Botswana Market Watch

20 August 2021

GMT		International and Local Data			
11:00	BO	Bloomberg Economic Survey	Aug 19		3.75
06:00	GE	Producer prices y/y	Jul	9.20%	8.50%
06:00	GB	Public sector net borrowing	Jul	11bn	22bn
06:00	GB	Retail sales excluding auto fuel y/y	Jul	5.80%	7.40%

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
Risk-off	Asian stocks are still struggling for traction while equity futures are in the red as the market remains in risk-off mode	Exuberant markets have come crashing down in what will be a healthy correction	4/5 (market sentiment)	Growth concerns, China's regulatory crackdowns, and the Fed are all preventing a rebound in risk assets as we head into the weekend
Japan Inflation	Prices in Japan dropped in July by less than expected, with the headline CPI index declining by 0.3% y/y while core inflation saw prices drop by 0.2% y/y	With deflation still present, the BoJ will be forced to maintain its accommodative monetary policy	3/5 (economy/ monetary policy)	The slower than expected price declines are largely due to temporary factors and the effects of a reweighting of the basket, suggesting underlying price dynamics remain weak
US COVID Infections	US infection rates are rising again with the death rate at levels last seen in February as hospitals reach capacity in some areas	This latest wave could see certain economic restrictions reintroduced	3/5 (economy)	Many firms are pushing back their return to office plans while rising rates of infections will dampen sentiment and could start to weigh on economic activity

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2841	1.4037	1.3088	1.3902
BWPUSD	0.0845	0.0922	0.0861	0.0914
GBPBWP	16.1141	14.7561	15.7655	15.0635
BWPEUR	0.0723	0.0789	0.0740	0.0774
JPYBWP			9.4910	9.9105
USDZAR	14.5917	15.8255	14.9337	15.4831
EURUSD	1.1218	1.2157	1.1481	1.1894
GBPUSD	1.3089	1.4180	1.3395	1.3874

Benchmark Yield Curve

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

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-1.9598	0.0000
3m	-6.1230	0.0000
6m	-18.9491	0.0000
12m	-44.9134	0.0000

Equities

BSE Domestic Index	6704.91
BSE Foreign Index	1551.12

Economic Indicators

GDP	0.7	**Bank Rate**	3.75
CPI	8.9		

- The Bank of Botswana remained steadfast in their view that the current uptick in inflation is transitory and thus kept the benchmark interest rate at 3.75%. The Governor Mr Mose Pelaelo stated in an online briefing post their verdict that the bank sees inflation back within the range by Q2 2022 however there are upside risks to inflation with projections having it peak at 9.1% in August. This comes on the back of inflation printing 8.9% last month after breaking above the upper end of the target band of 6% in May. The bank also sees the economy operating below capacity in the short to medium term.
- Keeping with the economy, Finance Minister Peggy Serame told lawmakers that the government has pencilled in a higher budget deficit at 3.6% of GDP versus 2.9% previously estimated. The budget deficit has widened out more than previous estimates due to the impact of the COVID-19 pandemic and the resultant hard lockdowns. The deficit is expected to be BWP7.75bn for 2021-2022 versus the previous forecast of BWP6.03bn at the February budget..
- Returning to the rate decision, many will view the BoB decision as the correct one. The economy remains vulnerable to external shocks and the last thing policymakers would introduce is another hurdle in the way of an increase in the cost of debt funding, especially at a time when the economy is looking to rebuild.
- Moving over to international markets, In the debate around the timing of the Fed taper, every bit of new information is important. The latest weekly jobless claims data showed that they fell a further 29k to 348k, or a fresh 17m low. Even more impressive was the decline in continuing claims, which decreased a further 79k to 2.82mn to confirm that rehiring is taking place at pace and that the jobs lost are being reclaimed. At this pace, the labour market will have recovered sufficiently to warrant the taper, and this accords with the most recent JOLTS data that showed that the number of job openings was near record levels.
- U.S. leading indicator data released yesterday showed that economic activity rose in July, with the Conference Board confirming that their leading index rose 0.9% to 116.0. The outcome was a little stronger than expected and builds on the narrative that the economy is recovering smartly and that the Fed will have a window of opportunity to start normalising monetary policy later this year.
- A combination of factors is playing a key role in supporting the USD. The spread of the delta variant and the way it has resulted in lockdowns in some countries, talk of tapering by the Fed and the impact it has had on financial markets, a steady rise in risk aversion and a collapse in commodity prices has meant that the USD has found strong support. Technically, it is poised to surge further, and USD bears as reflected in the latest CFTC data, are currently being squeezed. The current move holds the potential to extend further through the next two weeks, and that will have implications, especially for emerging markets.
- The local unit slipped further in the interbank market as a result of a stronger dollar. A rate hike would have underpinned the pula's carry attractiveness but would have detracted from economic growth so there is no guarantee that this would have translated into a stronger pula overall. The broader take home at present is that it is a dollar bull market, and not local factors driving the currency.

ZAR and Associated Comments

- This week's notable drop in risk appetite continued in yesterday's trade as stateside developments dominated the day. The Fed's July FOMC meeting minutes released the previous evening kept any improvement in risk appetite in check through the day, while additional concerns of the global economic recovery topping out also weighed on sentiment. On US monetary policy, given the last FOMC meeting was overall more dovish than expected, the tapering prospects suggested by the meeting's minutes ultimately rebooted expectations that the Fed would taper asset purchases at some point into the end of the year. Furthermore, US initial jobless claims fell to a 17-month low last week, which points to another solid month of jobs market gains, thus bringing forward expectations that satisfactory labour market conditions for the Fed will be reached later this year.
- As a result, the US dollar continued to push higher yesterday, surging to a nine-and-a-half-month trade-weighted high against its major peers. As for the ZAR, a quiet domestic data card saw the unit subject to external developments. As a result of risk-off trading conditions, almost the entire sample of EM currencies ended the day in the red. Higher beta currencies, such as the ZAR, were worse off with the local currency leading declines amongst other EM and major currencies. By the end of London trading hours, the local unit had ultimately depreciated 1.50% from its previous close, ending at a five-month low of 15.1700/$.
- On the domestic COVID-19 front, it was announced that coronavirus vaccines would be made available to all those aged 18 and over as of today. This was a decision made by cabinet to accelerate its vaccination drive and stave off more potential waves of infections. With the country still in the midst of a third wave of infections, though, cabinet also approved keeping current restrictions in place. Looking ahead, greater vaccination rates will reduce the need for tighter lockdown restrictions and thus create more certainty surrounding the future economic outlook. This will most likely prove crucial to SA's recovery but arguably should have been done sooner to have avoided the further tightening of lockdown restrictions.
- Now, SA's future economic performance hinges on the improvement in business confidence. Should the government struggle to maintain its reform agenda, it is unlikely that business and labour conditions will improve sufficiently to avoid the lacklustre growth that has plagued the economy in recent years. As for the currency, it is likely to take the brunt of market moves in this scenario with further sustained depreciation. In the near term, the bias remains to the downside given strong risk-off sentiment keeping the USD buoyed. In the spot markets, the ZAR looks set for more than a 3% drop this week should it hold above yesterday's close of 15.1700/$, which is likely to be the case as the USD remains poised for further gains into the weekend given the current squeeze on dollar bears.

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

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