

Botswana Market Watch

8 September 2021

GMT	International and Local Data				
	BO	Nothing on the cards			
11:00	US	MBA mortgage applications	Sep 3		-2.40%
14:00	CA	Canada central bank rate decision	Sep 8	0,25%	0,25%
17:10	US	Fed's Williams Discusses Economic Outlook			
18:00	US	U.S. Federal Reserve Releases Beige Book			
19:00	US	Consumer credit	Jul	\$28,60bn	\$37,69bn
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 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	Afreximbank previously provided \$1bn for the fund to help cushion sudden revenue losses and encourage participation The scaling up of the vaccine rollout is encouraging as the quicker people are vaccinated, the quicker economies can be reopened	3/5 (economy, trade) 4/5 (economic growth)	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 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	
Japanese GDP	Revised GDP data showed that the Japanese economy grew 1.9% in Q2 vs the initial estimate of 1.3% and a consensus forecast of 1.6%	Business Capex spending was the main driver offsetting the weaker service sector data	3/5 (economy)	There is more growth in consumer spending if that is allowed to grow through an accelerated vaccination drive. Japan's economy has lagged other DMs due to lockdown restrictions	
EZ growth	Eurostat confirmed on Tuesday that GDP rose 2.2% q/q or 14.3% y/y in Q2. These were adjusted from the initial estimates of 2.0% and 13.6%, respectively	Stronger household consumption was the driver of the revision. GDP still below pre-Covid levels	3/5 (markets)	This simply confirms what earnings numbers have shown. The recovery has some momentum behind it, although it has a way to go before the ECB will feel comfortable enough to reduce stimulus	
UK announces tax hikes	A health and social care funding crisis means that taxes needed to be raised. The PM's announcement runs against his election promise not to do so	Johnson indicated that the hike in taxes was preferred over borrowing even more to fund the shortfall	4/5 (economy, fiscal policy)	Johnson blamed the pandemic for the need to break his manifesto, but maintained that the tax hikes were needed if the UK wanted its social spending to be sustainable	

Local FX Opening Rates and Comment

	CUSTOMER BUY		CUSTOMER SELL		Benchmark Yield Curve	Forward Foreign Exchange			
	CASH	TT	CASH	TT			BWPUSD	BWPZAR	
BWPZAR	1.2435	1.2675	1.3594	1.3463	6m	1.5750			
BWPUSD	0.0870	0.0887	0.0948	0.0939	3y	4.7250	1m	-1.9500 0.0000	
GBPZAR	15.8192	15.4770	14.4894	14.7912	5y	5.8250	3m	-6.2498 0.0000	
BWPEUR	0.0734	0.0752	0.0802	0.0786	22y	8.4750	6m	-14.9370 0.0000	
JPYBWP		9.8152		10.2462			12m	-35.2463 0.0000	
USDZAR	13.7245	14.0462	14.8893	14.5671					
EURUSD	1.1366	1.1633	1.2318	1.2051					
GBPUSD	1.3229	1.3539	1.4332	1.4022					
				Equities		Economic Indicators			
				BSE Domestic Index	6746.4	GDP	0.7	Bank Rate	3.75
				BSE Foreign Index	1548.82	CPI	8.9		

- Local news flow is in the thin side as we enter the middle of the week with news vendors focusing on the COVID-19 vaccine roll out and the challenges currently faced. Much of this is known and the impact of it well documented.
- One topic that remains front of mind for many given its impact is most felt by the poor is the rising food costs as international commodity prices continue to soar.
- The extent of the rise in food prices over the past year is evident when looking at the United Nation's Food and Agriculture Organization (FAO) Food Price Index, which rebounded sharply in August following two consecutive months of decline. Specifically, the FAO Food Price Index rose to 127.4 points in August, up 3.1% from July and 32.9% from the same period in 2020. Details from the report revealed that the rebound in food prices in August was led by sharp increases in sugar, wheat and vegetable oils.
- The notable rise in the FAO Sugar Price Index was a result of concerns over frost damage to crops in Brazil, the world's largest sugar exporter. It must be noted that the supply risk was partly offset by solid production in India and the European Union.
- The rise in the Vegetable Oil Price Index was driven by concerns over below-potential production and resulting inventory drawdowns in Malaysia as quotations for rapeseed oil and sunflower oil also rose. International wheat prices increased by 8.8% in August due to reduced harvest expectations in several major exporting countries. Maize prices, on the other hand, fell in August amid improved production prospects in Argentina, the European Union and Ukraine, which more than offset concerns of lower production in Brazil and the United States.
- On balance, given the extreme weather conditions in some of the world's largest food-producing countries, elevated shipping and storage costs and rising demand for food, we expect international food prices to remain buoyed in the months ahead. As mentioned in previous commentary, soaring international food prices will continue to prop up consumer price inflation across the world, especially in countries dependent on food imports. The surge in international food prices corresponds with the marked rise in global inflation this year. For context, world economy weighted inflation has risen from 2.1% at the start of the year to sit at 4.3% currently.
- The points above underscore the need to develop food security locally, but equally underpin the thought process that inflation may be a troublesome factor for the foreseeable future.
- Moving over to FX markets, a slight rise in risk aversion has seen the USD find added support. The more stocks are on the defensive, and the more yields rise, the greater the level of support the USD will find. Despite the weaker payrolls data last week, the USD has recovered to a one-week high with some caution expressed ahead of the ECB statement tomorrow. The risk exists that the central bank will seek to cut back on its asset purchases to join other central banks that are looking to do the same. Any tightening in monetary policy conditions will cause some consternation across riskier markets and cause a moderate rotation to safety. The USD may well benefit from that now that investors have priced in the prospect that the Fed will be slower to taper than first thought.
- The BWP has slipped on the back of USD strength however the local unit still remains above the 0.0900 mark as we head into the midweek trading session. There are a number of US data releases which will be watched closely as they have the ability to affect the perceived timing of the taper.

ZAR and Associated Comments

- Following the spectacular risk rally of recent weeks, market sentiment showed signs of souring on Tuesday as the USD regained its footing on the back of rising US Treasury yields. Consequently, the ZAR bulls ran into headwinds against the greenback, with the local unit depreciating 0.50% through the session to close around the R14.3000 mark.
- With the focus primarily on international developments, the market shrugged off a stronger-than-expected local GDP print. The data showed SA's GDP growth improved from -2.6% y/y to 19.3% y/y in Q2, marking the fastest year-on-year growth rate on record. However, this came off a very low base due to last year's lockdown-induced Q2 economic crash, while recent changes to Stats SA's estimation methodology may have also supported the print at the margin. Nevertheless, the quarter-on-quarter growth rate also came out stronger than expected, rising from 1.0% to 1.2% in the three months through June.
- Looking ahead, the economy's outlook is somewhat less rosy, with a contraction expected in Q3 due to the deadly July riots and stricter lockdown measures. The combination of these factors will have both a short-term and a long-term impact on business sentiment, which could weigh significantly on economic output going forward. Some of this is likely to be reflected in the BER's business confidence index for Q3 that is scheduled for release today. Consensus expectations as per Bloomberg surveys are for a decline from 50 to 49, although the balance of risks is to the downside after the significant supply-chain disruptions at the start of the quarter.
- However, the economy may get a boost in the coming days from easing lockdown restrictions as the daily spread rate of COVID-19 infections in SA continues to decline. Local media outlets are reporting that the government is considering easing lockdown measures to alert level two from alert level three, citing sources that were present in President Cyril Ramaphosa's meeting with the National Coronavirus Command Council yesterday. This may come with incentives to encourage vaccinations and potentially the use of a de facto vaccine passport, although it remains to be seen whether this is politically palatable so close to the upcoming local government elections.
- Regarding market dynamics ahead of the local open, risk-off psychology appears to be driving trade this morning. Asian equities and European futures are a sea of red, while most EM currencies are on the back foot against a slightly firmer USD. The USD-ZAR has drifted slightly higher overnight, but was unable to sustain a break through its 100-session moving average around 14.3200. This all points to a consolidatory start to the day for the rand.

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