

## Botswana Market Watch

## 24 August 2021

GMT		International and Local Data			
11:00	BO	7_day Certificates on offer			
14:00	US	New home sales			
14:00	US	Richmond Fed manufacturing index	Jul	700k	676k
			Aug	25,00	27,00

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	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
<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	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
<b>Africa vaccines</b>	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
<b>Vaccine latest</b>	Pfizer BioNTech has been granted full approval by the US authorities for its Covid-19 vaccine. This is a step up from the approval for emergency usage	May sway those that are reluctant to get the vaccine knowing it has gone through more scrutiny	3/5 (economy)	Others will likely follow suit, and the message will once again be that the vaccines are safe for use, and there it is less likely that there will be complications due to vaccinations
<b>IMF Drawing Rights</b>	The IMF was due to distribute some \$650bn in new Special Drawing Rights on Monday in a bid to assist governments in overcoming the pandemic	Although helpful, such an amount split across the globe will only help at the margin	3/5 (market, economy)	The funds will need to be used in a targeted and efficient manner if they are to assist countries that have limited resources and are unable to tap funding markets as they normally do
<b>EZ PMI</b>	Data released yesterday showed that business activity for Aug recovered strongly. This stands to reason as the tourism sector rebounded	August holiday will have offered the tourism and hospitality industries a strong boost	3/5 (economy)	Although not back to full capacity, certain holiday hotspots recorded significantly improved numbers, and the trend will continue if vaccine rollouts allow for the opening of their economies

### Local FX Opening Rates and Comment

CUSTOMER BUY SELL BUY SELL					Benchmark Yield Curve		Forward Foreign Exchange			
	CASH	CASH	TT	TT				BWPUSD	BWPZAR	
BWPZAR	1.2859	1.4014	1.3107	1.3879	6m	1.5750	1m	-2.0963	0.0000	
BWPUSD	0.0851	0.0927	0.0867	0.0918	3y	4.7250	3m	-6.1913	0.0000	
GBPBWP	16.1071	14.7970	15.7586	15.1052	5y	5.8250	6m	-19.1685	0.0000	
BWPEUR	0.0725	0.0788	0.0742	0.0773	22y	8.3250	12m	-44.9280	0.0000	
JPYBWP			9.5499	9.9410						
USDZAR	14.5137	15.7457	14.8538	15.4051						
EURUSD	1.1268	1.2209	1.1533	1.1944						
GBPUSD	1.3169	1.4271	1.3478	1.3962						
					Equities		Economic Indicators			
					BSE Domestic Index	6726.07	GDP	0.7	Bank Rate	3.75
					BSE Foreign Index	1551.12	CPI	8.9		

- Local macro news flow and data is on the thin side at the moment. That is not to say there is nothing going on, as always there is investment in the mining sector with merger and acquisition type news flow a weekly occurrence. We tend to draw the reader to the events that are most impactful on local markets and to this end, direction is being received from international shores at present.
- The fortune of most financial markets is directly linked the timing of the Fed taper, ie the reduction in bond purchases by the Fed to support the US economy. The wall of money provided by the Fed has boosted risk assets and underpinned emerging and frontier markets It suppressed the US Treasury market yields and given rise to fears of dollar debasement and inflation.
- Given this backdrop, any talk of delaying the taper is undoubtedly good for emerging markets as it reinforces the broader macro narrative which has been at play since the start of COVID-19. Dallas Fed President Robert Kaplan provided the fuel for those adding to long emerging market positions by stating that he is open to adjusting his view on the timing of the taper should the Delta variant persist and hurt economic progress.
- On the political front, Afghanistan remains front and centre globally. Leaders of the G7 are expected to meet today to decide on whether to seek a withdrawal extension beyond the 31<sup>st</sup> Aug and whether to recognise the Taliban government. The situation remains extremely fluid, tensions are high, and the consequences of the Taliban victory will have wide-ranging implications for the region as a whole as well as for the proliferation of extremist organisations. Africa has been a hotbed of extremist activity for decades with the insurgency in Mozambique requiring military intervention from SADC to prevent a spill over into neighbouring countries.
- Moving over to the FX markets, the USD corrected sharply from its highs yesterday. Although it has stabilised after yesterday's correction, it now appears as though many investors are scaling back their expectations for hawkish guidance from the Fed. It may in other words, be too soon for a significant shift in U.S. policy. News of full approval for the Pfizer BioNTech vaccine has also taken the edge off risk assessments, and equity markets globally have recovered as well. Ahead of the Jackson Hole symposium, it would not be surprising to see the USD settle down into a more consolidative range as we await guidance from the Fed.
- The local unit received a boost at the start of the week with the dollar on the back foot. The BWP remains contained under the 0.0900 in the interbank market for now however this level may be tested should the sentiment towards frontier and emerging markets remain positive.

## ZAR and Associated Comments

- The new week began with global market sentiment turning positive early on, a snap change from last week's strong risk-off conditions, with investors now looking to book profits on the dollar's August rally. Meanwhile, markets are perceiving the switch of the US Fed's annual Jackson Hole symposium to a virtual meeting as a Fed wary of risks from the COVID-19 delta variant, which has tempered bets that the central bank will announce a forthcoming tapering of asset purchases.
- As for the ZAR, sentiment towards the local unit improved as it led emerging market currencies higher on the day yesterday. Following the worst performance amongst EM currencies last week, the ZAR may be ripe for a short term pullback should the market deem the local currency as oversold. Ultimately, yesterday saw the ZAR gain 1% to close at 15.1400/\$.
- Market positioning data also points to some near term ZAR strength being on the cards given its month-to-date plunge which has outpaced all other EM and major currencies. The latest CFTC positioning data showed that speculators increased their net long ZAR bets for the second straight week, despite sustained weakness in the spot market. The increase resulted from an increase in gross long bets and a drop in gross short bets, suggesting the market sees the possibility of a pullback and deems the ZAR's recent downside moves as overstretched. While the data covered the week ending August 17 and thus does not include the ZAR's subsequent losses at the end of last week, a persistent increase in the net long position would signal that the market continues to see a probable near-term reversal for the USD-ZAR.
- Meanwhile, according to data compiled by Bloomberg, investors continued to shed exposure to EM assets for a second week. On aggregate, US-listed ETFs that invest in EM bonds and equities recorded outflows of \$111.6 million in the week ending August 20 as a combination of risk-off and regulatory crackdown risks in China weighed on broader risk appetite. While the data marked the longest losing streak for EM ETFs since June 2020, SA managed to snap the general trend as it attracted \$53.3 million worth of inflows, all coming the way of equity ETFs.
- While much uncertainty remains, with broader market trends still likely to be linked to the Stateside monetary policy outlook going forward, near term gains can be expected in the case of overstretched markets and investors looking to buy the dip. Such could apply equally to the ZAR, given its relative underperformance over recent weeks, but the caveat of its higher sensitivity to deteriorating global sentiment remains. As for the day ahead, domestic second-quarter unemployment data will take the spotlight, with markets eyeing the implications on aggregate consumption and tax intake should labour market dynamics remain shaky. The SARB's leading indicator for June will also be released and offer insights into the base with which the economy headed into the second half of the year..

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