

Botswana Market Watch

23 September 2021

GMT	International and Local Data				
	BO	Nothing out			
08:30	GB	Markit manufacturing PMI	Sep P	59.00	60.30
11:00	GB	BoE asset purchase target	Sep	875bn	875bn
11:00	GB	BoE bank rate	Sep 23	0.10%	0.10%
12:30	US	Chicago Fed activity index	Aug		0.53
12:30	US	Initial jobless claims	Sep 18		332k
13:45	US	Markit PMI manufacturing	Sep P	61.00	61.10
14:00	US	Leading Indicators	Aug	0.50%	0.90%

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
FOMC	Fed Chairman Powell confirmed that the Fed could start tapering by Nov if US job growth is considered strong. Tapering set to complete through 2022	Inflation set to remain above target for 4 years, while 9/18 officials want rate hikes in 2022	5/5 (economy, markets)	The Fed looks set to start tapering before the end of the year if economic conditions allow. The probability looks high as economic momentum builds and inflation remains elevated
Evergrande	Shares in Evergrande surged as much as 32% at one point as the Chairman reiterated the company's priority is to help investors	Evergrande must make payment on \$83.5mn in dollar-bond interest today to further ease fears	3/5 (economy, markets)	The prospect of a big contagion event appears to be receding, and although some losses may still be taken in the future, it appears that the risk has become more manageable
US home sales	Existing home sales fell 2.0% in Aug, with a lag in supply one of the main culprits. Housing inventories are 13.4% lower, well down on a year ago	Despite the dip in sales, the housing market remains extremely tight and will remain that way	4/5 (economy)	Low interest rates and a recovering economy have played an important role in bolstering economic growth as well as broader levels of demand for housing. House prices up 14.9% y/y.

Local FX Opening Rates and Comment

	CUSTOMER CUSTOMER CUSTOMER CUSTOMER				Benchmark Yield Curve		Forward Foreign Exchange			
	BUY	SELL	BUY	SELL						
	CASH	CASH	TT	TT		BWPUSD	BWPZAR			
BWPZAR	1.2697	1.3876	1.2942	1.3742	6m	1.5760				
BWPUSD	0.0858	0.0937	0.0875	0.0928	3y	4.7250	1m	-1.9890 0.0000		
GBPWP	15.8676	14.5482	15.5243	14.8513	5y	5.8250	3m	-6.1230 0.0000		
BWPEUR	0.0733	0.0800	0.0751	0.0784	22y	8.4650	6m	-14.6543 0.0000		
JPYBWP			9.6482	10.0529			12m	-34.8075 0.0000		
USDZAR	14.2022	15.4173	14.5351	15.0837	Equities					
EURUSD	1.1237	1.2174	1.1500	1.1911	Economic Indicators					
GBPUSD	1.3093	1.4186	1.3400	1.3879	BSE Domestic Index	6871.48	GDP	0.7	Bank Rate	3.75
					BSE Foreign Index	1548.82	CPI	8.9		

- Local news flow has been on the thin side this week however the broader global macro landscape has been an interesting place as always.
- The copper market had a stellar session yesterday as investors focused on the news that Evergrande agreed to pay interest on an outstanding bond which lifted risk sentiment. Equally the payment of the interest calmed fears of contagion risk throughout the Chinese economy which holds major strategic significance to Botswana. Analysts are in broad agreement that this is not China's "Lehmans moment" and Beijing will prevent any disorderly market uproars. There has been some paring of the gains achieved overnight with the benchmark 3m LME contract priced 0.4% lower at \$9247.00/tonne at the time of writing.
- We will continue to draw the readers attention to the copper markets from time to time given the investment that is taking place in the Kalahari Copper Belt.
- At the much-anticipated FOMC meeting, the Fed suggested that moderation in asset purchases may soon be warranted and suggested that rate hikes could come as early as next year. The announcements were fairly hawkish, and the Dot Plots showed that the 18 members are now evenly split on a rate hike next year. The suggested tapering of asset purchases is still contingent on progress towards the Fed's employment and inflation goals, but the statement noted that progress towards reaching these goals is still as was initially expected. In terms of forecasts, the Fed sees the benchmark policy rate at 1.00% by the end of 2023, but only forecast rates at 1.8% by 2024, suggesting that members aren't expecting an accelerated series of rate hikes. Either that, or they have lowered estimates of the terminal rate or the rate at which the hiking cycle ends. In terms of growth and unemployment, GDP forecasts were revised lower for this year to 5.9% from 7%, while the jobless rate is seen at 3.8% this year and 3.5% in 2022. However, with all that was priced in already, market reaction was relatively muted.
- Moving over to the FX markets, after the initial knee-jerk reaction to the Fed statement which nudged the USD higher, it has since retreated and lost some of its upside momentum. Concerns over the Fed are now behind us and the focus can shift back to underlying economic fundamentals. Much of what had already been priced in has come to pass. Furthermore, Evergrande appears to have placated some concerns and reduced overall levels of risk aversion. Equity markets are generally firmer and that should make for a weaker end to the week for the USD
- 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 Fed's announcement through the course of today's session. We do anticipate a retake of the 0.0900 mark in due course, but it may not happen this week.

ZAR and Associated Comments

- The ZAR strengthened for the first day in seven yesterday as riskier assets received a much-needed boost from easing concerns over Chinese property developer Evergrande's ability to make upcoming debt payments. Advancing 0.50%, the ZAR was able to pare weekly losses as it closed at the 14.7500/\$-handle. However, yesterday's main event keeping markets on edge was the Fed's FOMC statement delivered last night.
- Coming as a surprise to markets, Fed Chairman Jerome Powell's speech ultimately adopted somewhat of a hawkish stance. While no date was set for the commencement of tapering to central bank asset purchases, the Fed noted that this might soon be warranted. Additionally, FOMC board members believe tapering could conclude midway through 2022, allowing for rate hikes thereafter. As a result, the USD has strengthened overnight, broadly pressuring other currencies. The ZAR, meanwhile, swung overnight gains from 14.6700/\$ back to the 14.8000/\$-handle at the time of writing.
- Domestically, yesterday's inflation release showed CPI accelerated in August to 4.9% y/y from 4.6% in July. However, base effects remain at play as month-on-month inflation decelerated sharply from a 12-month high of 1.1% in July to 0.4% in August, with a similar trend occurring for core CPI. Details from the CPI report published by StatsSA showed that the acceleration in annual headline inflation was driven by increased costs for food and non-alcoholic beverages, transport, housing and utilities and miscellaneous goods and services. As such, supply-side factors alongside higher global commodity prices and freight costs continued to underpin the increase in consumer prices.
- It is a full calendar for the day ahead, kicking off with Eurozone PMI stats followed by US PMI readings later in the day, both of which should show progress on their respective economic recoveries. However, today's news flow will be dominated by central bank meetings once again, the first of which being the Bank of England's policy decision followed by a domestic update from the SARB. The SARB is not expected to hike rates until at least next year, barring substantial ZAR depreciation into the end of the year, which could force the MPC's hand. Nevertheless, the SARB's outlook may be the source of some market volatility, depending on how MPC members wish to grapple with potentially increasing inflation versus a persistently weak economic backdrop that was provided with a further setback by July's rioting and looting.
- Should the SARB ultimately maintain its accommodative stance and show no hints of any greater potential for rate hikes in the near term, the ZAR will likely come under further pressure into the end of the week. As it stands, the ZAR has remained on the back foot in early morning trade. While Asian equity markets have continued to push ahead on positive news from Evergrande, the USD remains supported near one-month highs after the Fed's hawkish tilt.

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