Botswana Market Watch

13 August 2021

GMT		International and Local Data			
	BO	Nothing on the cards			
09:00	EZ	Trade balance nsa (EUR)	Apr		7,50bn
12:30	US	Import price index y/y	Jul		11.20%
14:00	US	Michigan consumer confidence	Aug P	81,20	81,20

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 Jobless Claims	Initial Jobless claims fell for the third straight week last week, dropping to a pandemic era low of 375k. Continuing claims dropped to 2.87mn	Data continues to show that the US labour market is tightening as the economy reopens	3/5 (economy/ monetary policy)	Continuing claims are now at a fresh pandemic low but the recent spread of the delta variant suggests that the recovery may be inconsistent going forward
UK GDP	The UK economy expanded by 4.8% in Q2 with output data for June suggesting that it entered Q3 on a solid footing, just as the delta variant began to spread	The UK economy is poised to be a top performer this year as it has led the way in reopening	4/5 (economy)	Although the economy still faces some headwinds, we should see growth remain robust as the hospitality industry catches up to the growth seen in the productive side of it
Third Dose Approval	The US has approved giving immunocompromised people a third dose of vaccines in an effort to improve protection as new variants continue to spread	Creating greater immunity will help control the virus and reopen the economy to its full extent	3/5 (economy)	For now the third doses are only available to compromised people, with data still being collected on its effectiveness for the elderly or other people

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2625	1.3859	1.2868	1.3726
BWPUSD	0.0854	0.0937	0.0871	0.0928
GBPBWP	16.1445	14.7164	15.7953	15.0230
BWPEUR	0.0728	0.0799	0.0745	0.0783
JPYBWP			9.6580	10.1241
USDZAR	14.1852	15.3823	14.5176	15.0495
EURUSD	1.1269	1.2210	1.1534	1.1945
GBPUSD	1.3260	1.4369	1.3570	1.4058

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	-6.3570	0.0000
6m	-15.0930	0.0000
12m	-34.9245	0.0000

Equities		Economic Indicators			
BSE Domestic Index	6708.22	**GDP**	0.7	**Bank Rate**	3.75
BSE Foreign Index	1551.22	**CPI**	8.2		

- Botswana has expressed some lofty ambitions regarding its energy sector and given the disarray in South Africa, it may well have a captive market for any endeavours it undertakes. The country aims to become a net exporter of electricity from 2027 according to Lefoko Moagi, Minister of Mineral Resources, Green Technology and Energy Security. Botswana launched an Intergrated Resource Plan in 2020 which has been the backbone of any initiatives taken in the sector, the goal is first to meet local demand and then export the excess capacity which will bring in hard currency earnings. The project takes on different technologies for power generation with a focus on renewables. Moagi stated that over the 2020-2040 period, the plan has identified the implementation of at least two 50MW solar photovoltaic projects as well as 12 grid-tied small solar PV projects in six different areas across Botswana.
- On the global stage, COVID-19 remains a massive concern. The Chinese are not taking any chances with a zero-COVID policy so strict that it resulted in an entire shipping terminal being shut after just one case was reported. CNBC reported the following - *China has shut down a key terminal at its Ningbo-Zhoushan port, the third busiest port in the world, after one worker was found to be infected by Covid — a move that will likely put further pressure on already stretched supply networks. It was the second time this year that the country suspended operations at one of its key ports. Analysts say China's "zero tolerance" approach toward Covid will exacerbate already stressed supply chains this year. Some warn that this may not be the last closure at a port as long as Beijing continues to take this stance. Dawn Tiura, CEO of Sourcing Industry Group — an association for the sourcing and procurement industry, said China's stance will lead to "severe" supply chain consequences. "China has a zero tolerance for COVID. One person testing positive is enough to shut down (the) port," she told CNBC in an email.*
- Moving over to the US. With each passing day of more stimulus against a backdrop of growing vaccinations, the probability of an economic recovery grows. Recent earnings results have been better than expected, and although the threat of more lockdown measures always exists, the general trend is an improving one which would go a long way to explaining the rising expectation that Wall St will rise from record to record. Although, on the one hand, that will reduce levels of risk aversion, on the other, it means that the taper may be brought forward. The taper and the prospect for higher interest rates are perhaps one of the single biggest threats to less developed or emerging market economies.
- A poll conducted by Reuters reflects market anticipation that the Fed will announce the taper of asset purchases in Sep. Two-thirds of those polled believed that the Fed would change its language in Sep and outline the timing of the taper. That being said, the taper will be gradual. Expectations are that the jobless rate will fall slowly, and the Fed will therefore not be in any hurry to curtail its asset purchases. Nonetheless, expectations are rising that the taper will take place before the end of the year.
- The Michigan consumer confidence index edged up in the final July print from a preliminary reading of 80.8 but remained below June's 85.5. The decline was primarily attributed to a deteriorating outlook for the national economy as well as complaints over high prices for houses, vehicles and durable household goods. While most consumers share the Fed's expectations for transitory inflation, there is growing evidence of the contrary. The median 12-month average inflation expectation rose to 4.7% from 4.2% in June. While inflation remains a concern to consumers, improving labour market conditions will support consumer confidence in the near term. However, with recent private payrolls data undershooting expectations, the Fed will be pressed to maintain accommodative monetary policy, elevating the risk of stubborn inflation that could weigh on consumer confidence further out.
- The USD consolidated overnight with no fresh impetus to offer the Greenback directional momentum into the weekend. However, with talk of the taper ongoing, with earnings results strong and Wall St on track to rise to fresh record levels, the probability is rising that the USD will remain well supported and extend its current recovery. As riskier EMs are shunned for the allure of DM markets that can now offer yield, the USD might well enjoy a purple patch. For now, it remains well supported.
- No change to the BWP, it remains anchored just below the 0.0900 level in the interbank market and we expect a measured start to the open given the deluge of global macro information that is currently hitting the investment community.

ZAR and Associated Comments

- The ZAR weakened amongst other major currencies as the US dollar regained support from Treasury yields which ticked higher after falling the previous day. Specifically, the greenback recovered after dipping on Wednesday as US inflation underwhelmed in July. However, stateside data yesterday helped the USD, with initial jobless claims dropping for the third consecutive week while US producer price data showed broadly rising input costs remain the trend.
- All in all, incoming US data supports the view that the Fed will enact some slowing of monthly asset purchases by the end of the year. With the ZAR and other EM currencies favouring loose offshore monetary policy, the bias, for now, remains firmly to the downside for the local currency. As for yesterday's moves, the EM currency sample traded mixed, while the ZAR led the laggards lower on the day with a 0.80% decline to close at 14.7600/$.
- Elsewhere, the similarly volatile Turkish Lira gained 1% yesterday as Turkey's central bank held its key interest rate, defying calls for a cut from Turkish President Recep Tayyip Erdogan. While the focus amongst SARB MPC members will be fixed on rate hikes rather than further cuts, should SA's economic recovery fail to regain traction, a stalling to monetary policy tightening will exacerbate pressure on the ZAR. Foreign investors favour riskier currencies such as the ZAR for providing higher carry returns due to SA's relatively higher real interest rates. With the potential for a less aggressive rate hike cycle, investors may seek other emerging markets for returns as the risk-reward payoff on investment into SA becomes too great relative to investments in developed markets and other emerging markets.
- In domestic newswires yesterday, in his final day of testimony at the Commission of Inquiry into State Capture, President Ramaphosa warned that efforts to combat graft would be a protracted process. It is clear that without action to fight corruption, SA's business confidence levels will continue to dwindle while vast structural challenges will weigh on economic sentiment. On a

positive note for the broader economy, the government published an exemption allowing private companies to produce up to 100 megawatts of electricity without requiring a license, ratifying the June announcement by President Ramaphosa.

- While helpful going forward, it will likely still take time for economic confidence to build. As for the ZAR, the local unit will continue to trade at the whim of broader market sentiment in the near term. Market risk appetite remains pegged to Fed policy expectations, with the potential announcement of Fed stimulus tapering at the September meeting growing. For the day ahead, a measure of US consumer confidence will conclude this week's data card and may see the USD buoyed into the weekend should the overall uptrend in consumer sentiment since last year April remain intact and bolster inflation expectations. Domestically, eyes will turn to next week's bumper data card, including the rescheduled mining output release, CPI and retail sales statistics. With the SARB maintaining a data-dependent approach, July's inflation print will be of particular interest as it will offer clues on the probability of rate hikes occurring by the end of the year.

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