

# Botswana Market Watch

# 3 September 2021

GMT	International and Local Data				
	<b>BO</b>	<b>Nothing out</b>			
08:00	<b>EZ</b>	Markit composite PMI	Aug F	59.50	59.50
08:30	<b>GB</b>	Markit composite PMI	Aug F	55.30	55.30
12:30	<b>US</b>	<b>Change in nonfarm payrolls</b>	Aug	787k	943k
12:30	<b>US</b>	Unemployment rate	Aug	5.20%	5.4%
13:45	<b>US</b>	Markit composite PMI	Aug F		55.40
13:45	<b>US</b>	Markit services PMI	Aug F	55.20	55.20
14:00	<b>US</b>	<b>ISM non-manufacturing composite PMI</b>	Aug	62.00	64.10

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	Afreximbank previously provided \$1bn for the fund to help cushion sudden revenue losses and encourage participation	<b>3/5</b> (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	<b>4/5</b> (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>China services PMI</b>	The Caixin/Markit services PMI contracted in Aug as it collapsed to 46.7 in Aug from 54.9 in Jul, the lowest level since the pandemic started in April 2020	Data corroborates the official services PMI figures earlier this week that also flagged a contraction	<b>3/5</b> (economy, fiscal and monetary policy)	Restrictions to curb the spread of the Delta variant have been instrumental in driving this reading lower. The effects will be transitory but strong enough to keep the PBoC accommodative
<b>UK employment</b>	The Recruitment and Employment Confederation confirmed that 1.66mn job advertisements were active during Aug, more than pre-Covid	Demand for workers has risen sharply, which bodes well for a sharp reduction in unemployment	<b>2/5</b> (economy)	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
<b>Japanese services</b>	Japan's services sector contracted by the most in a year, with the Jinbun Bank Services PMI dropping to 42.9 in Aug from 47.4 in July	A fresh bout of infections coupled with more restrictions was to blame for the deterioration	<b>3/5</b> (economy)	According to historical PMI data, this marks the 19th consecutive month that the services sector has been shrinking. It will constrain growth, although the effects of lockdown will be transitory

## Local FX Opening Rates and Comment

	CUSTOMER BUY		CUSTOMER SELL		Benchmark Yield Curve		Forward Foreign Exchange			
	CASH	CASH	TT	TT						
<b>BWPZAR</b>	1.2558	1.3691	1.2800	1.3559	<b>6m</b>	1.5760		<b>BWPUSD</b>	<b>BWPZAR</b>	
<b>BWPUSD</b>	0.0871	0.0947	0.0887	0.0938	<b>3y</b>	4.7250	<b>1m</b>	-1.9500	0.0000	
<b>GBPGBP</b>	15.8637	14.5781	15.5205	14.8818	<b>5y</b>	5.8250	<b>3m</b>	-6.2400	0.0000	
<b>BWPEUR</b>	0.0733	0.0798	0.0751	0.0782	<b>22y</b>	8.4750	<b>6m</b>	-14.9273	0.0000	
<b>JPYBWP</b>			9.8054	10.1954			<b>12m</b>	-35.2365	0.0000	
<b>USDZAR</b>	13.8457	15.0286	14.1702	14.7035						
<b>EURUSD</b>	1.1403	1.2354	1.1670	1.2087						
<b>GBPUSD</b>	1.3281	1.4388	1.3592	1.4077						
					<b>Equities</b>		<b>Economic Indicators</b>			
					<b>BSE Domestic Index</b>	6742.18	<b>GDP</b>	0.7	<b>Bank Rate</b>	3.75
					<b>BSE Foreign Index</b>	1548.83	<b>CPI</b>	8.9		

- Much effort is going to be made in the short to medium term to improve the debt capital markets in Botswana. We have highlighted several times before that the state is well aware of the current constraints facing the market with the most pressing being the yield demanded by investors versus the yield government is wishing to pay to borrow.
- Botswana has not had the need until recently to tap the debt markets extensively, however the COVID-19 pandemic hit diamond sales and the economy hard causing the government to use available funds to support the economy and provide a social net as the pandemic unfolded. Going forward spending will certainly be in excess of what it was previously and as such a fully functioning capital market is paramount in order to fund this.
- We expect a strong focus coming from policymakers to develop a healthy secondary market with increased price discovery and liquidity which would translate to a more competitive environment where yields could compress and spreads between buying and selling prices narrowing.
- Internationally, with Jackson Hole out the way, the focus for monetary policy in the U.S. is trained on the August jobs report. The August nonfarm payrolls report will provide additional clarity on the broader economic recovery and, specifically, the labour market's recovery. Recall that the U.S. labour market recorded solid gains in July as the economy continued to reopen and worker shortages eased. Looking ahead, notwithstanding the risks pertaining to the Delta variant, we expect the level of slack in the labour market to continue tightening in the months ahead. Given the importance of the jobs report to policymakers, a surprise in the print will almost certainly prompt fresh price action across global markets.
- Following Jackson Hole and the latest ADP data, the USD has corrected weaker. Investors have moved swiftly to price out the need to taper immediately and lowered expectations of the labour market rebound thanks to the spread of the Delta variant and the loss of some momentum. Therefore, the danger is that investors have moved pre-emptively and that too much of a recovery has been priced out of the market. Given the USD's weakness through the past week, the market may correct in the USD's favour, even if the outcome only meets expectations.
- The BWP remained anchored above the 0.0900 mark which it cleared 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 in the last day of trade given the ability of the US data to unseat the status quo.

## ZAR and Associated Comments

- On the back of strong domestic data on Wednesday and weak US private sector employment data, the USD-ZAR continued its decline yesterday with similar dynamics which have pressured the dollar over the past couple weeks persisting. Little has come in the way of the dollar's ongoing bear run, not even a decline in late August US initial and continuing jobless claims data seen yesterday was able to provide the greenback with much support. However, this does point to continued improvement in labour market conditions, suggesting markets could trade more cautiously ahead of the all-important nonfarm payrolls print due today.
- While the USD remained broadly on the defensive yesterday, continuing to retreat on a trade-weighted basis, the ZAR gave up gains in late afternoon trade. The local currency ultimately fell 0.40% from the prior day's close, bringing an end to its eight-day rally, its longest winning streak since March 2010. While the local unit sits at the 14.4500/\$-handle, this may not be overvalued considering its trading range for this year. However, given the short timeframe in which it has appreciated as well as the risks and impediments still facing South Africa's economic recovery, there are little doubts that the currency has appreciated well into overbought territory in the past two weeks. This is in addition to the potential risks stemming from outflows once the eventual tightening of US and other developed nations' monetary policy begins.
- As such, for the local currency and domestic assets, much depends on the outlook for US monetary policy tightening which has dominated dollar flows this year. On that front, a USD-bearish outlook should remain favoured for as long as the Fed remains cautious over scaling back policy support too soon. Due to this being the major source of market stability as well as potential volatility, all eyes will turn to the US labour market report today as the central bank remains committed to an inclusive recovery and achieving full reemployment. While most signs and expectations are pointing to a softer nonfarm payrolls print than the 925k jobs added in July, any positive surprises are likely to have a significant kneejerk reaction given the USD's 1.45% trade-weighted loss over the past two weeks.
- As for the domestic data card, the week is rounded off with the Standard Bank PMI. Given the gravity of the external data card, attention to the PMI may ultimately fall by the wayside, but it will still offer insight into the state of the broader economy following riots and unrest. Recall, Wednesday's Absa manufacturing PMI surged by largest monthly gain on record in August. Thus, today's data will be significant if the same did not follow through for the broader economy.

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