

# Botswana Market Watch

# 2 September 2021

GMT	International and Local Data				
	<b>BO</b>	<b>Nothing out</b>			
12:30	<b>US</b>	Initial jobless claims	Aug 28		353k
12:30	<b>US</b>	Trade balance	Jul	\$-74,50bn	\$-75,70bn
14:00	<b>US</b>	Durable goods orders m/m	Jul F		-0.10%
14:00	<b>US</b>	Factory orders	Jul	0.30%	1.50%
17:00	<b>US</b>	Fed's Bostic Discusses Creating Economic Opportunity			

Africa	What happened?	Relevance	Importance	Analysis
<b>Food prices fall in July</b>	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	<b>4/5</b>  (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
<b>Regional trade support</b>	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  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	Afreximbank previously provided \$1bn for the fund to help cushion sudden revenue losses and encourage participation  The scaling up of the vaccine rollout is encouraging as the quicker people are vaccinated, the quicker economies can be reopened	<b>3/5</b>  (economy, trade)  <b>4/5</b>  (economic growth)	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  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
<b>Australia trade account</b>	Australia's trade account has recorded a record trade surplus of A\$12.117bn in July as terms of trade improved off the back of rising commodity prices	Commodity currencies more broadly are performing well at the moment	<b>3/5</b> (economy)	Domestic lockdowns will keep demand crimped. China's recovery will bolster demand while the rise in commodity prices is a boon for countries that generate FX through mining exports
<b>US ADP data</b>	Private sector jobs data missed expectations by quite some margin as Covid appears to have dented hiring through August	Data highlights how sensitive job market will be to Covid infections and regs	<b>3/5</b> (economy, monetary policy)	Although the data confirmed further hiring, it missed the mark and gave rise to speculation that the Fed would turn more cautious in its taper timeline
<b>OPEC +</b>	OPEC agreed to keep returning production to the market gradually and raised output by 400k bpd	The oil price nudged slightly lower, but prices remain buoyant for now	<b>4/5</b> (economy)	OPEC+ will phase more supply back into the market, while they ensure sustainability. However, demand is picking up, and stockpiles are falling

## Local FX Opening Rates and Comment

	CUSTOMER BUY		CUSTOMER SELL		Benchmark Yield Curve				Forward Foreign Exchange		
	CASH	CASH	TT	TT					BWPUSD	BWPZAR	
BWPZAR	1.2509	1.3675	1.2750	1.3543	6m	1.5750			1m	-2.0183	0.0000
BWPUSD	0.0869	0.0947	0.0886	0.0938	3y	4.7250			3m	-6.2400	0.0000
GBPBPW	15.8298	14.4979	15.4874	14.8000	5y	5.8250			6m	-14.9370	0.0000
BWPEUR	0.0733	0.0801	0.0751	0.0785	22y	8.4750			12m	-35.5193	0.0000
JPYBPW			9.7857	10.2055							
USDZAR	13.8224	14.9946	14.1463	14.6702							
EURUSD	1.1364	1.2312	1.1630	1.2045							
GBPUSD	1.3222	1.4326	1.3532	1.4016							
					<b>Equities</b>			<b>Economic Indicators</b>			
					BSE Domestic Index	6742.18	GDP	0.7	Bank Rate	3.75	
					BSE Foreign Index	1548.83	CPI	8.9			

- Botswana has announced an outbreak of avian flu in a backyard poultry facility at Bokaa village in Kgatleng district. The virus occurs naturally amongst wild aquatic birds and is transmitted to domestic birds relatively easily. It is highly infectious and the

devastation it causes to the poultry industry is well documented and thus the government's decision to clamp down the movement of any live poultry and their products from the Kgatleng district is understood.

- We continue to draw the readers attention to the base metal markets given the relevance of these to Botswana especially as the Kalahari Copper belt remains a focal point for economic growth.
- The base metal counters were focused on the release of another 150 000 tonnes of product by Beijing into the market yesterday. Reuters reported that visibility on the auctions was limited but all the copper was sold off well before the end of the morning session, with sales at a discount of at least 1,300-1,500 yuan (\$201-\$232) per tonne to market prices, industry data provider Shanghai Metal Exchange Market (SHMET) said.
- Equally relevant to the market was the swathe of PMI numbers released globally yesterday which for the most part did not make for good reading. Manufacturing activity slowed in many parts of Asia and Europe which pressed the likes of copper which is regarded as the bellwether of global economic conditions. The red metal fell by 1.96% yesterday with the 3m LME contract closing at \$9335/50/tonne. This morning there have been bargain hunters evident and this has lifted prices by some 0.5% into the EU open.
- Today, It will be another busy data day today with further insight into US labour market dynamics coming from the weekly jobless claims that will be viewed in the context of yesterday's disappointing ADP data. Although the data improved, it missed expectations through August and investors will be hoping for some improved data today or the USD could take another beating as investors push out expectations for the taper. Durable goods orders will take a back seat today given that it is the final reading, but revised unit labour cost data will hold some interest as offering further insight into the labour market.
- Also of interest will be the trade account data. The US trade balance fell further into deficit than expected in the June print, coming in at a record -\$75.7bn. This was a 6.7% increase in the deficit from May's \$71bn and was due to a 2.1% rise in imports, driven partly by inbound shipments of higher priced petroleum products, while exports rose 0.6%. Surging demand in the US, combined with logistic and supply bottlenecks, have led to an import rush as inventories have shrunk. Looking ahead, the deficit is expected to have narrowed slightly in the July reading, but otherwise remains at bloated levels. Until supply chains and global trade normalises, this will likely remain the case and will continue to detract from US factory growth and GDP. How temporary this may be ultimately holds implications for the Fed's assumptions that supply-side inflation will be transitory.
- In terms of the dollar, for now, it remains on the defensive and the slide was assisted by the ADP data which came in softer than expectations. The focus now shifts to the remaining data this week for insight into whether the Fed might stall its taper. Investors are still convinced that the taper will start before the end of the year. However, there are indications from Fed members that the central bank will be in no hurry to moderate its asset purchases without clear indications that the economy was on a sustainable recovery path.
- The BWP closed above the 0.0900 mark earlier in the week 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 however there will still be an element of caution shown given the ability of the US data to unseat the status quo.

## ZAR and Associated Comments

- The ZAR extended its current run of gains alongside other higher-beta currencies as the USD remained pressured by expectations for looser-for-longer Fed policy. All eyes fell on US private employment data yesterday, which showed labour market dynamics softened more than expected in August. Specifically, ADP employment figures showed the private sector added 374k jobs during August, well below surveyed expectations of 625k. The US Fed has persistently stated its aims for an inclusive recovery and full reemployment. Thus, weaker jobs reports feed the view that the Fed will continue to ride out the storm with quantitative easing at full throttle, ultimately benefiting emerging markets.
- Aided by domestic data as well, the ZAR added a further 0.70% gain against the USD to close at the 14.4000/\$-handle. In terms of the data, factory mood rebounded in August as the Absa manufacturing PMI surged to 57.9 from 43.5 in July. This was the largest monthly increase on record as manufacturing activity recovered following the riots and civil unrest in July, and was the strongest reading since the record high in October 2020. While a positive development for the manufacturing sector, overall production will still take a hit in the third quarter, and there are already signs of longer-term damage to the economy and economic confidence from July's unrest. Namely, the employment sub-index fell, remaining below the 50-neutral mark, while the gauge tracking expectations for future business conditions also deteriorated as respondents became less optimistic over the economic recovery amid rising cost pressures.
- As for demand-side conditions, August also showed an improvement in that respect as NAAMSA vehicle sales accelerated from 1.7% y/y in July to 24.6% y/y. With SA's accommodative monetary policy stance and record low interest rates, coupled with normalising economic activity that has seen households' income streams return, vehicle sales have picked up. With credit conditions remaining accommodative and will likely do so for some time still, SA's demand dynamics should stay on the uptrend towards pre-pandemic levels. However, there are still numerous risks to the recovery while the overall growth outlook going forward remains comparatively subdued.
- As for the currency, only with sustained evidence that economic conditions are improving should we see the ZAR trade with less sensitivity to global market sentiment. Until that time, the local unit will remain at the mercy of broader risk appetite, while the uneven nature of the global recovery through the coronavirus pandemic presents considerable risks. Over to current market dynamics, global equity markets have come under pressure during the Asian trading session this morning, with economic slowdown risks being the major concern at present, while European and US equity index futures also point to a weaker day in store. This may equally apply to other riskier asset classes in the day ahead, with emerging market currencies already struggling

for traction in early morning trade, as markets become more cautious ahead of this week's data highlight, being US nonfarm payrolls due tomorrow. However, if the ADP employment data is anything to go by, the USD could remain on the defensive should the market begin to expect the official August employment report to similarly underwhelm.

## Contacts

Mogamisi Nkate	+267 3674335	email: <a href="mailto:mnkate@bancabc.com">mnkate@bancabc.com</a>
Phillip Masalila	+267 3674621	email: <a href="mailto:pmasalila@bancabc.com">pmasalila@bancabc.com</a>
Kefentse Kebaetse	+267 3674336	email: <a href="mailto:kkebaetse@bancabc.com">kkebaetse@bancabc.com</a>
Maungo Sebonego	+267 3674338	email: <a href="mailto:msebonego@bancabc.com">msebonego@bancabc.com</a>

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