

Botswana Market Watch

30 August 2021

GMT	International and Local Data					
09:00	BO	Nothing on the cards			Aug F	-5.30
12:00	EZ	Consumer confidence			Aug P	3.80%
14:00	GE	CPI y/y			Jul	-8.50%
	US	Pending home sales y/y				-3.30%

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
Jackson Hole	Fed Chairman Powell's address on Friday was a little more dovish than many investors anticipated and reassured them that the central bank that central bank would still support the economy	Investors interpreted the comments as a sign that the Fed would continue to support through Q.E. for a while longer	4/5 (monetary policy)	The USD corrected weaker on the news, as U.S. Treasury yields also dipped in response. Sentiment towards risk assets picked up, and equity markets are in the green. Emerging market currencies will benefit as a result
Japan retail sales	July's y/y retail sales figures beat expectations to the upside as they rose 2.4%. In m/m terms, retail sales advanced 1.1%	Retail sales rose for a fifth consecutive month in July, and consumption rises	3/5 (economy)	A consumptive recovery of sorts is underway. The threat related to more lockdowns if the infection rate is not brought under control
Hurricane Ida	Yesterday Hurricane Ida made landfall as a strong Cat 4 storm and has since dissipated quickly to be a Cat 2 storm.	Massive disruptions and damage is therefore likely to be limited	2/5 (economy, monetary policy)	Oil prices had originally positioned for worse, so oil prices could retreat on this news and nudge back down to the \$70pb mark this week

Local FX Opening Rates and Comment

	CUSTOMER BUY		CUSTOMER SELL		Benchmark Yield Curve		Forward Foreign Exchange			
	CASH	CASH	TT	TT						
BWPZAR	1.2609	1.3763	1.2852	1.3631	6m	1.5750		BWPUSD	BWPZAR	
BWPUSD	0.0856	0.0935	0.0873	0.0926	3y	4.7250	1m	-1.9208	0.0000	
GBPGBP	16.0547	14.7185	15.7074	15.0252	5y	5.8250	3m	-6.2205	0.0000	
BWPEUR	0.0725	0.0791	0.0742	0.0776	22y	8.4750	6m	-14.7908	0.0000	
JPYBWP			9.6187	10.0326			12m	-34.6808	0.0000	
USDZAR	14.1354	15.3266	14.4667	14.9950						
EURUSD	1.1332	1.2280	1.1597	1.2015						
GBPUSD	1.3217	1.4321	1.3527	1.4011						
					Equities		Economic Indicators			
					BSE Domestic Index	6734.94	GDP	0.7	Bank Rate	3.75
					BSE Foreign Index	1548.59	CPI	8.9		

- News out on Friday centred on the energy sector as the Botswana Energy Regulatory Authority was expected to decide shortly on whether or not it would be granting the Botswana Power Corporation permission to increase its tariffs by 5%. MMENGI reported the following - *The corporation requested BERA last year together with proposals for another five percent increase in 2022-2023 and yet another four percent for 2023-2024. The BPC received a 22% average tariff increase in the 2020-2021 financial year, which was met with outrage by consumers who complained that the adjustment worsened the impact of COVID-19 on personal incomes. Addressing the public last week Friday, BPC CEO David Kgoboko said the BPC has suffered running operational losses as the costs of producing or buying power have far exceeded tariffs. According to the Corporation, consumers are currently being charged an average of P1.28 per unit cost of electricity instead of the P1.41, which is the cost of providing the power.*
- Economists will be keeping a close eye on developments here as an increase in energy costs will filter through to the inflation figures which are currently well north of the Bank of Botswana's target band.
- The main international event worth covering this morning were the developments that began on Friday and extended over the weekend. Most notable was Fed Chairman Powell's speech on Friday, which was slightly more dovish than many anticipated. Although he committed to tapering some time later this year, he was not specific and still highlighted the need to see further improvement in parts of the economy before the Fed would act. There may be an announcement made in the Sep FOMC as to when tapering could begin, but further improvement in the labour market will almost certainly be a prerequisite.
- Therefore, this week's labour market data takes on renewed importance. Investors will want to see a strong result in the data before they actively price in the probability that a Fed taper is imminent. The risk is that the data misses expectations, with so much good news priced in. The data has been improving and will continue to improve, but the recent economic surprises index shows that economic data from the U.S. have surprised to the downside. Any downside surprise will only serve to highlight the Fed's point that it needs to be sensitive to the economy and only taper when it is convinced that the underlying momentum is strong enough to sustain the economy through the taper. Investors are reminded that the ADP, weekly jobless claims and payrolls data will all be released this week.
- Moving over to the FX markets, the USD took a beating on Friday. So much in the way of taper expectations had been priced in, that a mildly more dovish comment from the Fed translated into a sharp retreat on the USD. Although there will be some apprehension ahead of the US payrolls data later this week which may prevent the USD from retreating wholesale, the tide does appear to have turned against the USD in the short-term. It now remains vulnerable to any further under-performing data releases. Should the labour market data this week miss expectations, the USD will find itself further on the defensive.
- Given this backdrop we could well see the local unit make a bee-line for the 0.0900 mark this week. We do however remind readers that the forex markets will be contending with month end flow which could influence price action.

ZAR and Associated Comments

- With the Fed's Jackson Hole symposium stealing the spotlight last week, given implications for near term Fed stimulus changes, markets were understandably cautious prior to an address by Fed Chairman Jerome Powell where it was expected he might indicate when the central bank may begin reducing its monthly asset purchases.
- However, it was apparent that the Fed will continue to err on the side of caution as the coronavirus pandemic still presents risks of an uneven recovery. Powell stated that while progress has been made in the jobs market, substantial slack remained and there was more ground to cover to achieve full reemployment. He also noted that inflation had met conditions that would call for reducing monetary support, but added that premature tightening would be particularly harmful to the economy with the unemployment rate still elevated.
- Overall, the market deemed the Fed Chairman's speech as overly dovish, which saw the USD tumble in afternoon trade. This ultimately tempered bets for a September announcement of asset purchase tapering, meaning financing conditions are to stay highly accommodative in the near term, in turn bolstering riskier assets. As for the USD-ZAR, the speech saw the currency pair drop to 14.7000 after hovering near the 14.9000-handle for most of Friday's domestic trading session. Aided by a 1.30% gain on Friday, the ZAR ultimately closed the week 3.90% stronger than the previous as it advanced every day last week.
- While the ZAR's gains were notable, recall that the prior week held a 3.65% loss for the local unit. As such, the ZAR remains in the red on a month-to-date basis as it approaches its mid-August trading range, with plenty of potential for market-moving data in the week ahead.
- The first half of the week features a bumper domestic data card beginning with government budget balance data today. Following that, Tuesday holds private sector credit growth, money supply stats and trade balance data. Wednesday gives an update on the productive side of the economy with the Absa manufacturing PMI alongside NAAMSA vehicle sales, while the week is rounded out with the economy-wide Standard Bank PMI on Friday.
- Externally, the start of the new month in the latter half of the week brings US employment data in the form of nonfarm payrolls. Given the Fed's aim for an inclusive recovery, employment prints hold high market-moving potential in the event they underwhelm or come out stronger than expected. As for today, market sentiment has been mixed, with currency markets not taking much positive direction from buoyant Asian equities this morning. The ZAR has hovered around last week's close of 14.7200/\$ as it awaits broader direction likely to come at the local open. The USD remains on the back foot in morning trade, suggesting the ZAR could have an easier time capitalising in the day ahead. However, liquidity-thinned conditions on account of a UK bank holiday could hold the local unit back while potentially heightening intraday volatility..

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

Report produced by ETM Analytics for BancABC Botswana.

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