Botswana Market Watch 15 September 2021

GMT		International and Local Data			
	BO	Nothing out			
09:00	EZ	Industrial production (wda) y/y	Jul	5.70%	9.70%
11:00	US	MBA mortgage applications	Sep 10		-1.90%
12:30	US	Empire manufacturing	Sep	17,10	18,30
12:30	US	Import price index y/y	Aug		10.20%
13:15	US	Industrial production m/m	Aug	0.30%	0.90%
13:15	US	Manufacturing production m/m	Aug	0.40%	1.40%

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
Chinese industrial production	Industrial production rose at the slowest pace since July 2020 when it expanded 5.3% in August, down from 6.4% achieved in Jul	Data was softer than expectations and raises questions about China's GDP	3/5 (economy)	New Covid infections and lockdowns, together with flooding, have impacted domestic consumption, but this data remains weak even adjusting for that
Hurricane season	Just two weeks after Hurricane Ida impacted heavily on the Gulf of Mexico and Texas, tropical storm Nicholas has brought flooding and more disruption	This will likely delay efforts to get full production and economic activity back up to speed	2/5 (economy)	Regionally, this is not good for the economy, but the effects will be temporary, and a full recovery will be made as pent up demand and backlogs are cleared in the weeks ahead
US inflation	Although the headline figure matched expectations, the underlying core reading was a little softer than expected	Inflation appears to be rolling over in the US and could well start to nudge lower	4/5 (economy)	Through the remainder of the year, inflation will gradually become less of an issue as money supply growth metrics reverse to help inflation lower

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2496	1.3649	1.2737	1.3518
BWPUSD	0.0873	0.0953	0.0889	0.0943
GBPBWP	15.7979	14.4850	15.4561	14.7867
BWPEUR	0.0739	0.0806	0.0757	0.0791
JPYBWP			9.7857	10.2055
USDZAR	13.7478	14.9166	14.0700	14.5939
EURUSD	1.1333	1.2278	1.1598	1.2013
GBPUSD	1.3254	1.4360	1.3564	1.4050

Benchmark Yield Curve

6m	1.5760
3y	4.7250
5y	5.8250
22y	8.4750

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-2.0865	0.0000
3m	-6.2498	0.0000
6m	-14.9468	0.0000
12m	-35.2950	0.0000

Equities		Economic Indicators			
BSE Domestic Index	6836.44	GDP	0.7	Bank Rate	3.75
BSE Foreign Index	1548.82	CPI	8.9		

- Africa's importance in the rebuilding of the global economy post COVID-19 cannot be ignored as it has a number of key natural resources which are integral in the process of decarbonisation and green energy. China has been well appraised of these opportunities and has been building influence on the continent over a number of decades.
- The ability for business to thrive and many African countries to graduate to middle tier economies over the next decade or two is the question that is asked by many economists and strategists. Given this backdrop, all eyes will be on the 6th edition of the Global Business Forum Africa which will take place in Dubai over the 13th and 14th of October. WAM reported that *Heads of state, plus more than 30 ministers, high-ranking government officials and prominent influential business leaders from Africa, have confirmed their participation.*
- *Commenting on the upcoming forum, Reem Al Hashemy, Minister of State for International Cooperation and Director-General of Expo 2020 Dubai, said, "Countries from across the world that are participating in Expo 2020 are eager to deepen their ties with Africa, and GBF Africa will be a crucial forum where the continent can share its plans and achievements, seek investments and solutions to its challenges and forge new relationships across the globe.*
- Internationally, the highlight yesterday was undoubtedly the US CPI reading. US consumer prices moderated for the third straight month in August, suggesting that some of the upward inflationary pressure is beginning to wane. Specifically, the consumer price index increased by 0.3% m/m last month following July's 0.5% m/m rise. The latest reading came in below market expectations that had pencilled in a more pronounced increase of 0.4% m/m. Prices of airline fares, used cars and trucks, and motor vehicle insurance declined over the month, while increases were seen in the cost of gasoline, household furnishings and operations, food, and shelter. On a y/y basis, consumer prices eased to 5.3% in August from a 13-year high of 5.4% reported in June and July, matching market expectations. Core inflation, meanwhile disappointed, coming in at 0.1% m/m compared to 0.3% m/m printed in the previous month.
- Notwithstanding the modest deceleration in inflation, consumer prices remain elevated, mainly reflecting the low base effect caused by the coronavirus crisis, the re-opening of the economy, and continued supply constraints. However, these effects are starting to abate, aligning with the Federal Reserve's narrative that inflationary pressures are transitory in nature. Following the release, the trade-weighted USD (DXY Index) pulled back, although the move was not sustained. It changes little in terms of taper expectations which could very well still proceed before the end of the year.
- Although the US industrial sector has made massive strides in recent months, manufacturers still face a number of COVID-19 related challenges that are hindering the sector's recovery. These include ongoing supply chain disruptions, labour restraints, and uneven demand from the US's main export partners. Having said that, high-frequency PMI data suggest that headwinds are abating. This comes against the backdrop of a solid economic recovery more broadly, meaning the outlook for the sector remains promising even though COVID-19 is a cause for some near-term uncertainty.
- Moving onto the FX markets, the USD came under some pressure on the back of yesterday's CPI data. However, it was not sustained, and it is instructive that it wasn't. Although slightly softer than expected, the data changed little. Inflation remains well above the Fed's target and needs to soften. Inflation expectations as a result of the recent CPI releases are elevated, and that will be of some concern to the Fed. The FOMC will seek to further moderate the growth in money supply to quell any inflationary episode, which implies a taper. The USD ended the session more or less where it started and holds the potential to appreciate further should an event trigger a fresh rise in risk aversion or the economy appears to be stronger than first thought. Against this backdrop, today's industrial production stats will hold interest today
- The BWP remains anchored above the 0.0900 against the greenback. Not much to report back on at the moment, local markets remain focused on offshore drivers for now.

ZAR and Associated Comments

- The ZAR traded through a comparatively wide intraday range yesterday, hurled around by souring risk appetite and US inflation data which came out softer than expected. Major currencies initially favoured the weaker US inflation outlook, as it weighed on the USD, but this proved to be short-lived as the greenback recouped losses to end the day flat. Meanwhile, the ZAR traded with more of an idiosyncratic bias, as it led EM currencies weaker through the day. Given the unit's month-to-date outperformance, now standing at 1.20% and the largest amongst both EM and DM currencies, the ZAR has traded well away from its initial Q3 trend. While the dollar's rally has tempered and allowed for part of this, these moves may be unjustified given the impediments to SA's economic recovery through Q3 and may thus spark some ZAR selling in the near term as investors book profits on the latest rally.
- Internationally, trade was dominated by US inflation data which, despite the USD recovering from initial pressure, successfully kept any dollar rebound at bay. As for the data, while headline inflation was in line with expectations, core CPI came out softer than expected. This could ultimately temper bets that the Fed will announce any tapering at its FOMC meeting next week and, instead, push this to the November meeting. Should inflation prove to be topping out, as core CPI may suggest, it would ultimately follow the Fed's narrative that heightened inflation would be temporary, meaning looser-for-longer policy will persist.
- As for domestic data, mining production data made for positive news as it showed mining activity rebounded in July. Specifically, mining production swung from a contraction of -1.6% m/m in June to an expansion of 4.1% m/m in July. On balance, given the civil unrest and lockdown restrictions at the start of July, which would've impacted activity in the sector, the July mining production figure was solid and points to favourable terms of trade in the months ahead.
- For how long this will be a tailwind for the ZAR remains to be seen, but it should continue to offer some resilience to the local unit. The day ahead sees an update on the domestic demand front with July's retail sales figures. SA's retail sales growth has

waned due to a deterioration in economic fundamentals and sentiment, which as of late, has stemmed from the Delta variant and civil unrest. Moreover, the decline in credit extensions and money supply, against record-high unemployment figures, suggest that household budgets are being squeezed and consumers are not spending as they were pre-covid.

- For as long as this occurs, import demand should remain depressed in comparison to exports. This would feed the view that SA's terms of trade will remain supportive in the months ahead. However, on the other hand, ZAR risks remain evident, as are tapering risks in developed markets, with the US taper still likely this year despite the softer inflation print yesterday. For the day thus far, deteriorating risk appetite is being noted, with yesterday's weaker performance on Wall Street filtering into the Asian trading session. Internationally, markets will turn to US industrial production data later in the day, which would likely only cause a change in market mood should factory production have deteriorated significantly in August..

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