

Botswana Market Watch

31 August 2021

GMT		International and Local Data			
09:00	BO	7-Day Certificates on offer			
09:00	EZ	CPI estimate y/y		Aug	2.70%
09:00	EC	ECB's Holzmann, Knot, Denmark's Callesen speak at conference			
13:00	US	House price index m/m		Jun	1.90%
13:00	US	S&P CoreLogic Case-Shiller house price composite-20 y/y		Jun	16.99%
13:45	US	Chicago PMI		Aug	68,90
14:00	US	Consumer confidence		Aug	129,10
09:00	EZ	CPI estimate y/y		Aug	2.70%

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
Afghanistan	Yesterday the Taliban celebrated their victory in Afghanistan after 20 years' worth of war and claimed "complete independence" from occupation	This brings to an end a chaotic exit from Afghanistan, leaving the Islamic militia stronger than before	4/5 (geopolitics)	What gets replaced in the vacuum becomes important for the region. The Taliban will seek international recognition and legitimacy to help deal with a potential humanitarian crisis
Chinese factory and services activity	The official manufacturing PMI fell to 50.1 in Aug from 50.4 in July, while non-manufacturing fell to 47.5, the lowest reading since early 2020	Momentum has weakened, and the boost to global growth could become a drag	3/5 (economy, monetary policy)	It is another risk factor central banks around the world will be paying attention to that could add some caution to any decisions to normalise monetary policy through the coming quarters
German inflation	Higher food and energy prices have driven German inflation to a 13yr high in August, rising by 3.4% y/y vs the 3.1% rise in July	Base effects are impacting heavily, core inflation is still under control	4/5 (economy, monetary policy)	The effects of this higher inflation will abate at the start of 2022. It is unlikely that this result will deter the ECB from persisting with stimulus

Local FX Opening Rates and Comment

	CUSTOMER				CUSTOMER				Benchmark Yield Curve			Forward Foreign Exchange			
	BUY	SELL	BUY	SELL	6m	1.5760	3y	4.7250	5y	5.8250	22y	8.4750	1m	BWPUSD	BWPZAR
	CASH	CASH	TT	TT											
BWPZAR	1.2631	1.3805	1.2874	1.3672											
BWPUSD	0.0862	0.0940	0.0879	0.0931											
GBPGBP	15.9567	14.6304	15.6115	14.9352											
BWPEUR	0.0730	0.0796	0.0747	0.0780											
JPYBWP			9.6973	10.1038											
USDZAR	14.0653	15.2708	14.3950	14.9405											
EURUSD	1.1345	1.2295	1.1611	1.2029											
GBPUSD	1.3226	1.4329	1.3536	1.4019											

Equities		Economic Indicators			
BSE Domestic Index	6735.63	GDP	0.7	Bank Rate	3.75
BSE Foreign Index	1548.83	CPI	8.9		

- Finance Minister Peggy Serame told Reuters yesterday that the government expects economic growth for the country to come in at 9.7% in 2021 compared with 8.8% at the February forecast. The reason for the higher forecast was a rebasing of GDP accounts and higher diamond sales. The FinMin added that the budget deficit is expected to widen to 3.9% from the 2.8% predicted in February.
- Reuters added - *In July, Botswana revised its real GDP accounts base year to 2016 from 2006, seeking to improve the accuracy of its measurement of economic growth. Due to the rebasing, last year's economic contraction is now much deeper – at 8.5% – rather than the 7.9% originally reported, while nominal GDP is now 4.6% lower at 172,552 million pula (\$15.5 billion). “The larger than forecast contraction in 2020 is, however, expected to be offset by an improvement in growth in 2021 which has now been revised upwards to 9.7 percent growth for the year,” Serame said in response to emailed questions.*
- In other news, Minergy Botswana's only privately owned coal mine has revised plans to list its shares on the London Stock Exchange which will allow the company to reduce debt and increase investment and thus output during the current commodity boom. The company shelved plans for an IPO in 2018 to list on the London's junior AIM stock market when coal prices crashed in Southern Africa and Brexit concerns weighed.
- Internationally, Afghanistan is front and centre of the news wires today. After two decades of military occupation, the U.S. ended its chaotic withdrawal from Afghanistan to the cheer of the Taliban, who have now claimed "complete independence". The Biden administration did itself no favours given how this was handled and will count heavily against the Democrats in the next elections. It was a misstep with consequences not just in the region but also in international and U.S. politics. The Taliban now appears to be stronger than ever, and the more extreme Islamic presence in the region will be something the West will want to keep a close eye on, especially if it allows ISIS to rebuild a stronghold.
- With this exit now behind us, the focus will shift to the economy and the data scheduled for release. In the wake of the housing data yesterday, which disappointed, the Case Shiller house price index will be released today. There has been a steady rise in house prices over the past year, and although that is good news from a household balance sheet perspective, it detracts from affordability. It is another variable the Fed will need to consider when assessing all the distortions that may arise thanks to their ultra-loose monetary policy. Although the housing market has not been described as unsustainable, further price increases along this trend hold the potential to destabilise the market.
- Moving over to the FX markets, throughout thinned out trade yesterday with the U.K. on holiday, the USD remained on the defensive, dipping to the weakest levels in nearly three weeks on a trade-weighted basis. Although there is some apprehension ahead of the next key event, which is the U.S. jobs data on Friday, sentiment remains slightly bearish with investors still digesting Fed Chairman Powell's comments from Friday that appeared to be more sensitive to dovish considerations than had been anticipated.
- Given this backdrop we could well see the local unit retake 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

- The ZAR strengthened for a sixth consecutive day yesterday, as it continued to capitalise on upbeat global market sentiment, with the latest boost being cautious Fed speak from Chairman Jerome Powell at last week's Jackson Hole symposium. The USD remained broadly pressured alongside other haven currencies, namely the Japanese yen and Swiss Franc, which were harder hit as buoyant global equity markets kick-started the week on the front foot for risk assets. This largely followed through for the rest of the day, with emerging market currencies following suit and taking advantage of a persistently pressured US dollar.
- With another 0.60% gain yesterday and having appreciated roughly 4.50% from a 15.4000/\$-low hit just over a week ago, the ZAR is now set to end August almost flat at the 14.6400/\$-handle. The ZAR's appreciation over the past week has primarily been off the back of dollar weakness as investors once again gauge the Fed's likely tapering timeline. However, on the domestic front, there has been little to cheer over. Yesterday's release of government budget data showed the monthly budget balance slipped to a hefty deficit in July from a record surplus in the month prior. Specifically, the government's monthly budget balance fell to -R133.2 billion from R63.1 billion, marking the largest deficit in a year. This comes as fiscal dynamics continue to be pressured by expenditure far exceeding revenue. While year-to-date public finances are in a stronger position than last year's due to less stringent virus containment measures and greater mining revenues, this will unlikely offset pressures from greater social responsibility in aiding a deteriorating labour market, a shrinking tax base and rising public wage bill.
- Looking ahead, the looting and unrest seen in July are likely to have long term effects on the economy, including lost income and jobs, in addition to the cost of rebuilding infrastructure. This will likely be a prominent feature in data for the remainder of the week, most notably in the Absa manufacturing PMI due tomorrow and the Standard Bank PMI on Friday. In the interim, private sector credit growth and M3 money supply data are due for release this morning, both of which should show continued tight monetary dynamics amid depressed business and consumer confidence, thus feeding the view that the SARB will remain on the dovish side for the remainder of the year. Additionally, July trade balance data due this afternoon will be a notable release and could offer some surprises if domestic imports continued to struggle for traction, with the civil unrest adding further pressure during the month. Given the ZAR has derived much of its resilience this year from buoyant exports and depressed imports, this holds some market-moving potential should it test assumptions on the pace of future import growth as the economy recovers.
- Externally, risk appetite has remained supported overnight while the dollar continues to track lower on a trade-weighted basis. Meanwhile, Asian equities are not as buoyant as at the start of the week after PMI data out of China overnight showed services and factory activity slowed in August. However, this has had a limited impact on emerging market currencies which remain on the front foot, with the ZAR managing to push stronger in morning trade after struggling somewhat overnight.

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

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