

Botswana Market Watch

18 August 2021

GMT	International and Local Data				
	BO	Nothing on the cards			
09:00	EZ	CPI y/y	Jul F	2.20%	1.90%
09:00	EZ	Construction output wda y/y	Jun		13.60%
11:00	US	MBA mortgage applications	Aug 13		2.80%
12:30	US	Building permits	Jul	1610k	1598k
12:30	US	Housing Starts	Jul	1608k	1643k
18:00	US	Fed FOMC Meeting Minutes	Jul 28		

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
Fedspeak	Fed Chair Powell refrained from commenting on the monetary policy outlook at his Town Hall meeting yesterday	Shifts focus to today's minutes and next week's Jackson Hole symposium	3/5 (monetary policy)	Bets are still that the Fed will announce the timing of the tapering of its QE programme next week, but some recent weak data is casting some doubt on this
RBNZ	The RBNZ held off on tightening monetary policy as the country entered into lockdown after a single COVID case was reported this week	The RBNZ's decision shows what kind of impact lockdowns can have on policy decisions	4/5 (monetary policy)	Although the rate hike was delayed, the RBNZ signalled that it remains relatively hawkish and that policy will start to be normalised as soon as the economy reopens again
Japanese Exports	Japan's exports recovery showed signs of topping out in July as growth in shipments to China and Europe lost some momentum	Slowing exports show that global growth is losing some momentum	3/5 (economy)	Weaker growth in major trading partners and the ongoing chip shortage will continue to weigh on Japan's exports and its economic recovery

Local FX Opening Rates and Comment

	CUSTOMER BUY		CUSTOMER SELL		Benchmark Yield Curve		Forward Foreign Exchange			
	CASH	TT	CASH	TT						
BWPZAR	1.2682	1.3851	1.2926	1.3718	6m	1.5750	1m	BWPUSD	BWPZAR	
BWPUSD	0.0854	0.0932	0.0871	0.0923	3y	4.7250	3m	-2.4326	0.0000	
GBPBWP	16.0733	14.7353	15.7256	15.0423	5y	5.8250	6m	-7.5514	0.0000	
BWPEUR	0.0730	0.0796	0.0747	0.0780	22y	8.3250	12m	-18.4226	0.0000	
JPYBWP			9.5892	10.0020				-44.1431	0.0000	
USDZAR	14.2488	15.4581	14.5828	15.1237						
EURUSD	1.1246	1.2187	1.1510	1.1923						
GBPUSD	1.3203	1.4305	1.3512	1.3996						
					Equities		Economic Indicators			
					BSE Domestic Index	6712.69	GDP	0.7	Bank Rate	3.75
					BSE Foreign Index	1551.22	CPI	8.9		

- The government announced that it would resume its COVID-19 vaccination programme today with the aim of inoculating more than 2.3 million of its population. The country recently received batches of the Johnson & Johnson and AstraZeneca vaccine which will allow the authorities to continue with phase two of the project. *"Although phase two category covers adults aged 30 to 54 age groups, the target for now will be those aged 45 years and above, for purposes of managing congestions at vaccination sites," a statement by the Permanent Secretary in the Health Ministry, Christopher Nyanga, said. "Alongside those in the Phase two category as indicated, COVID-19 vaccination will also be administered on some frontline workers including security personnel, those in the mining sector and the teaching fraternity, amongst others," the statement added.* To date more than 161 000 people have been vaccinated, while infections are at 142 380 with a death toll of 2043.
- The additional vaccines and equipment needed to fight the pandemic have resulted in the government budget ballooning. The country needs an extra BWP1.13bn which is almost triple the amount originally allocated in February given that 70% of it has already been depleted according to Finance Minister Peggy Serame who was speaking to parliament.
- Internationally the markets remain focused on the rising infection rates of the Delta variant across the globe. China is battling the virus and have closed various ports which will undoubtedly result in shipping backlogs and price distortions for commodities across the board while the US is firmly in the grip of the virus as cases rise across the country.
- Fed Chairman Powell spoke bullishly about the reduced negative impact the delta variant will exert on the US economy. That is partly due to vaccinations, but also a function of households and businesses learning to live with the restrictions and improvising. Lives have adapted, and although there are some industries such as hospitality and travel that have been heavily affected, there are others that are thriving. Covid is proving to be a catalyst for change in a way that households and businesses function, and going forward, new paradigms will exist. However, the negative growth impact of those changes is dissipating and is unlikely to impact heavily on the Fed's decision to taper or not.
- The last policy update saw a decidedly more dovish Fed, which surprised markets given the previous meeting's hawkish turn. While the central bank maintained that the US economy still has ground to cover, the statement noted that FOMC members discussed the eventual tapering of asset purchases. However, it remains to be seen in how much detail tapering was discussed and at what point it may occur. The latest CPI print will have moderated tapering bets slightly, given signs of inflationary pressures topping out. Since the last meeting, labour market strength has also been noted, which will have likely outweighed the lower CPI print given the Fed's insistent focus on the jobs market. All in all, the minutes will be closely analysed for hints for when the Fed will be comfortable with the jobs market and what it is willing to tolerate in terms of persistently high inflation.
- Moving over to the FX markets, As the EUR continues to slide against the USD on fears related to Covid and a possible influx of refugees and immigrants and as the NZD takes a knock following the RBNZ keeping rates steady, the USD has surged to a nine-month high. It is now on the verge of testing the prior highs seen earlier in August and July before that. A break through 93.2 on the USD index will open the door for a further surge in the USD. The trend for the time being is in favour of a firmer USD and the upside break, especially with investors reducing their speculative bets against the USD.
- The local FX markets are expected to remain well contained with investors reluctant to adopt a firm view ahead of the decision by the Bank of Botswana on rates tomorrow as well as the FOMC minutes later this afternoon.

ZAR and Associated Comments

- The ZAR swung between gains and losses against a broadly stronger US dollar yesterday but ultimately succumbed to some late selling pressure which saw the unit jump over 1% weaker on the day. However, moves above 15.0000-handle proved too resistant for the USD-ZAR, which bounced off the key technical level, settling at 14.9200 by the end of London trading hours.
- The ZAR's propensity to weaken in risk-off trading conditions came to the fore as it led EM currencies weaker for most of the day, while it was also second weakest amongst major currencies at a stage, faring only better than the New Zealand dollar which slumped after the country tightened lockdown restrictions following the first COVID-19 infection since February. Meanwhile, the US dollar remained on an upward trajectory following overnight Fed speak from Boston Fed President Eric Rosengren suggesting a September announcement to stimulus tapering could be forthcoming should solid labour market gains persist. The USD ultimately surged ahead on a trade-weighted basis, shrugging off weaker than expected retail sales figures in July, and took cues instead from solid industrial production stats.
- As for the day ahead, markets may trade cautiously ahead of Fed FOMC minutes scheduled for later this evening. In the interim, the dollar will likely remain supported as the market positions itself for potential surprises from the Fed's last meeting. Ahead of the minutes, UK CPI data will steal the focus in this morning's trade and is expected to show inflation eased in July. While unlikely to hold major market-moving potential, easing inflation could support risk appetite at the margin given growing concern that the BoE will need to step in and withdraw its support to deal with inflationary pressures.
- Domestically, market participants will have South Africa's CPI data followed by retail sales figures to digest. Annual inflation is expected to have moderated from June's print of 4.9% for the second month in July. This could further temper bets that the SARB will seek to hike rates this year and thus may weigh on the ZAR in the near term. On the other hand, retail sales will likely fall out of focus as the data covers June and is thus outdated given the civil unrest in July, which has affected sales in several regions and upended logistics and supply chains.

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