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Botswana Market Watch 1 September 2021

GMT		International and Local Data			
	BO	Nothing out			
08:00	EZ	Markit/BME manufacturing PMI	Aug F	61,50	61,50
08:30	GB	Markit manufacturing PMI	Aug F	60,10	60,10
09:00	EZ	Unemployment rate	Jul	7.60%	7.70%
11:00	US	MBA mortgage applications	Aug 27		1.60%
12:00	EC	ECB's Weidmann Speaks at Bundesbank Bank Symposium			
12:15	US	ADP employment change	Aug	650k	330k
13:45	US	Markit PMI manufacturing	Aug F	61,20	61,20
14:00	US	ISM manufacturing PMI	Aug	58,70	59,50

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 Confidence	Consumer confidence in August fell sharply to a six-month low as a combination of the spread of the virus and rising inflation both impacted on sentiment	The drop in confidence will likely affect investment and consumption in bigger ticket items	3/5 (economy)	For investors positioned for the taper, this data will come as a reminder that the economic situation is vulnerable and that any further spread of the virus or any more lockdowns will impact growth
EZ inflation	Inflation in the EZ surged to a 10yr high according to the latest Eurostat data, raising concerns about how long the ECB will be able to ignore inflation	This gives the ECB a challenge on how it will communicate its intentions given its inflation mandate	3/5 (economy, monetary policy)	The ECB will likely look through the inflation episode and call it temporary. It will explain it away as being the result of pandemic-linked distortions and try keep policy as loose as possible
Aussie economy	Australia's GDP moderated to 0.7% q/q in Q2, before the lockdown restrictions were imposed	A contraction in Q3 is now inevitable, and investors questioning the Q4 outlook	4/5 (economy)	At the current pace of vaccination, the economy might only open much later this year which means that a technical recession becomes a possibility

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2576	1.3703	1.2818	1.3571
BWPUSD	0.0867	0.0944	0.0884	0.0935
GBPBWP	15.8222	14.5397	15.4799	14.8426
BWPEUR	0.0734	0.0800	0.0752	0.0784
JPYBWP			9.7759	10.1750
USDZAR	13.9264	15.1083	14.2528	14.7814
EURUSD	1.1330	1.2275	1.1595	1.2010
GBPUSD	1.3188	1.4288	1.3497	1.3978

Benchmark Yield Curve

6m	1.5740
3y	4.7250
5y	5.8250
22y	8.4750

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-2.1255	0.0000
3m	-6.2010	0.0000
6m	-14.8493	0.0000
12m	-35.0513	0.0000

Equities

BSE Domestic Index	6733.9
BSE Foreign Index	1548.83

Economic Indicators

GDP	0.7	Bank Rate	3.75
CPI	8.9		

- The Bank of Botswana has acknowledged that the local capital markets are not as effective as it had hoped in providing a cost effective funding structure for government. The yield demanded by investors to fund the government has been higher than what the government has been willing to pay and thus the bond auctions have underperformed. Investors are pointing to the credit downgrade and the uncertainty of the fiscal trajectory even though Botswana has by far the best fiscal metrics in the region. MMNEGI reported that BoB deputy governor, Kealeboga Masilila, however, told the Botswana Bond Market Association's (BBMA) roundtable last week that the bid yields being demanded at the auctions of government notes were unjustifiably high. There seems to be a standoff at the moment however the Botswana Public Officers Pension Fund (BPOPF), which holds nearly P84 billion in funds, has said it is in talks with the finance ministry on how better to participate in the P30 billion domestic debt programme.
- Internationally, it's worth taking a look at developments in the base metals markets given the fact that they provide a strong line of sight into the broader macro conditions that the world faces.
- Beijing started the next round of base metal auctions today with some 150 000 tonnes of industrial metals on offer in the third round of sales from the state reserves. Manufacturers have been given a chance to bid for 30 000 tonnes of copper, 50 000 tonnes of zinc and 70 000 tonnes of aluminium. What will be interesting to see is the level of demand, especially for the aluminium stock which is currently in short supply. The auction will run until 10.00 GMT.
- The news of the base metal sales and a slowing of Chinese factory activity with the Caixin/Markit Purchasing Managers Index slipping into contraction for the first time since April 2020 have provided the shorts with ammunition this morning to take copper lower. The PMI reading slipped to 49.2 from 50.3 in July, COVID-19 containment measures, weather conditions and supply bottlenecks all having an impact. The benchmark 3m LME copper contract was trading some 0.7% lower at $9448/tonne at the time of writing.
- The withdrawal from Afghanistan is now complete with President Biden adding that it would bring an end to the U. S's attempts at nation-building. In the face of massive criticism, Biden has labelled the withdrawal a success and tout's himself as the president brave enough to take a decision many didn't want to. However, the criticism of the handling of the exit is warranted and the chaotic exit will count against the Democrats at the polls in the next election. Geopolitically, there are also many unknowns that could come back to haunt Biden and the Democrats in the years ahead if the region becomes a breeding ground for extremists.
- In terms of the dollar, the world's reserve currency staged a slight recovery off its lows, but without much conviction as investors positioned themselves cautiously ahead of a string of three important labour market releases starting with today's ADP data. The ultimate release will be Friday's payrolls numbers. Investors are looking for any clues that the labour market is strengthening to the point where a taper becomes justified. Any disappointment will see the USD resume its slide and broader levels of risk appetite improve with the knowledge that the Fed will remain accommodative for longer.
- The BWP closed above the 0.0900 mark yesterday in the interbank market driven by stronger emerging market sentiment and a broadly weaker dollar. We expect the level to now become the support mark for the local unit as the week matures and we start a new month.

ZAR and Associated Comments

- Market sentiment has remained broadly upbeat this week, with higher-beta EM currencies advancing especially well as the US dollar remains under pressure following last week's Jackson Hole speech from Fed Chairman Jerome Powell which indicated the Fed was in no hurry to begin raising interest rates. As for the ZAR, the local unit added another daily gain to its current win streak, taking the total to seven consecutive daily advances. Yesterday saw a notable gain of 0.95% for the ZAR, while settling at the key technical level of 14.5000/$.
- With that, the local currency could close August marginally in the green, surprising since the month saw substantial depreciation pressure. Substantial Fedspeak in recent weeks has raised uncertainty over when tapering of central bank asset purchases could occur, as well as broader monetary policy tightening. This has ultimately pressured the USD and supported EM assets, given the outlook for lower-for-longer US yields while EM debt still offers attractive returns. Thus, the last two weeks of ZAR appreciation, which reversed its August losses, has primarily been linked to external dynamics.
- While the ZAR remains at the mercy of broader sentiment, domestic markets pushed on through the slew of local data releases this week. Yesterday held some insightful data for the broader economy and economic fundamentals, starting with money supply and private sector credit growth, which both accelerated in July. However, this held little influence on markets as the data remains anchored near recent lows and continues to suggest monetary dynamics in SA remain very tight, helping to keep inflation contained. This will ultimately feed the view that the SARB will have limited justification on the inflation front to hike rates into the end of the year. While bets on US Fed policy tightening have cooled, a steadier rate hike cycle for SA would still limit the attractiveness of domestic assets, thus minimising support to the ZAR going forward.
- On the other hand, supportive of the local currency, yesterday's trade data showed SA's trade surplus remained intact in July. While the surplus dipped from R54.5bn to R37bn, this was likely a one-off given disruptions from riots and protests. Looking ahead, positive trade dynamics are set to remain due to global trade momentum and a comparatively weaker outlook for domestic imports given still depressed domestic demand. While positive trade dynamics have offered the ZAR a great deal of resilience this year, it must still be noted that SA's weak fundamentals will keep the ZAR highly risk-sensitive, with little to support the local unit once sentiment turns in favour of haven currencies.
- As for the day ahead, focus turns to the final readings for August manufacturing PMIs across developed markets. In the spot markets thus far, emerging market currencies have struggled for traction after several Asian manufacturing PMIs showed slowing factory activity in August. Given implications for global growth, sentiment has kicked off on a sourer note than at the start of the

week. Additionally, markets are likely to trade cautiously ahead of US ADP private sector employment data, given it will set the tone for the official US labour market report scheduled for Friday.

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