

# Botswana Market Watch

# 22 September 2021

| GMT   | International and Local Data |  |  |        |                  |
|-------|------------------------------|--|--|--------|------------------|
| 09:00 | BO                           | BWP7.9bn 7-Day certificates on offer                 |  |        |                  |
| 11:00 | US                           | MBA mortgage applications                            |  | Sep 17 | 0,3%             |
| 14:00 | US                           | Existing home sales                                  |  | Aug    | 5,84mn<br>5,99mn |
| 14:00 | EZ                           | Consumer confidence                                  |  | Sep A  | -6%<br>-5,3%     |
| 18:00 | US                           | FOMC rate decision                                   |  | Sep 22 | 0,25%<br>0,25%   |
| 18:30 | US                           | Powell Holds Press Conference Following FOMC Meeting |  |        |                  |

| 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>Stock markets</b>        | Stock markets have found some support this morning following news that Evergrande will make its first interest payment scheduled for tomorrow                               | Overall levels of risk aversion have subsided and EM currencies are on a firmer footing   | <b>4/5</b><br>(economy, markets)         | This removes significant risk from the market in the near term and may trigger a correction lower in the USD, especially if the Fed shows that it is in no hurry to remove stimulus   |
| <b>BoJ decision</b>         | The BoJ has kept interest rates unchanged but gave a downgrade assessment of exports, giving the impression that it would be in no rush to reduce stimulus                  | Supply chain disruptions, chip shortages and China's slowdown will weigh on policy  | <b>3/5</b><br>(economy, monetary policy) | It is unlikely that the BoJ will deviate from its ultra-accommodative stance while it continues to face headwinds that could derail the growth trajectory the BoJ is on   |
| <b>US debt limit</b>        | Democrats have passed a bill in the House to fund the government through to the 3 <sup>rd</sup> Dec as well as suspend the debt limit until the end of 2022                 | Republicans in the Senate have vowed to block the bill, although Democrats have a majority  | <b>4/5</b><br>(economy, fiscal policy)   | The Democrats could use reconciliation to pass the bill independently but would prefer it to be a bipartisan bill ahead of next year's congressional elections. The Democrats' hand may be forced   |

## Local FX Opening Rates and Comment

|                    | CUSTOMER BUY |                     | CUSTOMER SELL |           | Benchmark Yield Curve |        | Forward Foreign Exchange |                 |  |
|--------------------|--------------|---------------------|---------------|-----------|-----------------------|--------|--------------------------|-----------------|--|
|                    | CASH         | CASH                | TT            | TT        |                       |        |                          |                 |  |
| BWPZAR             | 1.2630       | 1.3802              | 1.2873        | 1.3669    | 6m                    | 1.5740 | 1m                       | BWPUSD 0.0000   |  |
| BWPUSD             | 0.0854       | 0.0933              | 0.0871        | 0.0924    | 3y                    | 4.7250 | 3m                       | -1.9110 0.0000  |  |
| GBPBWP             | 15.9506      | 14.6240             | 15.6055       | 14.9286   | 5y                    | 5.8250 | 6m                       | -6.1035 0.0000  |  |
| BWPEUR             | 0.0729       | 0.0796              | 0.0746        | 0.0780    | 22y                   | 8.4650 | 12m                      | -18.6713 0.0000 |  |
| JPYBWP             |              |                     | 9.5696        | 9.9817    |                       |        |                          | -40.4479 0.0000 |  |
| USDZAR             | 14.1904      | 15.4042             | 14.5230       | 15.0709   |                       |        |                          |                 |  |
| EURUSD             | 1.1246       | 1.2188              | 1.1510        | 1.1924    |                       |        |                          |                 |  |
| GBPUUSD            | 1.3103       | 1.4196              | 1.3410        | 1.3889    |                       |        |                          |                 |  |
| Equities           |              | Economic Indicators |               |           |                       |        |                          |                 |  |
| BSE Domestic Index | 6871.66      | GDP                 | 0.7           | Bank Rate | 3.75                  |        |                          |                 |  |
| BSE Foreign Index  | 1548.82      | CPI                 | 8.9           |           |                       |        |                          |                 |  |

- The depth of the local bond market and liquidity in the secondary market is something that the government remains committed to improving. The urgency to develop a fully functioning bond market has not really been there until the COVID-19 pandemic hit and government needed to raise additional funding to support the social spending needed to underpin the market.
- Bond auctions have been a mixed bag with the yields demanded by investors not aligning with what government is prepared to pay however these may converge to a more acceptable level now that S&P has changed the country's outlook to stable from negative.
- The fact of the matter is that Botswana has a strong fiscal standing and good governance structure and we hold the view that the ability to raise debt in the international markets is without question. One just needs to look at the demand for the \$4bn Eurobond that Nigeria has just placed. The demand was at such a level that they were able to raise the value of the initial offering by some \$1bn.
- On the global front, China's PBoC injected liquidity into the markets and the Evergrande Group said that it would be making the coupon payments due on its domestic bonds tomorrow. This has gone some way into supporting general levels of market sentiment, helping emerging markets stabilise. The Evergrande issue will remain a factor to watch over the near term as the company is not out of the woods just yet.
- Moving over to the United States, Undoubtedly, the most significant event this week for financial markets is the FOMC rate announcement. While the actual rate decision is a foregone conclusion, the policy statement and rhetoric used by policymakers hold the potential to result in some significant price action and will likely determine near term directionality for financial markets the world over. Traders will scrutinise the policy statement for indications of how soon the Fed will start to taper stimulus. Traders will also seek clarity on eventual interest rate hikes. Until the statement is out and traders have digested it, we expect markets to remain in limbo. A hawkish statement should provide a boost to the dollar and a headwind for EM FX. The opposite also holds true.
- Domestically the BWP is making back some ground but remains below the 0.0900 mark to the dollar. Traders are likely to express a degree of caution today given the FOMC later this evening and its potential impact on the market.

## ZAR and Associated Comments

- Despite clear signs of recovering sentiment, with global equity markets generally trading in the green and the US dollar coming under mild pressure, the ZAR snapped the broader turn in market sentiment yesterday. The local unit had traded firmer in earlier trade but swung gains throughout the domestic trading session as investors continued to see vulnerability for the ZAR ahead of a domestic monetary policy update from the SARB due tomorrow, in addition to the US Fed FOMC policy decision today. Furthermore, USDZAR implied volatilities have remained elevated as traders continue to expect and price in a higher degree of risk associated with hedging against ZAR weakness in the near term.
- Despite the weaker USD, the ZAR swung intraday gains of over 1%, ultimately closing flat around 14.8250/\$. Meanwhile, the effects of July's civil unrest coupled with sustained harsher lockdown restrictions was seen in the SARB's leading indicator yesterday. The gauge, which signals probable future economic output, came in at a five-month low of 122 and was the second consecutive monthly decline. According to the SARB report, nine of the ten available component time series decreased in July while one increased. The largest detractors were decelerations in the six-month smoothed growth rate of job advertisement space and in the number of new passenger vehicles sold. Beyond the July events, we can expect to see the leading indicator remain under pressure as the growth outlook remains weak amid many challenges with expectations of only a gradual economic recovery.
- Furthermore, on the domestic front, comments from ratings agency Fitch yesterday highlighted that despite recent positive revisions to 2021 growth estimates, it is unlikely to change the trajectory of growing public debt. Weak economic performance further out will continue to reduce tax revenue potential while government struggles to rein in expenditure amid social pressure to support the vast number of unemployed. While Fitch noted improvement of SA's debt to GDP ratio to 79.3% from 82.5%, it remains well above the median for 'BB'-rated sovereigns of 59%. This ultimately speaks to the ZAR's sensitivity to broader market moves, given the weak domestic economy and limited protection from global business cycle fluctuations and changes to risk appetite.
- Over to the spot markets, sentiment has been mixed in the early morning Asian session, with liquidity returning as Chinese markets resume trade after a long weekend. Despite overnight announcements from Chinese property developer Evergrande that it would make its anticipated coupon payment due tomorrow, allaying fears of potential spillover effects for the global economy in the case of default, Chinese equity markets are nevertheless playing catch up with the recent market rout. Emerging market currencies have traded broadly weaker while the USD has firmed mildly in early trade, with investors generally favouring the greenback ahead of the Fed's policy announcement later today. Domestically, markets will turn to August's inflation print due later this morning which, despite expectations for an uptick to 4.9% from 4.6%, will unlikely cause too much concern for the SARB at the moment.

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