

Botswana Market Watch

5 August 2021

GMT	International and Local Data				
	BO	Nothing out today			
08:30	GB	PMI construction			Jul 65.00 66.30
11:00	GB	BoE asset purchase target			Aug 875bn 875bn
11:00	GB	BoE bank rate			Aug 5 0.10% 0.10%
12:30	US	Initial jobless claims			Jul 31 400k
12:30	US	Trade balance			Jun \$-72,35bn \$-71,20bn
14:00	US	Fed's Waller Discusses Central Bank Digital Currency			

Africa	What happened?	Relevance	Importance	Analysis
World Bank funding	Following a meeting with leaders of 23 African countries in Abidjan, the World Bank said that African countries called for the largest-ever replenishment of the International Development Association of \$100bn	The IDA is the single largest source of donor funds for basic social services in these countries. The replenishment of the IDA fund is vital for Africa	3/5 (economy, fiscal policy)	In April, the WB launched an early replenishment cycle after massive assistance was paid out to African nations to help deal with the COVID-19 pandemic. The WB aims to complete the replenishment in December, covering the 2023-2025 fiscal years
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 Economic Data	The US added fewer jobs than expected in July according to the ADP, but the ISM Services PMI surged to a new record high as the economy reopens	The strong PMI offset the weak ADP figures, helping the USD rally on the session while USTs weakened	4/5 (economy)	The mixed data highlights how the US economy is still performing well but concerns remain over the jobs market. A more robust recovery is needed here before the Fed will start tightening
Fedspeak	Fed Vice Chairman Clarida has said that the central bank is on course to pull back its stimulus support later this year before hiking rates in 2023	Bets of a first rate hike in early 2023 were reaffirmed in money markets after his comments	3/5 (monetary policy)	September remains the FOMC meeting to watch given rising expectations that at least some announcement regarding the timing of stimulus tapering will be made
Asia COVID Outbreak	Indonesia has now become the second country in Asia to register 100k deaths from COVID as the delta variant continues to spread through the region	New virus controls will be needed to stop the spread, denting the ongoing economic recovery	4/5 (economic growth)	Many forecasts for growth for the region have already been revised lower while some of the poorer countries may not be able to provide enough support to offset the damages

Local FX Opening Rates and Comment

	CUSTOMER BUY		CUSTOMER SELL		Benchmark Yield Curve	Forward Foreign Exchange				
	CASH	TT	CASH	TT			BWPUSD	BWPZAR		
BWPZAR	1.2509	1.2750	1.3656	1.3525	6m	1.5745				
BWPUUSD	0.0872	0.0888	0.0950	0.0940	3y	4.7250	1m	-2.0768 0.0000		
GBPBWP	15.9116	15.5673	14.5890	14.8930	5y	5.8250	3m	-6.4448 0.0000		
BWPEUR	0.0736	0.0754	0.0803	0.0787	22y	8.3250	6m	-15.3465 0.0000		
JPYBWP		9.7857		10.2055			12m	-35.6070 0.0000		
USDZAR	13.7762	14.0991	14.9411	14.6178						
EURUSD	1.1362	1.1628	1.2309	1.2043						
GBPUSD	1.3334	1.3647	1.4448	1.4135						
					Equities		Economic Indicators			
					BSE Domestic Index	6702.05	GDP	0.7	Bank Rate	3.75
					BSE Foreign Index	1551.22	CPI	8.2		

- Local news flow is on the thin side with most of the news vendors headlining with the COVID-19 vaccination efforts currently being made by government. The government is hoping to make significant progress in the coming weeks and has asked the likes of the United States for assistance.
- Botswana is not alone in its fight against the COVID-19 virus. The world is experiencing a flare up with areas such as South East Asia, China, Australia and the United States all battling rising infection rates. This has dented sentiment across markets with investors expressing concern that the rising infections could be signalling a new wave starting ahead of the Northern Hemisphere winter where the rate of infections could ramp up significantly. Granted the developed world has made significant strides in terms of vaccination programmes, but many in the developing world have yet to make such in-roads. Indonesia for example has recorded 100 000 COVID-19 deaths.
- Analysts and economists alike are focused on the local inflation and growth dynamics. Supply chain and weather have had a significant impact on the cost of soft commodities which has filtered through to the inflation numbers, there is no sign of the price pressures seen in soft commodities moderating as yet. Equally fuel costs have increased as the global economic recovery caused a rise in the oil price, and given this backdrop we would from time to time like to draw the reader's attention to developments in the energy markets.
- Oil suffered its first three-day drop since mid-May as rising concerns over the economic impact of the spread of the delta variant and a surprise gain in US stockpiles weighed. Furthermore, comments from a Fed official that suggested stimulus may be pared back this year pressured commodities in general, exacerbating oil's slide. We are seeing the benchmark contracts stabilise this morning, however, with the front-month Brent contract just below \$70.60 per barrel while WTI trades at \$68.40.
- The dollar received a boost from statements made by Fed Vice Chairman Clarida that the central bank is on course to pull back its stimulus support later this year before hiking rates in 2023. The dollar rally was however not as aggressive as it may have been with many investors preferring to adopt a wait and see approach given the looming US Non-Farm Payrolls number tomorrow. The USD Index is currently just north of 92.20 as we enter the start of the EU session, while the EUR-USD is holding just below the 1.1840 mark with some options related orders keeping the single currency contained. In terms of the USD-JPY we see the pair bid with the JPY out of favour for now
- The BWP-USD has anchored itself above the 0.0900. The BWP did shed some ground yesterday on the back of the dollar strengthening however the losses were not excessive. Markets remain cautious at the moment.
- Looking at the day ahead we don't have any data due for release locally, we do however have a number of data releases offshore including the BOE decision on rates which will hold focus.

ZAR and Associated Comments

- The ZAR initially looked set to strengthen for a third consecutive day yesterday, shrugging off weak domestic data and taking cues from broader market dynamics which are seeing a persistently pressured US dollar. EM and major currencies were broadly in the green yesterday against the dollar as bets that the US Fed would have to taper asset purchases in the coming months were dealt a blow. Specifically, US private payroll data from the ADP Research Institute came out significantly weaker than expected, with firms adding 330k jobs in July compared to expectations inline with June's hiring of 692k.
- However, not long after, comments from Fed officials provided a backstop for the USD and saw US Treasury yields tick higher. Fed Vice Chair Richard Clarida said conditions for rate hikes could be met by the end of 2022 and rate hikes projections for 2023 remain on track should the economy progress as expected. These comments came as a surprise to markets after last week's dovish address from Chairman Jerome Powell, while the Vice Chairman also noted we could see a reduction in monthly asset purchases later this year. With FX market dynamics highly contingent on forward policy guidance from the Fed, hawkish Fedspeak put a firm stop to yesterday's weakening dollar trend. This saw the USD-ZAR bounce off three-week highs of 14.2200 hit earlier in the session, adding 0.40% by the end of London trading hours.
- As for yesterday's data, the private payrolls report ultimately sets the tone for the official nonfarm payrolls print due tomorrow. Given the implications for an uneven economic recovery, this reduces the potential for the Fed to begin tapering asset purchases until such a time that the data shows several months of solid hiring to put the jobs market on track to pre-pandemic levels. Despite yesterday's Fed comments, extremely accommodative stateside financing conditions will remain until sufficient labour market slack is taken up, supporting risk appetite and riskier EM assets.
- In terms of domestic data, the economy-wide Standard Bank PMI fell to 46.1 in July from 51 in June, the first dip into contractionary territory since September last year and the lowest level in eleven months. The latest reading pointed to a substantial deterioration in business conditions, led by renewed declines in new orders, employment and stocks of purchases, and a much sharper fall in output. While the data will likely show a temporary dip in reaction to the riots and looting of last month, it will not show the full long-term ramifications. Last month's civil unrest saw the reinstatement of monthly welfare payments, which Social Development Minister Lindiwe Zulu described yesterday as a "stepping stone" to introducing a basic income grant. FinMin Tito Mboweni last week said the new grant payments lasting until March 2021 will cost the government R27 billion. This ultimately risks upsetting National Treasury's fiscal consolidation plans and could see public finances continue to deteriorate, likely resulting in further credit rating downgrades in years to come.
- As for the day thus far, traditional haven currencies have come under pressure, with the Japanese Yen and Swiss Franc both down. This suggests improving risk appetite in the day ahead, however the USD has held steady in early morning trade after yesterday's broad gains. The ZAR, meanwhile, has snapped back after yesterday's losses, with the unit likely to test yesterday's three-week highs again should EM sentiment remain positive.

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