	0.0000	
GBPWP	16.2121	14.7627	15.8614	5y	5.8250			3m	-7.4831	0.0000	
BWPEUR	0.0720	0.0790	0.0737	22y	8.3250			6m	-18.8468	0.0000	
JPYBWP			9.4910					12m	-44.6209	0.0000	
USDZAR	14.4294	15.6561	14.7676								
EURUSD	1.1269	1.2210	1.1534								
GBPUSD	1.3168	1.4267	1.3477								
				EQUITIES		ECONOMIC INDICATORS					
				BSE Domestic Index	6726.07	GDP	0.7	Bank Rate	3.75		
				BSE Foreign Index	1551.12	CPI	8.9				

- The local political landscape has heated up over recent days following the acquittal of former intelligence agent Welheminah Maswabi codenamed Butterfly. The High Court Judge Zein Kebonang passed a verdict earlier this week ruling that the charges of financing terrorism and corruption against Maswabi were “fabricated and outright false.” This has caused massive ructions in Garorone with the Africa report leading with an article where they state the following - Botswana's former president Ian Khama says he will sue his successor, Mokgweetsi Masisi, and is calling on him to resign, accusing him of orchestrating a dirty-tricks campaign to discredit him ahead of the 2019 poll, which dragged in Bridgette Motsepe, sister-in-law to South Africa's President Cyril Ramaphosa. “The idea was to get us into prison landl embarrass us,” Khama said in an interview with The Africa Report on Tuesday. “It became apparent very soon that [the claim] wasn't true, at least the majority of people did not believe it.”
- Internationally, the United States and its geopolitical agenda has been front and centre of most news wires. The Biden administration continues to receive criticism across the board for its handling of Afghanistan and the humanitarian crisis its withdrawal from the country has caused. CNBC this morning reported that the Taliban will no longer allow Afghans to go to Kabul airport for evacuation, Biden has previously placed the 31st August as the deadline for evacuations by the Americans.
- The United States is also currently reviewing its trade policy with China according to the US Trade Representative Katherine Tai. This comes at a time when relations between the two super powers are icy at best. Accusations have been flying across both counters and we do not envisage any talks that take place in the coming months to be smooth or cordial.
- At home, the Democrats appear to have arrived at an internal compromise that will allow them all to push for the Biden administration's domestic agenda. It revolves around the social spending plan, which is being touted as a hallmark of Biden's legacy. The \$3.5trln total will unlikely be met as more compromises will be needed to ensure safe passage. Guesstimates place the amount that will be funded through extra taxation at around \$1.0trln, which means that there would still be a significant impact on the fiscus if the ultimate deal settles at around \$2.0trln. The aim would be to build a deeper and all-encompassing safety net for the U.S., but the proposal will meet with stiff opposition from the Republicans, who will balk at the idea of lifting the tax burden even more. On the infrastructural spending, that is not only aimed at replacing an existing spending programme that is coming to an end but boosting it at the margin to further support the economy.
- Moving over to the FX markets, not much change to the USD's performance that consolidated yesterday's retreat. Many investors are scaling back their expectations for hawkish guidance from the Fed and sitting on the side lines until some guidance is offered. It may in other words, be too soon for a significant shift in U.S. policy. With Asian equity markets again in the green and expected to remain that way, the short-term outlook for the USD is more bearish than consolidative. Technically, the USD appears to be fairly non-committal.
- The BWP remains contained under the 0.0900 in the interbank market for now however this level may be tested should the sentiment towards frontier and emerging markets remain positive in the coming weeks. Much depends on the tone of the Fed at the Jackson Hole symposium this weekend.

ZAR and Associated Comments

- Both major and emerging market currencies strengthened across the board yesterday as the US dollar remained on a downwards trajectory following its rise to 9-1/2-month highs last week. The ZAR strengthened close to 1% by the end of London trading hours, bringing it within range to test the 15.0000/\$-handle in intraday trade yesterday.
- While risk appetite has improved at the start of the new week, helping the ZAR trim some of its August losses, second-quarter economic data released yesterday painted a far less rosy domestic outlook. The arrival of the third wave of COVID-19 infections and resulting restrictions saw the SARB's leading indicator slip from a record high of 128.8 to 125.8 in June. According to the SARB, the decline was the most pronounced since May 2020 and thus suggests that base effects and the positive effects from economic normalisation have started to dissipate. The trend will likely continue in the July and August releases, given the subsequent civil unrest. Still, the data is already showing signs that the pace of recovery may be stalling.
- With this implying potential trouble further down the line for SA's growth prospects, the Quarterly Labour Force Survey released yesterday did little to brighten the domestic picture. South Africa's unemployment rate rose to a fresh record high of 34.4% in Q2 from 32.6% in the previous quarter. While this is partly attributed to the easing of virus restrictions increasing the labour force participation rate as more people began to seek employment, it is evident that the current business climate was and likely still is unable to cater for the vast number of jobs seekers as the economy reopens. Meanwhile, the data reported by StatsSA also showed that the number of people employed fell in three of the ten industries tracked, which suggests that some sectors sustained further hardship despite the easing of restrictions.
- July's civil unrest, which National Treasury estimates to have shaved off between 0.7-0.9 percentage points from 2021 growth, alongside tighter lockdown restrictions, means SA's fragile economy remained under pressure into the start of H2. This brings the risk of even more job losses and weak hiring dynamics, shrinking the tax base and putting further pressure on government finances. Had it not been for surging commodity prices lifting mining profits and thus the government's tax intake this year, SA's fiscus may have been in a far more uncomfortable place than it is today.
- While ZAR shrugged off the data yesterday as markets remained significantly risk-on, a weak economic backdrop will come back to bite domestic assets. The SARB will ultimately be hard-pressed in hiking interest rates in the current environment. At the same time, weak consumer demand amid high unemployment will unlikely see inflation rising sufficiently in the near term to warrant rate hikes either. All the while the market gauges the likely end to extremely loose monetary policy in major DMs, which may commence with the US Fed reducing its monthly asset purchases. The Fed's Jackson Hole symposium at the end of the week still holds much focus, although near term tapering bets have been reduced and the USD rally paused. The USD has, however, found

some support overnight. As such, the ZAR has been unable to push past the 15.0000/\$ key resistance level, which is may struggle to be broken should the improvement in global risk appetite not persist for the remainder of the week.

Contacts

Mogamisi Nkate	+267 3674335	email: mnkate@bancabc.com
Phillip Masalila	+267 3674621	email: pmasalila@bancabc.com
Kefentse Kebaetse	+267 3674336	email: kkebaetse@bancabc.com
Maungo Sebonego	+267 3674338	email: msebonego@bancabc.com

Report produced by ETM Analytics for BancABC Botswana.

Disclaimer

The information provided herein has been prepared solely for informational purposes and is not an offer to buy or sell or a solicitation of an offer to buy or sell the securities or instruments mentioned or to participate in any particular trading strategy. These materials have been based upon information generally available to the public from sources believed to be reliable. No representation is given with respect to their accuracy or completeness, and they may change without notice. BancABC on its own behalf and on behalf of its affiliates disclaims any and all liability relating to these materials, including, without limitation, any express or implied representations or warranties for statements or errors contained in, or omissions from, these materials.