

## Botswana Market Watch

## 15 September 2020

GMT		International and Local Data			
	BO	GDP y/y	2Q	2.6%	
	BO	CPI y/y	Aug	0.9%	
	BO	7-Day Certificates on offer			
12:30	US	Empire manufacturing	Sep	4,4	3,7
12:30	US	Import price index y/y	Aug	-3,3%	
13:15	US	Industrial production m/m	Aug	1.00%	3.00%
13:15	US	Manufacturing production m/m	Aug	2,4%	3,4%

Regional Developments	What happened?	Relevance	Importance	Analysis
<b>China industrial prod</b>	August industrial output rose 5.6% vs the forecasted 5.1%. The number was stronger than anticipated, with pent up demand now being satisfied	China's economic recovery is starting to look more "V" like, with activity likely to steam into Q4	3/5 (economy)	Aside from fiscal and monetary stimulus still supporting the recovery, some of the recent data has alluded to the same, improving overall prospects for the Chinese economy
<b>RBA monetary policy</b>	RBA minutes revealed that it would keep rates ultra-low until progress towards full employment is achieved. Although it also noted that downturn was not as severe as first thought	The board considered it likely that both fiscal and monetary policy would need to remain stimulatory for a while to come	4/5 (monetary policy, economy)	For the most part, the minutes showed an RBA that is relatively comfortable with its position, is prepared to do whatever it takes and is justifiably optimistic about the economy's ability to rebound past pre-covid levels
<b>Brexit</b>	PM Johnson has lashed out at the EU as he won initial approval for a plan to breach the treaty signed with the EU, because the EU were not willing to compromise	Should this bill be passed, it wrecks any chance of a Brexit deal to smooth trade relations	4/5 (economy, politics)	Johnson believes the EU position would divide the UK and would rather accept a messy Brexit divorce without a trade deal than accept the EU using Northern Ireland as leverage to control policy

Global Developments	What happened?	Relevance	Importance	Analysis
<b>Japanese manufacturing</b>	Sep's Reuters Tankan recovered to -29 in Sep from -33 in Aug, while the service sector improved to -18 from -23 in Aug as recovery gets under way	Although both numbers remain deep in negative territory, they are improving	3/5 (politics)	The manufacturing reading remained negative for the 14 <sup>th</sup> consecutive month, confirming that structural problems existed long before Covid. Covid simply exacerbated the size of the problem
<b>Chinese house prices</b>	China's economy remains one of the few that has shown solid signs of recovery. New home prices rose 0.6% m/m and are up 4.8% y/y as 59 out of 70 cities reporting improvements	Household balance sheets are well supported and this, combined with low rates will help bolster the credit cycle	3/5 (economy)	Although global growth remains a massive drag on China's economic performance, it is the country that was first to emerge from the lockdown crisis and has been first to show signs of normalisation. The recovery continues.
<b>UK GDP</b>	July's reading reflected expansion of 6.6%. This after Q2 data showed the economy contracted 20%. So the recovery is under way, although sluggish	The economy remains 12% smaller than it was pre-covid. The recovery will still take years to unwind	4/5 (economy)	The recovery is a function of pubs and restaurants reopening, but the recovery could be sluggish as job losses gradually mount and uncertainty over Brexit compounds and already difficult climate

### Local FX Opening Rates and Comment

CUSTOMER BUY		CUSTOMER SELL		CUSTOMER BUY		CUSTOMER SELL		Benchmark Yield Curve		Forward Foreign Exchange	
CASH		CASH		TT		TT					
BWPZAR	1.3816	1.5148	1.4083	1.5002	6m	1.3730			BWPUSD	BWPZAR	
BWPUSD	0.0831	0.0909	0.0847	0.0900	3y	3.1050		1m	-1.9110	0.0000	
GBPBWP	15.4450	14.0932	15.1109	14.3868	5y	3.4650		3m	-5.2016	0.0000	
BWPEUR	0.0699	0.0766	0.0715	0.0752	9y	4.7850		6m	-11.2759	0.0000	
JPYBWP			8.9899	9.4221	22y	5.3150		12m	-25.4914	0.0000	
USDZAR	15.9540	17.2922	16.3280	16.9181							
EURUSD	1.1415	1.2368	1.1683	1.2100							
GBPUSD	1.2346	1.3375	1.2635	1.3086							
EQUITIES		ECONOMIC INDICATORS									
BSE Domestic Index	7008.82	GDP		Bank Rate	4.25						
BSE Foreign Index	1547.33	CPI	0.9								

- The local investment community still await the release of the Q2 GDP and CPI reading for August. The GDP numbers are expected to be a shocker while inflation will remain subdued. There will potentially be some supply chain pressures which creep in but the collapse in domestic demand will keep a lid on the broader inflation trend.
- De Beers have reported a 176% jump in diamond sales for its seventh sales cycle of 2020. The sixth and seventh sales cycles of 2020 resulted in sales of \$116m and \$320m respectively. It is hoped that the rebound continues however we would caution against becoming overly optimistic and would wait for confirmation that the trend remains in place. There is always the risk that the current spike was due to pent up demand which could temper in the coming months.
- The broader international backdrop is a tail of two economies. While doubts linger as to whether or not the Fed will be able to engineer a sustained US economic recovery, China seems to be powering full steam ahead. Chinese Retail Sales released this morning beat market expectations coming in at 0.5% year on year for the August reading following a 1.1% in July. Analysts are saying that Beijing's attempt to pivot the economy towards domestically driven growth may be paying off. We expect the rotation towards internal growth to gain momentum in the coming quarters as nationalist interests feature front and centre across the globe. This will make China increasingly powerful on the global stage as it may be the only one that has sufficient capacity to absorb much of the world's raw material supply.
- For the day ahead, buoyed risk appetite has spilled over from Monday, while strong Chinese industrial data this morning has supported gains in riskier assets. The USD has subsequently continued its slide and emerging market currencies have taken full advantage against the broadly weaker greenback. The USD is seen further weakening ahead of the FOMC rate decision tomorrow, with the market likely to focus on the Fed's growth projections and details as to how the central bank will bolster inflation. Eurozone economic sentiment data due later this morning and US industrial production this afternoon will provide insight into the recovery of global economic activity, and could provide direction later in the session.
- Given this backdrop we could well see the BWP underpinned at the start of the session. Investors are however likely to remain sidelined until we see the release of the local data sets.

## ZAR and Associated Comments

- It is a quiet start to the week on the domestic front, which left the ZAR to track global risk conditions in yesterday's trade. Market sentiment was given a boost from progress in vaccine production by multiple pharmaceutical firms, while the risk on sentiment put a dent in the US Dollar. The ZAR was able to capitalise on this and saw strong moves towards the 16.60/\$-handle, before paring gains and settling at a close of 16.67/\$, 0.4% up on Friday's close.
- It is worth noting the ZAR has remained fairly stable at the start of the week and in early trade this morning, although there is growing speculation that the SARB could engage in another 25bp cut this week. This, following worse than expected GDP data last week and with inflation only seen increasing due to global economic activity, not domestic demand. The downside revisions to these figures have raised the chance of further rate cuts since the last Monetary Policy Committee (MPC) meeting, and if policy is kept unchanged this week, then the odds are becoming increasingly tilted in favour of a cut at the next meeting in November.
- Recent ZAR stability could also persuade the SARB for further cuts, however further easing will be eating into carry trade returns and by extension, the ZAR's ability to withstand further external shocks. The SARB, which has historically remained prudent in its policy, could then choose to delay further easing and wait for the government's proposed economic recovery plan. This is expected this month, with President Ramaphosa chairing meetings for the National Economic Development and Labour Council and the President's Coordinating Council today to finalise the economic recovery and pandemic response plans.

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