Botswana Market Watch 6 September 2021

GMT		International and Local Data			
	BO	Nothing out			
-	US	Labour Day			
06:00	GE	Factory orders y/y	Jul	18.90%	26.20%
08:30	GB	PMI construction	Aug	55,00	58.70
08:30	EZ	Sentix investor confidence index	Sep	18,95	22,20

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 jobs data	Friday's payrolls number revealed a huge miss. On top of the softer than expected ADP data and rising concerns about the spread of the delta variant	The path to the taper is now in doubt, although the Fed may list this as a temporary disruption	4/5 (economy, monetary policy)	The trend remains one of improvement, but there are likely to be some disruptions along the way. The danger for investors is that markets have run too far ahead of the economy
Bond markets	Following the very soft payrolls numbers, the US yield curve has steepened while German 30 yr yields rise to six-week highs	Demand for workers has risen sharply, which bodes well for a sharp reduction in unemployment	3/5 (markets)	It also means that some wage pressure could increase through the months ahead if the very strong demand for labour does not abate. Many businesses are gearing up for the festive season
SNB	In an interview with Les Temps, the SNB's Maechler indicated that global stimulus efforts could stimulate the global economy more than expected, and inflation could still rise further	Maechler also added that the risk of sustained inflation in Switzerland was extremely low even if it spiked elsewhere	2/5 (economy)	The broad message is that the recovery is on track, stimulus efforts will work, inflation is unlikely to become a massive detractor, but that things are uncertain due to the spread of the variants and the effects this has on lockdowns

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2492	1.3631	1.2732	1.3500
BWPUSD	0.0872	0.0950	0.0888	0.0940
GBPBWP	15.8589	14.5418	15.5158	14.8447
BWPEUR	0.0734	0.0801	0.0752	0.0785
JPYBWP			9.7955	10.2157
USDZAR	13.7570	14.9141	14.0794	14.5915
EURUSD	1.1393	1.2344	1.1660	1.2077
GBPUSD	1.3291	1.4400	1.3603	1.4088

Benchmark Yield Curve

6m	1.5760
3y	4.7250
5y	5.8250
22y	8.4750

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-1.9598	0.0000
3m	-6.2595	0.0000
6m	-14.9663	0.0000
12m	-35.3243	0.0000

Equities

BSE Domestic Index	6741.71
BSE Foreign Index	1548.83

Economic Indicators

GDP	0.7	Bank Rate	3.75
CPI	8.9		

- The local debt capital markets will be keeping a close eye on how the government uses the additional allocation of reserves from the International Monetary Fund in the form of just over BWP3bn in Special Drawing Rights. These Special Drawing Rights are an international reserve asset created by the IMF which supplement the official reserve assets of a country. Reserve assets are traditionally made up of gold, US Treasuries or other hard currencies.
- The IMF granted these additional SDRs on the 23rd August 2021. The SDRs can be converted into hard currency, however Botswana will need to have an agreement another SDR holding country to provide the usable hard currency. While the SDR's themselves are not treated as loans by the government, when they are converted, they attract interest charges from the IMF which currently sit at around 0.05%, but have been as high as 1.2% in 2019.
- The interesting part for the capital markets is that these SDR's are a much cheaper source of funding for the government. Thus, these SDRs give the government further runway in terms of funding before they need to approach the debt capital markets, so the creation of a fully functioning secondary market may be pushed a bit further out.
- Moving over to the international stage, Investors' expectations going into the release were bearish on the USD, and rightfully so. The U.S. economy added 235K jobs in August, the lowest in 7 months and well below forecasts of 733K. The latest reading compares with an upwardly revised reading of 1053k in the month prior. In contrast, the unemployment rate dropped to 5.2% in August, the lowest since March last year and in line with market expectations and below 5.4% in July. Still, the rate remained well above the pre-crisis level of about 3.5%. The mixed performance in the labour market does not correlate with the course of the economic recovery following business reopening in the U.S., but instead, labour supply shortages and concerns over the lingering threat of a COVID-19 resurgence. However, it may be enough to cause the Federal Reserve to delay tapering its $120bn monthly bond purchases.
- The initial market response was to price out the prospect of a taper this month. Investors took that as a sign that the economy would be stimulated for longer and stock markets found further support. However, there is a risk that financial markets run too far ahead of the economy. The spread of the delta variant and various lockdowns across the globe continue exerting a restraining effect on the economy. With valuations high, stock markets will be vulnerable to a correction from current levels if the disappointing performance in the data does not prove temporary. This will have far-reaching implications for the USD and for risk assets more generally.
- After last week's important data releases, there will be a distinct lack of important data for most of this week, to leave investors to speculate on the outlook for the economy and the necessity for the Fed to start tapering this year. Already market talk suggests that has been pushed out towards November. Later this month, further clarity will be gained on how the Fed is interpreting the current disappointing data phase.
- The BWP will be set for a strong start to the week given that the USD remains vulnerable. We expect the local unit to remain anchored above the 0.0900 mark. Flow may well be lighter today given the fact that the US is out for the Labor Day celebrations.

ZAR and Associated Comments

- The ZAR remained on the offensive at the end of last week following a one-day pause as markets traded more cautiously ahead of an anticipated US labour market report. The official us employment report ultimately corroborated private payrolls data seen earlier in the week, with the headline nonfarm payrolls print showing 235k jobs were added during August, well below the 733k expected according to analysts surveyed by Bloomberg.
- With softer than expected US hiring dynamics in August, this favoured bets that the Fed would not be too quick to reduce its policy support, while it also points to a more extended timeframe for a full labour market recovery. As such, the USD remained on the back foot into the weekend, of which the ZAR took full advantage with a 1% gain on the day to lead emerging market currencies. The local unit also led the weekly advance as it closed roughly 2.8% stronger against the USD, just above the 14.3000/$-handle. However, with last week being its second strong run of gains, this does expose the currency to some weakness once the dust settles on the dollar's ongoing bear run. The ZAR's outpacing of other EM currencies amid the USD decline has highlighted its nature as a higher-beta currency. Having greater sensitivity to broader market developments, in addition to an arguably overstretched rally, ultimately increases the impact and probability of a pullback once risk appetite deteriorates.
- As for the first trading session of the week, market sentiment has had a mixed start. Asian stocks have been buoyed this morning in reaction to Friday afternoon's US payrolls report, which has fuelled hopes that extremely accommodative stateside monetary policy will be maintained for longer. Meanwhile, emerging market currencies have been less buoyant than the end of last week, with the USD trading slightly firmer in the early morning hours. While nothing new has come in the way of the greenback's slide, riskier assets and EM currencies may be held back by the US Labour Day holiday for the session ahead, which sees stateside markets shut.
- Domestic markets will also be gearing up for SA's second-quarter GDP print due tomorrow, in addition to a slew of local data releases this week. While estimates will need to have been made for delayed mining production data, the headline GDP print will still be viewed for insights into SA's ongoing economic recovery. This will unlikely have persisted, however, given the riot-fuelled hit to GDP at the start of Q3, as well as persistent COVID-19 containment measures affecting certain sectors more than others. Externally, central bank policy rate decisions will be in focus this week with the Australian, Canadian and European central banks all deciding rates. The latter will be watched for any indication of a scaling back of its huge asset purchasing programme, which could affect risk appetite towards the end of the week..

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