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Botswana Market Watch 26 August 2021

GMT		International and Local Data			
	BO	Nothing on the cards			
12:30	US	GDP q/q annualised	2Q S	6.60%	6.50%
12:30	US	Personal consumption	2Q S		11.80%
12:30	US	Initial jobless claims	Aug 21		348k
14:10	EC	ECB's Villeroy speaks in Paris			
15:00	US	Kansas City manufacturing activity	Aug		30,00

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
US durable goods	New orders for durable goods orders disappointed and were surprisingly flat amid ongoing logistics constraints and an extremely high base	Although disappointing, durable goods orders remain well above pre-pandemic levels	**3/5** (economy)	H2 2021 could be a little softer once the initial backlog gradually unwinds. Demand for machinery and equipment is still buoyant, albeit a little softer than anticipated
EZ bonds	Italian and German bonds suffered their worst trading day in six months as yields jumped on the news that the ECB could raise its macro-economic projections	There is also some pricing out of risk in many bond markets ahead of Jackson Hole	**2/5** (market)	Central bankers will likely avoid derailing some of the gains in financial markets that are helping to bolster sentiment and confidence in the global economy and adopt a more growth-friendly tone
UK vehicle output	British car output fell to the lowest levels since 1956, in part due to the global shortage of semiconductor chips and the effects of staff isolation	Auto sector affects many downstream industries and will detract from overall GDP performance	**3/5** (economy)	In time the pressures on the sector will ease, but not without having imposed some significant societal changes that might affect the vehicle industry for several years to come

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2630	1.3918	1.2873	1.3784
BWPUSD	0.0845	0.0929	0.0861	0.0920
GBPBWP	16.2571	14.7870	15.9054	15.0950
BWPEUR	0.0718	0.0789	0.0735	0.0774
JPYBWP			9.5008	9.9919
USDZAR	14.3517	15.5861	14.6881	15.2489
EURUSD	1.1292	1.2238	1.1557	1.1973
GBPUSD	1.3205	1.4306	1.3514	1.3997

Benchmark Yield Curve

6m	1.5740
3y	4.7250
5y	5.8250
22y	8.3250

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-1.9695	0.0000
3m	-6.3083	0.0000
6m	-14.9468	0.0000
12m	-34.6613	0.0000

Equities / **Economic Indicators**

BSE Domestic Index	6734.95	GDP	0.7	Bank Rate	3.75
BSE Foreign Index	1551.09	CPI	8.9		

- Local macro inputs are on the thin side this morning with most investors focusing squarely on the Jackson Hole symposium over the weekend. The fortune of most financial markets is directly linked the timing of the Fed taper, i.e. the reduction in bond purchases by the Fed to support the US economy. The wall of money provided by the Fed has boosted risk assets and underpinned gold given that it suppressed the US Treasury market yields, and given rise to fears of dollar debasement and inflation.
- The jury is out as to what tone Fed Chairman Jerome Powell will adopt when he addresses the virtual meeting but any confirmation of a taper by the end of the year will pressure metals across the board. We hold the view that he will adopt a measured tone being mindful of the fact that the economic recovery in the US is patchy at best.
- It is important for the Fed to have a steady hand here. The liquidity provided by the Fed has found its way into asset prices across the board. Equities have rallied hard, and emerging market asset prices have recovered from COVID-19 pandemic lows; this can easily be undone should the Fed move too quickly.
- On the political front, still much focus on the politically damaging calamity that has become the Afghan withdrawal of U.S. troops and citizens. The Biden administration has steadfastly refused to move the timeline for withdrawal and raised the ire of some of America's allies. Secretary of State Blinken has also advised that there are still about 1,500 US citizens in Afghanistan and that it is working on contacting them or given them instructions to get to Kabul airport. The end of August is now just days away, and the pressure to evacuate remaining U.S. citizens is high.
- Moving over to the FX markets, the USD remains on the defensive, struggling to make back any more ground as investors position for a Fed that is likely to remain supportive of the economy for a little longer. The Fed will be in no rush to taper asset purchases with the delta variant still spreading rapidly and posing a risk that may need to be mitigated through further restrictions. Through today, not much movement is anticipated. Firm directional momentum will likely materialise next week.
- 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

- The ZAR continued to strengthen yesterday, closing 0.30% stronger at 14.9600/$, as the market remained convinced that last week's risk aversion took the unit well into oversold territory. However, the local currency did pare gains yesterday as it bounced off the 14.9000/$-handle, while EM currencies were not the sea of green that we have seen earlier in the week as risk appetite begins to show signs of fading ahead of the Fed's virtual Jackson Hole symposium.
- On the local front, Deputy Governor of the SARB, Kuben Naidoo, said in a webinar yesterday that the reserve bank expects inflation to remain close to the midpoint of its 3-6% target range over the next two to three years, which is ultimately proving to be part of the reason why the SARB is not in a rush to hike rates. While the SARB wishes to remain accommodative to the broader economy, keeping borrowing costs low and encouraging bank lending, there are clear risks to the currency outlook should SA fall behind on its rate hike cycle compared to other EMs. However, the weak economic backdrop has not seen any scope for rising inflation. At the same time, the SARB remains steadfast in its data-dependent approach to achieve its inflation target and mandate of price stability.
- The consensus in the SARB is that interest rates can be kept accommodative for at least another year or two. More specifically, the central bank may hike rates, but not aggressively, and instead keep SA's interest rates accommodative on a global scale. Domestic rate hikes would likely coincide with sustained currency weakness following moves in the global rate hike cycle, namely amongst DMs such as the US. Ultimately, the ZAR would take the brunt of the market pressure in this scenario if the SARB continues to adopt a wait-and-see approach, where it would only react to currency depreciation triggering expectations for supply-side inflation.
- Additionally, fiscal risks remain high and could be another trigger to currency weakness. On that front, National Treasury now sees the 2020/2021 budget gap at R552 billion or 11% of GDP. While better than the 11.2% reported in May, the lack of structural reforms and fiscal consolidation will see this improvement as cold comfort for the broader economy. Furthermore, the public sector wage deal struck last month for a 1.5% salary increase, plus a cash payment, will cost roughly R20 billion in the 2021/2022 fiscal year. This cost was above the compensation ceiling contained in this year's February budget, and thus conformed to expectations as a clear risk to sovereign credit ratings in the future.
- For the day ahead, domestic producer price inflation will round out the SA data card for this week, but will unlikely hold much market-moving potential given manufacturers remain unable to offload higher input costs onto consumers significantly. Ahead of the Fed's symposium, markets will turn to US initial jobless claims and the second reading for US Q2 GDP growth today for an update on US economic health. While the USD has come off recent highs this week, US Treasury yields have edged up, with the 10-year tenor reaching two-week highs yesterday. This could begin to offer the USD some support into the end of the week, while fresh hints of Fed tapering will also reignite the upwards bias for the greenback at the expense of EM currencies.
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