Botswana Market Watch 9 September 2021

GMT		International and Local Data			
	BO	Nothing on the cards			
11:45	EZ	ECB deposit facility rate	Sep 9	-0.50%	-0.50%
11:45	EZ	ECB rate announcement	Sep 9	0.00%	0.00%
12:30	US	Initial jobless claims	Sep 4		340k
12:30	EC	ECB President Christine Lagarde Holds Press Conference			
15:05	US	Fed's Daly & Bowman Speaks			

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 producer inflation	According to the National Bureau of Statistics, producer inflation rose to a 13-year high in August to reach 9.5% y/y. This was the highest reading since Aug 2008.	Commodity prices and logistics costs have been key drivers, consumer prices rising slowly	3/5 (economy)	Producer price inflation will be nearing its peak if it hasn't reached it already. The spike will be temporary and will not fully spill over into consumer prices. Statistically, a high base now exists
BoC	Bank of Canada left rates unchanged yesterday and anticipates a further recovery through H2, although risks to the growth outlook persist	The soft patch through Q2 is seen as temporary, and rate hike in the latter part of 2022 still on track	4/5 (economy, monetary policy, markets)	Neither the BoC nor any other are prepared to reduce stimulus efforts too hard or too quickly. However, current disruptions are considered temporary, and the CB will look through them
Gulf of Mexico – oil	It seems that Hurricane Ida is taking longer than expected to recover from with still more than three-quarters of oil and natural gas production remaining closed	Refiners may start to request crude oil from the national Strategic Petroleum Reserve	4/5 (economy, market)	The disruption will be temporary, but with each passing day, there is an impact on the region's economy. The loss in output makes it one of the most expensive disruptions since 2005

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2366	1.3526	1.2604	1.3396
BWPUSD	0.0871	0.0950	0.0887	0.0940
GBPBWP	15.7835	14.4409	15.4420	14.7417
BWPEUR	0.0736	0.0805	0.0754	0.0789
JPYBWP			9.8152	10.2564
USDZAR	13.6334	14.7831	13.9530	14.4633
EURUSD	1.1343	1.2293	1.1609	1.2027
GBPUSD	1.3213	1.4316	1.3523	1.4006

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	-6.2595	0.0000
6m	-14.9663	0.0000
12m	-35.5095	0.0000

Equities		Economic Indicators			
BSE Domestic Index	6734.55	GDP	0.7	Bank Rate	3.75
BSE Foreign Index	1548.82	CPI	8.9		

- The United States has through its US AID arm announced that it would provide Botswana with an additional $4m in emergency funding for COVID-19 assistance. This would bring the total amount that the United States has provided to $8.4m. *"We will continue to do all we can – whether it be through our vaccine donations or through US global health funding – to build a world that is safer and more secure against the threat of infectious disease," said US Ambassador Cloud.*
- The next round of data due for release locally is the CPI reading for next week. Although it is only due next week, we have over the past few morning notes unpacked the various challenges that are inherent in the market currenty. Yesterday we unpacked developments in the food and agricultural space, making the reader aware of the price pressures that are being experienced across the board. Today, we unpack developments in the energy sector, more specifically oil which impacts the cost of fuel and transportation which then filter through the economy.
- Oil prices are holding onto yesterday's gains this morning as investors continue to digest the supply disruptions caused by Hurricane Ida. The front-month Brent contract is trading near $72.70 as a result, while WTI is steady above $69 amid expectations that a gradual return of output will tighten the market over the near term. So far, the return of production in the US Gulf of Mexico has been even slower than in the wake of Hurricane Katrina in 2005, which was a category 5 hurricane. Further adding to the bullish outlook is the fact that the API reported yesterday that crude stockpiles fell by 2.88mn barrels last week, which, if confirmed by today's official figures, will suggest that demand remained relatively strong as output came to a halt last week during the worst of the hurricane.
- Given the increased risks of inflation it is not surprising to see the local yield curve shift higher. The front end of the curve is on average 30 bpts higher according to Bloomberg data than it was a month ago and we expect these pressures to remain intact for the foreseeable future.
- Market sentiment ahead of today's open is still decidedly risk-off, with Asian equities and European futures a sea of red, while most emerging market currencies trade defensively against a rebounding USD. This cautious mood is due to the combination of slowing global growth and prospective stimulus tapering by developed market central banks, and is triggering profit-taking on the recent risk rally.
- After regaining its footing in the final week of last month and the first few days of this month, the bullish bias in the BWP appears to be fading with the BWP-USD consolidating this week. Given the potential for the ECB rate decision to provide global FX markets with some fresh directional impetus, we could see the BWP-USD break out of the range it has traded in so far this week.

ZAR and Associated Comments

- The ZAR bucked a trend of EM currency weakness on Wednesday, appreciating 0.55% against a firmer USD to close the day at R14.2200/$. The ZAR's defiance of broader risk-off sentiment through the session was likely due to the market digesting the previous day's stronger-than-expected Q2 GDP print, and hawkish comments by SARB Governor Lesetja Kganyago. The governor reiterated his call to change the central bank's inflation framework to a reduced, single-digit target from the current 3%-6% range. He noted that failure in the past to revise the original target range – which was always intended to shift down towards 2%-4% – was a "major policy mistake, because it entrenched higher inflation and higher inflation expectations". These comments came ahead of an examination of SA's inflation-targeting framework by National Treasury, although formal discussions between Kganyago and FinMin Enoch Godongwana to lower the target have yet to take place.
- Speaking of the finance minister; Godongwana was also on the wires yesterday, telling MPs that the economic fallout of the July social unrest and looting could linger for the next year and a half. He noted that business sentiment was negatively affected and that investment stalled, affecting the economy's general competitiveness. This was evident in yesterday's release of the BER's business confidence index for Q3, which declined by more than expected from 50 to 43. This drop was primarily due to discontent in the supply-side over the social unrest, but also due to strict COVID-19 lockdown measures, a cyberattack at the state-owned ports and rail operator that hobbled trade activity, and higher-than-usual levels of worker absenteeism.
- July manufacturing production stats scheduled for release out of SA today will provide fresh insights into the economic fallout of the social unrest. Consensus expectations are for declines in the year-on-year and month-on-month growth rates from 12.5% to 3.0% and from -0.7% to -3.7%, respectively, which would reflect severe supply-side weakness at the start of Q3. This release will be accompanied by Q2 current account stats today, which are expected to show a widening of the surplus owing to SA's strong trade dynamics, and provide a good explanation for the ZAR's strong performance in the three months through June.
- However, the main focus today will be the ECB's highly-anticipated September policy update. This meeting is shaping up to be a big one, as it represents the first opportunity for policymakers to turn the outcomes of their strategy review into action. There is plenty of speculation going around that the ECB might announce a taper of its PEPP purchases, but simultaneously signal significant monetary support for the years to come. Note that this meeting holds plenty of market-moving potential for the EUR, and, in turn, also the USD. It will thus be closely watched as global markets await a new catalyst to provide fresh directional cues.

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