Botswana Market Watch 10 September 2021

GMT		International and Local Data			
	BO	Nothing on the cards			
12:30	US	PPI final demand y/y	Aug	8.30%	7.80%
13:00	US	Fed's Mester Speaks at Bank of Finland Conference			
14:00	US	Wholesale inventories m/m	Jul F	0.60%	0.60%
14:00	US	Wholesale sales m/m	Jul		2.00%

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
ECB	The ECB announced at its policy meeting yesterday that it would trim emergency asset purchases through the next quarter	The PEPP will drop from around €80bn per month to between €60-70bn	3/5 (monetary policy)	Although this implies a slower pace of asset purchases, it is described as a reduction in the emergency programme, not a taper
US labour market	The latest weekly jobless claims data shows that the labour market continued to improve with claims dropping to an 18m low and continuing claims dropping	As a trend, the labour market continues to tighten. The JOLTS data suggests the same	4/5 (economy, monetary policy, markets)	The payrolls data will likely catch up in the coming months with some strong readings and a further dip in the unemployment rate to clear the path for the Fed to begin tapering
BoC policy	Governor Tiff Macklem indicated on Thu that the economy is moving to a position where further stimulus is no longer needed	Macklem confirmed that when the time comes, he will hike rates before shrinking the BoC bal. sheet	3/5 (economy, monetary policy)	Exactly when and with how much conviction the BoC normalises policy will depend on how strong the economic recovery will be. The BoC will continue to support growth for as long as is needed

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2379	1.3569	1.2618	1.3438
BWPUSD	0.0873	0.0956	0.0889	0.0947
GBPBWP	15.8482	14.4689	15.5054	14.7704
BWPEUR	0.0737	0.0808	0.0755	0.0793
JPYBWP			9.8152	10.2768
USDZAR	13.6186	14.7650	13.9377	14.4455
EURUSD	1.1356	1.2303	1.1622	1.2037
GBPUSD	1.3297	1.4406	1.3609	1.4094

Benchmark Yield Curve

6m	1.5740
3y	4.7250
5y	5.8250
22y	8.4750

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-2.0963	0.0000
3m	-6.2888	0.0000
6m	-15.0345	0.0000
12m	-35.6655	0.0000

Equities / **Economic Indicators**

BSE Domestic Index	6742.79	GDP	0.7	Bank Rate	3.75
BSE Foreign Index	1548.82	CPI	8.9		

- There has been some good news on the mining front with Lucara Diamond Corp's board formally approving the $534m expansion of its Karowe mine. This demonstrates the level of commitment the company has to the country and the view that the outlook for the diamond industry still remains strong. The expansion plans are expected to extend the life of Karowe until at least 2040 which will benefit the region economically and underpin the hard currency earnings of Botswana.
- In other news, the African Development Bank has announced that it has approved a $137m loan to Botswana which will support the country's economic recovery from the COVID-19 pandemic. The bank reported that the funds, extended under the Bank Group's Botswana Economic Recovery Support Program, will be used to enact multi-sector reforms that will increase spending efficiency, create jobs and drive inclusive growth.
- Regionally, World Health Africa has called for vaccine supply deals to be brought forward. The call comes on the back of Covax, reducing this year's supply forecast by more than a quarter. WHO Africa Director Matshidiso Moeti was quoted as saying, "it means we have to sustain prevention measures, work very hard to obtain vaccines and really advocate strongly for the promises that have been made by wealthier countries to be brought forward. It is urgent now in Africa to catch-up in vaccinating its countries." Moeti added that a shortage of shots is a bigger problem than vaccine hesitancy and that the continent is going to fall short of 50mn doses needed to reach 10% vaccine coverage in Africa by the end of September. A shortage of vaccines and a slow rollout will ultimately weigh on the continent's recovery prospects.
- Internationally, to taper or not to taper…that is the question. The broader macro backdrop remains focused on the timing of the Fed taper at which point they will start to trim bond purchases and thus reducing the pace at which they inject some $120bn worth of dollar liquidity into the market every month. Yesterday Chicago Fed President Charles Evans stated that the US economy is not out of the woods and challenges remain, this dovishness was offset by U.S. Federal Reserve bank Gov. Michelle Bowman saying that the weak August jobs report will not throw off the central bank's developing plan to trim its bond purchases later this year according to Reuters.
- Weekly jobless claims data impressed yesterday. Claims fell to an 18-month low while continuing claims continued to moderate. Rehiring is taking place at a good pace, which, when taken together with the latest JOLTS data, shows that the labour market recovery is building up some strong momentum. It will spill over into the payrolls data through the months ahead, which could generate some strong outcomes to offer the Fed the room to start tapering.
- Later on in the session, there is some data for investors to turn their attention to in wholesale inventories and the latest PPI reading. The drawdown and replacement of inventories always offer some real-economy perspective on general demand conditions, but overall, the PPI data will hold greater interest. In July, U.S. producer prices continued to accelerate, with US PPI final demand rising 7.8% y/y, keeping the overall trend of accelerating producer prices since September 2020 intact. Many cost pressures have been linked to rising fuel and energy prices, and supply chain disruptions, leading the Fed to believe that inflationary pressures will be transitory. However, with no let-up expected in August, this assumption will continue to be tested. Producer price inflation has accelerated well beyond the pre-COVID trend of the base index. In contrast, producer prices in the previous print excluding volatile food and energy prices were still 6.2% higher year-on-year and up 1% m/m. This will put tremendous pressure on manufacturers and squeeze margins, resulting in increased prices passed onto consumers as demand continues to improve.
- Moving onto the markets, this week, the USD stabilised and is set to record its first winning week in a month. The effects of the disappointing payrolls data did not last, with investors quite rightly viewing the data disappointment as transitory. Furthermore, several Fed speakers have confirmed this week that a taper is still likely before the end of the year. Inflation is already at the point where the Fed could justify acting. Any further improvement in the labour market and the Fed will feel comfortable in normalising monetary policy. Although the budget and trade deficits remain a drag on the performance of the USD, changing expectations on monetary policy still needs to be fully priced in. Within a longer-term broader USD depreciation trend, there can still be phases of ZAR appreciation.
- The BWP remains anchored above the 0.0900 against the greenback. The bullish undertone is receiving additional support from the positive performance of the ZAR which remains strong in the face of a USD that has stabilised.

ZAR and Associated Comments

- Quite aside from market talk of bank hedging behaviour that partly explains the recent appreciation in the ZAR, it was worth noting the very impressive current account data for Q2 that was released yesterday. Although quite historical, it was nonetheless instructive. It offered investors some perspective as to just how strongly the tailwinds to the ZAR and other commodity currencies are blowing and why the ZAR might appreciate despite all the difficulties South Africa is facing at the moment. It highlighted the power that a massive trade surplus can exert on the country, just how important the commodity cycle is to SA and why as a strategic plan, SA should focus more squarely on making the mining industry more attractive to foreign investors.
- Recovering global demand and rising commodity prices have combined with an exceptionally weak domestic credit cycle to tilt the scales in favour of some massive surpluses. Once again, there is evidence that the ZAR performs better in a weak domestic economy. When the country starts to live within its means and begins to save, the economic climate stabilises. One can only imagine how much stronger the ZAR might've been had it not been for the lockdown measures that continue to keep the tourism industry operating well below potential.
- Furthermore, the impressive performance of the mining sector has played a key role in restoring some resilience to South Africa's fiscal position. The budget deficit is well below what was first anticipated, not only because mines have produced supernormal profits and paid taxes on that, but because the country's GDP is performing a little better than anticipated. There may well be

some momentum behind the recovery if the economy continues to recover, lockdown measures are eased, and the labour market absorbs more work-seekers. It is, in other words, an environment that is decidedly more positive and constructive than SA has known in the past five years.

- Recessionary conditions often prompt reforms and force changes in an economy. The government is finally adopting more reformist views such as crowding in the private sector into the electricity market and is looking to do the same with SA's ports and the railway network. Pressure is building to release more spectrum in the IT industry to facilitate faster internet speeds and easier and more affordable access, while greater recognition is being given to South Africa's unsustainable fiscal position. These are all positive steps that assist the ZAR, but they should not be taken for granted, and investors should not turn complacent.
- However, just as the headwinds to ZAR turned into tailwinds, they can turn back again. Much of the support for the ZAR is cyclical. Commodity prices may not remain this buoyant indefinitely, and SA's credit cycle will recover to reflect greater consumption and investment. Importer demand will rise, and exports may not hold up quite as well. Equity markets globally look frothy and could correct. There are many dangers that could reverse the current trends, and they may well unfold in the next 6-9 months..

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