Botswana Market Watch 27 September 2021

GMT		International and Local Data			
	BO	Nothing out			
05:00	JN	Leading Index	Jul F		104.10
08:00	EC	M3 Money supply y/y	Aug	7.70%	7.60%
12:30	US	Durable Goods Orders	Aug P	0.60%	-0,10%
12:30	US	Fed Manufacturing Activity	Sep	11.00	9.00

Africa	What happened?	Relevance	Importance	Analysis
Global economic data	There are signs that momentum is being lost in many jurisdictions as the effects of the low base gradually dissipate out the data.	More variants and cautious politicians could restrain the broader recovery	3/5 (economy)	Although there are countries that are opening up and learning to live with Covid, the effects are expected to linger and affect confidence and sentiment
Africa-China trade	Data from the Chinese Ministry of Commerce showed that trade between China and Africa rose 40.5% y/y in the first seven months of 2021, reaching a record high of $139.1bn	Vice-Minister of Commerce said that African products have enjoyed increasing recognition. Imports to China from Africa rose 46.3%	4/5 (economy, trade)	Given that many African economies are dependent on the export of commodities and agriculture products for hard currency flows and tax revenue, the jump in exports is encouraging. There are signs that the Chinese recovery has stalled, which could dent African exports to China
OPEC +	OPEC agreed to keep returning production to the market gradually and raised output by 400k bpd	The oil price nudged slightly lower, but prices remain buoyant for now	4/5 (economy)	OPEC+ will phase more supply back into the market, while they ensure sustainability. However, demand is picking up, and stockpiles are falling

Global	What happened?	Relevance	Importance	Analysis
German elections	Germany's Social Democrats have narrowly beaten Merkel's conservatives to end 16 years of Merkel and conservative leadership	Coalition negotiations will now begin, with the hope that an agreement is reached before year-end	4/5 (economic policy, politics)	In the interim, Merkel will continue in a caretaker role. The vote means that voting power now moves centre-left, although it is unclear what that ultimately means under a coalition
Evergrande	After missing its dollar payment last week, Evergrande's electric car unit is experiencing problems, and the share price has plunged 26% after it issued a warning	Investors see this as proof Evergrande's position has worsened and spread across the group	5/5 (economy, markets)	The next three weeks will be difficult. With no guidance from the company, dollar bondholders are uncertain whether they will have to write off debt or not
Energy prices	Whether one looks at electricity prices in Europe, coal prices or oil which remains buoyant, all reflect an energy shortage across many different markets	Low investment in 2019/20 due to the pandemic and a rapid recovery has resulted in supply constraints	4/5 (economy)	Although energy companies will adjust through the months ahead to ramp up supply, there will be an interim kick up in inflationary pressures and a constraint to economic growth

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2597	1.3784	1.2840	1.3652
BWPUSD	0.0845	0.0924	0.0861	0.0915
GBPBWP	16.1661	14.7871	15.8163	15.0951
BWPEUR	0.0721	0.0787	0.0738	0.0772
JPYBWP			9.5597	9.9919
USDZAR	14.3153	15.5231	14.6508	15.1873
EURUSD	1.1255	1.2194	1.1519	1.1930
GBPUSD	1.3131	1.4226	1.3439	1.3918

Benchmark Yield Curve

6m	1.5730
3y	4.7250
5y	5.8250
22y	8.4650

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-1.9305	0.0000
3m	-6.2010	0.0000
6m	-14.7615	0.0000
12m	-34.6808	0.0000

Equities

BSE Domestic Index	6880.66
BSE Foreign Index	1548.82

Economic Indicators

GDP	0.7	Bank Rate	3.75
CPI	8.9		

- Local news flow is on the thin side this morning but investors will be gearing up for the release of the second quarter GDP 2021 data mid-week. It is expected that base effects will play a large role in the number given that the world went into hard lockdown in the second quarter of 2020 as a result of COVID-19. These lockdowns although still present throughout much of 2021 have been less severe allowing for commercial activity to recover. The diamond sector has also rebounded sharply so the expectation is for a good print.
- Given the influence mining will have both on the current figures and those going forward given the developments in the Kalahari copper belt we regularly update the reader on developments in this sector.
- Copper has built on the gains seen on Friday this morning as inventories in Shanghai approved warehouses fell for the 7th straight week to 44 629 tonnes which is the lowest since 2009 sparking supply concerns.
- The Yangshan copper premium is on the rise again presently quoted at $114/tonne which is off the highs seen in August of $122.50/tonne but sharply higher than the lows seen in June of $21.00/tonne. This suggests improving demand to import copper into China and copper producers around the world will be keeping an eye on these numbers.
- Looking at the United States, durable goods orders and the N.Y. Fed manufacturing index are scheduled for release. Neither one is likely to be particularly market moving, making for a quieter start to the week. The data week will end with a flurry with important releases scheduled for Friday, including PCE data and ISM manufacturing data. This week direction will probably be driven by international developments related to energy prices, politics with a vote in the House taking place on Thursday and the unfolding drama concerning Evergrande in China.
- Concerning politics, Thursday will see a $1.0trln bi-partisan infrastructure package head for a vote in the House of Representatives, and it will pass. After that, it will head to the Senate, where again it is expected to pass. It has been scheduled to pass on the day that the surface transportation authorisation expires. Although some within the Democrat party would like the larger $3.5trln package attached to this, others felt that this could pass on its own merit regardless of the progress on the larger package. The larger package would need more negotiation, and judging from the language used; it is highly probable that the size will be shrunk in order to build the requisite consensus within the Democrats own party. The Republicans, on the other hand, will seek to stymie the larger bill, given that passing it will result in a higher tax burden on the private sector.
- Moving over to the FX markets, the USD remains largely consolidative, with the modest gains achieved on Friday last week not resulting in any build-up of directional momentum. The USD continues to look for fresh impetus, and with risk sentiment improving in Asia this morning, there is no obvious need to be rotating towards the USD. If anything, the USD could reverse some of Friday's gains to leave investors unclear on direction at the start of a new week. If anything, the daily chart of the USD index shows the potential of the right-hand shoulder of a head and shoulders formation building. If losses are sustained early in the week, this formation could become a factor to take into consideration.
- Domestically the BWP remains anchored below the 0.0900 mark for now in the interbank market. The expectation is that investors will continue to unpack the various macro drivers and assess the risk on/off drivers as we start the new week. As mentioned last week, we do anticipate a retake of the 0.0900 mark in due course.

ZAR and Associated Comments

- With domestic markets closed on Friday for the Heritage Day holiday, the ZAR snapped two previous days of gains to trade a massive 1.45% weaker on the day. While emerging market currencies were weaker en masse, the ZAR retained its higher-beta status, being the hardest hit amongst the sample of riskier currencies. Notably, the ZAR also underperformed the second weakest currency on the day, the Turkish lira, despite Turkish markets being delivered a surprise rate cut by the central bank
- Overall, last week involved tougher trading conditions. The USD initially received a haven bid as markets succumbed to risk-off trade over contagion fears stemming from Chinese property developer Evergrande's solvency crisis. Furthermore, the US Fed's hawkish tilt at its policy meeting last week saw Treasury yields spike, providing further support to the greenback. However, fading concerns over the Evergrande saga could now see the dollar trapped between the return of risk appetite and higher yields from prospective Fed policy tightening. For the ZAR, which remains highly sensitive to global sentiment, this could bring about some market indecision over the potential outlook for the USD-ZAR. Friday's movements took the currency pair above 15.0000 for the first time in a month. While some resistance to these loftier levels was noted, as it ultimately settled at the 14.9500-handle, it is unclear whether the USD-ZAR will retreat in the same way it did in late August. The USD now has a firmer tailwind coming from the Fed and, while South Africa's growth forecasts have improved for this year, significant risks remain to that outlook.
- Domestically, last Thursday the ZAR had to contend with the SARB's rate decision which ultimately offered little guidance. The SARB was more hawkish than at previous meetings this year and upgraded SA's 2021 growth forecasts, but failed to deliver much more details than what had already been priced into the ZAR. Given that inflation and expectations thereof remain within the SARB's 3-6% target range and the risks to SA's economic outlook, we still do not see much potential for rate hikes into the end of the year. The risks to the ZAR here lies with a strengthening USD as the Fed could potentially begin tapering asset purchases as early as November. For as long as the SARB holds out on joining global monetary tightening cycles, the ZAR will have limited resilience to broader market movements, with yield differentials being squeezed and the ZAR becoming less attractive for carry trade investors.
- The new week kicks off with a slim data card in the day ahead, barring an update on US manufacturing health in the form of durable goods orders. However, a relatively empty data card could mean little will get in the way of returning risk appetite which has occurred during the Asian trading session thus far. Asian equities have traded up this morning, while US and European equity futures are signalling more gains in the day ahead. Meanwhile, the USD is currently on the back foot, allowing major and

emerging market currencies some breathing room. The ZAR is presently leading the EM basket, which could well remain the order of the day as it recovers from Friday's tumble.

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