

# Botswana Market Watch

# 16 September 2021

| GMT   | International and Local Data |                               |        |         |
|-------|------------------------------|-------------------------------|--------|---------|
|       | <b>BO</b>                    | <b>Nothing out</b>            |        |         |
| 09:00 | <b>EZ</b>                    | Trade balance nsa (EUR)       | Apr    | 18,10bn |
| 12:30 | <b>US</b>                    | Initial jobless claims        | Sep 11 | 310k    |
| 12:30 | <b>US</b>                    | Philadelphia Fed index        | Sep    | 19,20   |
| 12:30 | <b>US</b>                    | Advance retail sales m/m      | Aug    | -0.80%  |
| 12:30 | <b>US</b>                    | Retail sales ex. auto and gas | Aug    | -0.30%  |
| 14:00 | <b>US</b>                    | Business inventories m/m      | Jul    | 0.50%   |
|       |                              |                               |        | 0.80%   |

| Africa                      | What happened?  | Relevance   | Importance                     | Analysis  |
|-----------------------------|---|---|--------------------------------|---|
| <b>Global economic data</b> | 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  | <b>3/5</b><br>(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  |
| <b>Africa-China trade</b>   | 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% | <b>4/5</b><br>(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 |
| <b>OPEC +</b>               | 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  | <b>4/5</b><br>(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   |
|-----------------------|--|---|--|--|
| <b>UK Cabinet</b>     | PM Johnson announced a cabinet reshuffle, although the key post of Finance Minister remains unchanged  | Underperforming ministers are replaced to help bolster delivery   | <b>3/5</b><br>(economy)                  | Underlying policy is unlikely to change much, but Johnson will seek to avert the slide in opinion polls by rewarding well-performing ministers   |
| <b>Japanese trade</b> | Trade figures for August released this month were a little softer than anticipated, although they still produced large double-digit growth                       | With exports driving growth, this data is disappointing and will only spur on calls for continued stimulus  | <b>2/5</b><br>(economy)                  | Japanese trade data also offers a good perspective on demand from the global economic recovery. This data suggests that the recovery is perhaps not as strong as many would've liked     |
| <b>UK inflation</b>   | UK inflation rose to a 9-yr high when it accelerated to 3.2% y/y in Aug. The jump in inflation is the largest on record for data that holds history back to 1997 | The rise in inflation is not yet over. The BoE anticipates that it could still rise to 4.0% before year-end | <b>4/5</b><br>(economy, monetary policy) | The data was stronger than expected and will raise some eyebrows at the BoE that will not want inflation expectations to become dislodged. Low base factors are exacerbating the uptrend |

## Local FX Opening Rates and Comment

|               | CUSTOMER |         |         |                           | CUSTOMER                     |            |      |                            | CUSTOMER                        |          |        |               | CUSTOMER      |  |      |  |
|---------------|----------|---------|---------|---------------------------|------------------------------|------------|------|----------------------------|---------------------------------|----------|--------|---------------|---------------|--|------|--|
|               | BUY      |         | SELL    |                           | BUY                          |            | SELL |                            | BUY                             |          | SELL   |               | BUY           |  | SELL |  |
|               | CASH     |         | CASH    |                           | TT                           |            | TT   |                            | CASH                            |          | CASH   |               | TT            |  | TT   |  |
| <b>BWPZAR</b> | 1.2523   | 1.3671  | 1.2765  | 1.3539                    | <b>Benchmark Yield Curve</b> |            |      |                            | <b>Forward Foreign Exchange</b> |          |        |               |               |  |      |  |
| <b>BWPUSD</b> | 0.0869   | 0.0950  | 0.0886  | 0.0940                    | <b>6m</b>                    | 1.5740     |      |                            | <b>1m</b>                       | -2.0183  | 0.0000 | <b>BWPUSD</b> | <b>BWPZAR</b> |  |      |  |
| <b>GBPZAR</b> | 15.8988  | 14.5770 | 15.5548 | 14.8807                   | <b>3y</b>                    | 4.7250     |      |                            | <b>3m</b>                       | -6.2303  | 0.0000 |               |               |  |      |  |
| <b>BWPEUR</b> | 0.0735   | 0.0802  | 0.0753  | 0.0786                    | <b>5y</b>                    | 5.8250     |      |                            | <b>6m</b>                       | -14.9175 | 0.0000 |               |               |  |      |  |
| <b>JPYZAR</b> |          |         | 9.7169  | 10.1343                   | <b>22y</b>                   | 8.4750     |      |                            | <b>12m</b>                      | -39.8190 | 0.0000 |               |               |  |      |  |
| <b>USDZAR</b> | 13.8376  | 15.0067 | 14.1620 | 14.6820                   |                              |            |      |                            |                                 |          |        |               |               |  |      |  |
| <b>EURUSD</b> | 1.1338   | 1.2283  | 1.1603  | 1.2018                    |                              |            |      |                            |                                 |          |        |               |               |  |      |  |
| <b>GBPUSD</b> | 1.3280   | 1.4388  | 1.3591  | 1.4077                    |                              |            |      |                            |                                 |          |        |               |               |  |      |  |
|               |          |         |         | <b>Equities</b>           |                              |            |      | <b>Economic Indicators</b> |                                 |          |        |               |               |  |      |  |
|               |          |         |         | <b>BSE Domestic Index</b> | 6850.33                      | <b>GDP</b> | 0.7  | <b>Bank Rate</b>           | 3.75                            |          |        |               |               |  |      |  |
|               |          |         |         | <b>BSE Foreign Index</b>  | 1548.82                      | <b>CPI</b> | 8.9  |                            |                                 |          |        |               |               |  |      |  |

- Botswana Statistics Agency released the CPI reading for August yesterday. The August print came in at 8.8% after recording 8.9% in July 2021. The largest contributor to the topside for inflation came from the Transport category which added 4.6%, while Housing, Water, Electricity, Gas and other fuels rose by 1.4%. Trimmed mean core inflation for August came in at 8.3% which was a drop of 0.1% on the previous month.
- The number will be welcomed by policymakers such as the Bank of Botswana who have consistently stated that they are looking through the inflation spike and view it as temporary. The bank has played a central role in providing a backdrop which enables growth, but at the same time ensures price stability. At present we see the bank favouring the economic growth part of the equation as the economy aims to right itself following the hard lockdowns associated with the COVID-19 pandemic.
- Internationally we would like to draw the readers attention to developments in the base metal sector given its relevance to the Kalahari copper belt and hard currency income earnings for Botswana.
- China announced this morning that it will be selling more copper, aluminium and zinc from its reserves, NDRC official Li Hui stated at a press conference this morning. This would be the third tranche of sales from the state reserves which is aimed at stabilising prices following sharp spikes to the topside across the base metal complex.
- The Chinese property sector is also in the spotlight this morning with a debt crisis at one of the country's top developers namely the Evergrande Group threatening a number of huge projects which will curb the need for metals as these projects grind to a halt. The company is currently underwater with more than \$300bn in liabilities.
- Trading in Asia has been mixed this morning with copper falling marginally while aluminium remains bid on the threat of Beijing adding fresh output curbs in the top producer.
- Moving onto the FX markets, although the USD retreated yesterday, there is no significant directional momentum. It remains largely range-bound and awaiting a fresh catalyst. It is unlikely that the catalyst will be this week's data, although the releases today do have some market-moving power. Retail sales and weekly jobless claims are both important readings, especially ahead of next week's FOMC decision and guidance that holds the potential to be market moving. In the lead up to the Fed's decision, position-taking will be kept well-contained for the most part unless any of the data deviates significantly from market expectations.
- 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.
- On the fixed income front, there has been an announcement that BWP100m 2040 6% coupon bonds will go on auction on the 29<sup>th</sup> September. This is a reopening of a current issuance with BWP2.173bn outstanding of that issuance.

## ZAR and Associated Comments

- In terms of domestic data, retail sales expectedly fell in July as the reintroduction of lockdown restrictions took its toll in addition to the damage to consumption dynamics from the civil unrest seen in parts of the country. Retail sales figures contracted 11.2% on a month-on-month basis, taking sales back to pandemic levels of last year. Specifically, sales declined 0.8% y/y, ending four months of positive annual growth. According to Stats SA, negative annual growth rates were recorded for all retailers across the subcomponents, the worst hit being household furniture, appliances and equipment retailers. The relaxed restrictions will likely offer some support to the sector going forward, but with waning consumer confidence, sluggish economic growth and high unemployment levels, a strong rebound remains far off.
- While the ZAR largely shrugged this off, in fact trading weaker post the release, it would ultimately play into strength for the local currency. Subdued domestic demand will continue to delay imports from reaching pre-pandemic levels, while South Africa's exports remain buoyed on solid mining output and higher commodity prices. All in all, the ZAR traded with mixed direction yesterday, swinging earlier gains into losses to close the session 0.90% weaker at 14.4500/\$. However, this was reflective of broader currency markets that have been trading on the tetchier side as the USD shifts without much definitive bias.
- With yesterday being a second consecutive daily loss for the ZAR, the local unit is looking markedly more vulnerable as fears of a potential reversal set in. Furthermore, the SARB's next policy meeting is scheduled for next week, which will come a day after the US Fed decides on policy. Being one week away from the domestic policy meeting, the market may begin to expect some near term turbulence for the ZAR. Explicitly, one-week at-the-money implied volatility on USDZAR options has risen in early morning trade today to their highest since Aug 23, which marked the start of the ZAR's recent bull run.
- As for the SARB meeting, while it is largely expected that SA's central bank will remain dovish given Q3's weaker consumption dynamics, the ZAR will be left to take the brunt of the pressure in the coming months should there be continual justification for the SARB to push rate hikes further out. Externally, the dollar has taken a breather following slightly softer than expected industrial production data yesterday. While this saw a return of risk appetite on Wall Street, it has not been able to filter through significantly into this morning's Asian trading session. The day ahead sees an update on US labour market dynamics in the form of jobless claims data, while most focus will fall on US retail sales figures. Should the softer hiring dynamics in August have weighed on US consumption more than the market is anticipating, this could weigh on the greenback in the session ahead and offer some reprieve for the local currency.

## Contacts

|                   |              |   |
|-------------------|--------------|---|
| Mogamisi Nkate    | +267 3674335 | email: <a href="mailto:mnkate@bancabc.com">mnkate@bancabc.com</a>       |
| Phillip Masalila  | +267 3674621 | email: <a href="mailto:pmasalila@bancabc.com">pmasalila@bancabc.com</a> |
| Kefentse Kebaetse | +267 3674336 | email: <a href="mailto:kkebaetse@bancabc.com">kkebaetse@bancabc.com</a> |

Maungo Sebonego

+267 3674338

email: [msebonego@bancabc.com](mailto:msebonego@bancabc.com)

**Report produced by ETM Analytics for BancABC Botswana.**

#### **Disclaimer**

The information provided herein has been prepared solely for informational purposes and is not an offer to buy or sell or a solicitation of an offer to buy or sell the securities or instruments mentioned or to participate in any particular trading strategy. These materials have been based upon information generally available to the public from sources believed to be reliable. No representation is given with respect to their accuracy or completeness, and they may change without notice. BancABC on its own behalf and on behalf of its affiliates disclaims any and all liability relating to these materials, including, without limitation, any express or implied representations or warranties for statements or errors contained in, or omissions from, these materials.