

Botswana Market Watch

28 September 2021

| GMT | International and Local Data | | | | |
|-------|------------------------------|---|-----|----------|-------------|
| 12:00 | BO | Botswana to sell BWP900m 7-Day certificates | | | |
| 07:05 | EC | ECB's Guindos Speaks | | | |
| 09:00 | EC | OECD Publishes Interim Economic Outlook | | | |
| 12:30 | US | Building permits | Aug | 1595k | 1635k |
| 12:30 | US | Housing Starts | Aug | 1543k | 1534k |
| 12:30 | US | Current account balance | 2Q | -\$190bn | -\$195,70bn |

| 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 |
|---------------------------------|---|--|---------------------------------|--|
| China industrial profits | China's industrial profits continued to slow for the sixth consecutive month with profits rising 10.1% in Aug vs 16.4% in Jul | High commodity prices, lockdowns and shortages of some key parts all playing a role | 4/5 (economic policy, politics) | The momentum behind China's recovery is slowing. Logistics costs, commodity prices, and the disruption in demand from lockdowns have all played a role in curtailing the ability to generate profits |
| Evergrande - PBoC | The Chinese authorities will do whatever is necessary to avoid a systemic crisis by pumping in more liquidity into the market and vowing to protect consumers | The authorities will significantly dilute the impact of any significant default event | 3/5 (monetary policy, markets) | Financial markets will take comfort from the news that the PBoC is monitoring the situation, providing liquidity, investigating, and assisting households. Evergrande shares are up |
| China energy shortage | Severe power constraints are impacting China's north-eastern industrial hub, and the authorities are coming under pressure to alleviate the shortage | Calls are mounting for China to ramp up their coal imports to help generate more electricity | 4/5 (economy) | For coal exporting trading partners, this is good news, but it likely also shows the impact of logistics constraints, higher shipping costs and the danger of a recovery that was artificially quick |

Local FX Opening Rates and Comment

| | CUSTOMER | | | | Benchmark Yield Curve | | Forward Foreign Exchange | | | |
|---------|----------|---------|---------|---------|-----------------------|--------|--------------------------|--------|----------|--------|
| | BUY | SELL | BUY | SELL | | | | BWPUSD | BWPZAR | |
| | CASH | CASH | TT | TT | | | | | | |
| BWPZAR | 1.2634 | 1.3882 | 1.2877 | 1.3748 | 6m | 1.5750 | | | | |
| BWPUSD | 0.0845 | 0.0927 | 0.0861 | 0.0918 | 3y | 4.7250 | | 1m | -1.9013 | 0.0000 |
| GBP/BWP | 16.1991 | 14.7674 | 15.8487 | 15.0750 | 5y | 5.8250 | | 3m | -6.2010 | 0.0000 |
| BW/PEUR | 0.0723 | 0.0792 | 0.0740 | 0.0777 | 22y | 8.4650 | | 6m | -14.6738 | 0.0000 |
| JPY/BWP | | | 9.6187 | 10.0834 | | | | 12m | -34.2420 | 0.0000 |
| USDZAR | 14.3562 | 15.5804 | 14.6927 | 15.2434 | | | | | | |
| EURUSD | 1.1224 | 1.2161 | 1.1487 | 1.1898 | | | | | | |
| GBPUSD | 1.3158 | 1.4255 | 1.3466 | 1.3947 | | | | | | |

| Equities | | Economic Indicators | | | |
|--------------------|---------|---------------------|-----|-----------|------|
| BSE Domestic Index | 6887.14 | GDP | 0.7 | Bank Rate | 3.75 |
| BSE Foreign Index | 1548.83 | CPI | 8.9 | | |

- Mining MX have reported the following overnight. - *SOUTH Africa's state-owned freight company, Transnet has been urged to review a decision this year ditching the expansion of a rail link which would have opened up a new route to neighbouring Botswana. Minergy CEO, Morné du Plessis said the project is critical to the coal industries of South Africa as well as Botswana as there was a risk of under-utilisation of the six million ton rail line which runs from Lephalale in Limpopo province to Durban and Richards Bay. "It has to be developed. Our business model isn't dependent on it being built, but not building it takes away a blue sky opportunity," he said. Minergy produces coal from its Masama mine about 50km north of Gaborone. Botswana has been lobbying for the 43 kilometre extension of the Waterberg line so to reduce freight distances and cut costs for exporters. Botswana supplies less than 450,000 tons annually to South Africa's domestic market but volumes could blossom if a direct rail route was established.*
- In other local news, the vaccination drive continues with the government now extending vaccinations to 30 year olds. So far more than 384 000 have received at least one dose of the vaccine following the start of the mass roll out of vaccinations in March 2021, first to those considered to be high risk which included hospital workers and the aged.
- From a global macro perspective taking a look at the price movement of gold always provides insight into the broader backdrop.
- The price of gold is currently below the \$1750.00/oz handle as we head into the start of the EU trading session with the yellow metal capped by a stronger dollar and rising US Treasury yields. The benchmark 10yr US Treasury rose to a 3 month high overnight which tactically supports gold bears as gold itself has no yield.
- This came as Fed officials spoke around the timing of the taper yesterday and the market prepared for the next round of Fed chatter today when Fed Chairman Jerome Powell is due to testify before congress on the Fed's response to the COVID-19 pandemic.
- That said, there is a safe haven bid out there as a result of the Chinese Evergrande debt crisis even though the Chinese central bank vowed to protect consumers exposed to the housing market.
- On the political front, things are hotting up in the Senate, where the Democrats led Senate failed to secure the necessary votes to suspend the debt ceiling, as they secured only 48 of the 60 votes needed. Voting proceeded very much along party lines. The Republicans will likely demand some significant concessions on the infrastructure and social spending bills the Democrats would like to pass before agreeing to raise or suspend the debt ceiling. Not doing so would give the Democrats the green light to push ahead with their spending plans unhindered, and the Republicans would give away their main point of leverage.
- Moving over to the FX markets, yesterday the USD found more support off the back of a steady rise in U.S. Treasuries that are now starting to spook some riskier investment destinations. A continued rise in U.S. Treasuries will likely keep bond outflows from emerging markets alive and will cause many to rotate back towards the USD. If sustained, it could also eventually translate into some concern in equity markets that the rallies will not be sustained amid rising interest rates, all of which could trigger a further rotation to the USD. For now, it appears that the USD is taking direction from U.S. Treasuries, as are other investment markets.
- 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 various macro drivers which are at play presently. We do anticipate a retake of the 0.0900 mark in due course, but it may not happen this week.
- Investors are reminded of the 7-Day T-Bill auction this morning.

ZAR and Associated Comments

- The ZAR remained under pressure following Friday's tumble in a relatively volatile showing at the start of the week. The local unit swung between gains and losses against the US dollar, ultimately landing on the firmer end of yesterday's trading range as it closed 0.15% stronger at 14.9300/\$. However, the ZAR did push past its recent one-month low in intraday trade, bouncing off the 15.1000/\$-handle towards the end of the domestic session, as investors remained concerned over South Africa's exposure to China's current growth slowdown and the Evergrande debacle.
- Domestic markets are also beginning to see the potential for inflationary risks to take hold in SA. Rising oil and energy prices are fuelling inflation fears and could inhibit South Africa's nascent post-pandemic recovery, complicating matters for the SARB in keeping inflation contained and the recovery progressing. With inflation risks rising, domestic bonds also added to their recent bearish trend yesterday, where yields on the benchmark 10-year bonds rose for the sixth day to the highest since early May as investors demand higher compensation for inflation risk. While the ZAR managed to recover yesterday, as it failed to sustain trade above the key R15.0000/\$ technical level, rising inflationary risks will keep downside pressure on the local unit. Moreover, the trend of bond market weakness could see foreign investors dumping SA bonds, placing additional pressure on the ZAR.
- As for emerging markets on aggregate, though, bond market outflows has been the recent development. According to recent data compiled from Bloomberg, US-listed ETFs which invest in EM assets registered their fifth consecutive week of inflows last week. However, all inflows went the way of equity ETFs as investors withdrew funds from ETFs which invest in EM bonds. While ETFs that invest in South African assets recorded inflows, these were 94% lower than the prior week as investors pulled \$5.6 million out of SA bond ETFs. While these outflows can largely be attributed to lower levels of risk appetite last week, due to potential contagion risks from China's Evergrande and a more hawkish US Federal Reserve last week, they highlight the threat to emerging markets with greater exposure to the East and the risks which Fed policy tightening may bring further down the line.
- As for the day ahead, there are few signs that we may see a return of risk appetite, with Asian markets trading cautiously despite the People's Bank of China vowing to protect consumers exposed to the housing market yesterday while also injecting more liquidity into the banking system. As for emerging market currencies, mixed performances has also been evident during early morning trade, with the ZAR swinging overnight to trade amongst the laggards as it continues to struggle for direction. Global

data releases pick up in the day ahead, giving markets more to trade on. Domestic payroll statistics for the second quarter are up for release later this morning, while US consumer confidence data is scheduled for later in the day, ahead of a slew of Fed speakers and testimonies by Fed Chairman Powell and US Treasury Secretary Yellen.

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