

## Botswana Market Watch

## 4 October 2021

GMT		International and Local Data			
-	BO	Nothing on the cards			
O/N	CH	National Day			
08:30	JN	Monetary base y/y		Sep	14,90%
12:00	EZ	Sentix investor confidence index		Oct	19,00
14:00	UK	BOE's Dave Ramsden & Mark Carney speak			
14:00	US	Durable goods orders m/m		Aug F	1,80%
14:00	US	Factory orders		Aug	1,00%
14:00	US	Fed's Bullard Takes Part in Panel Discussion on the Economy			
Factors Overnight	What happened?	Relevance	Importance	Analysis	
<b>Evergrande latest</b>	Trading in Evergrande shares and Evergrande Property Services was halted this morning, giving rise to speculation that the company was about to dispose of assets	The company may be trying to generate short-term cash but has sparked a jump in risk aversion	<b>5/5</b> (market)	The risk of a company whose liabilities amount to 2% of China's GDP is that it holds systemic contagion risks. For now, it appears as though efforts to salvage the company are being made	
<b>EZ inflation</b>	Last week Friday saw the WZ's inflation reading rise to the highest level in 13 years and could still rise even further as it accelerated to 3.4%	This offers the ECB a challenge in persisting with current loose monetary policy	<b>4/5</b> (economy, monetary policy)	The danger for central banks is that the rise in commodity prices, input costs and logistics keeps inflation higher for longer and results in a steady rise in inflation expectations	
<b>Fedspeak</b>	Notwithstanding the upcoming labour data that may or may not support his views, Philly Fed President Harker repeated his view that the Fed will soon be reducing its asset purchases	Inflation certainly warrants it, and the labour market will continue improving, albeit at a more gradual pace	<b>4/5</b> (economy, monetary policy)	The tone and balance of forces within the ECB's MPC is slowly tilting towards a taper and some monetary tightening, regardless of whether the labour data this week will be as bullish as the hawks would like to see or not	
Factors on the Radar	What happened?	Relevance	Importance	Analysis	
<b>US labour data</b>	Once again, it is payrolls week, and investors will be looking with great interest this week at the release of the private sector ADP and official payrolls readings	Investors will be hoping for signs the labour market is gaining traction and warrants tapering	<b>4/5</b> (economy, monetary policy)	The soft-patch in the labour market will likely prove transitory. But a convicted view on tapering will only arise once the labour market shows an economy steaming towards full employment	
<b>OPEC+ - oil</b>	Today will see OPEC+ and its allies hold a meeting on oil production. Given soaring gas prices, investors are positioning for a rise in oil production	An anticipated rise in oil production has translated into oil prices retreating slightly	<b>4/5</b> (economy, markets)	OPEC+ wants a sustainable market environment and may opt to respond to the higher prices with increased production. Stronger oil demand suggests a global recovery stays intact	
<b>US infrastructure plan</b>	Democrats will need to cut the size of the sweeping social spending and infrastructure bill from \$3.5 trln to something approaching \$2.0trln if it is to pass through both houses	Gradually, it has become evident that the size of the bill is too big even for some Democrats and will need to moderate	<b>3/5</b> (economy, politics)	One moderate Democrat in Joe Manchin has even put his upper limit at \$1.5trln. While Manchin may need to revise his expectations upwards, the Democrats themselves need every vote they can find and will need to compromise	

### 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	CASH	CASH	TT	TT	CASH	CASH	TT	TT
BWPZAR	1.2582	1.3823	1.2824	1.3690	<b>Benchmark Yield Curve</b>				<b>Forward Foreign Exchange</b>							
BWPUSD	0.0845	0.0928	0.0861	0.0919	6m	1.5750			1m	BWPUSD	BWPZAR					
GBPGBP	16.0125	14.5776	15.6660	14.8813	3y	4.7250			3m	-2.2035	0.0000					
BWPEUR	0.0729	0.0800	0.0746	0.0784	5y	5.8250			6m	-6.6105	0.0000					
JPYBWP			9.5990	10.0733	22y	8.4650			12m	-15.0930	0.0000					
										-35.9970	0.0000					
USDZAR	14.2972	15.4965	14.6323	15.1613	<b>Equities</b>				<b>Economic Indicators</b>							
EURUSD	1.1133	1.2062	1.1394	1.1801	BSE Domestic Index	6897.48	GDP	0.7	Bank Rate	3.75						
GBPUSD	1.3003	1.4091	1.3308	1.3786	BSE Foreign Index	1548.83	CPI	8.2								

- Botswana's Minister of Investment Trade and Industry was on the wires over the weekend, looking to court investors by promising them that Botswana offers a stable and profitable environment. Minister Kgafela was speaking in Dubai at the two-day Africa-Dubai Investment Business Summit, where he used the latest World Bank Ease of Doing Business rankings, where Botswana lays 87 out of 190 countries and in the top 10 in Africa, to entice investors and financial sector representatives and help align key projects to fit their needs. It should be noted, however, that the government is actively trying to improve their position in the Ease of Doing Business rankings, having established the Special Economic Zones Authority, which has eight special economic zones under its jurisdiction at different levels of development, to accelerate investment in sector-targeted geographic areas. Given the current economic environment and hunt for yield, countries such as Botswana offer attractive returns and enticing investors now will be beneficial to the country in the long run.
- On the global front, some good news has arrived in the form of Merck announcing that it will seek approval for an antiviral pill to fight Covid as soon as possible. The pill aims to reduce hospitalisation and or death by half. The pill itself seeks to introduce errors into the virus's genetic code and disrupt its mutation, offering the body's immune system a great chance of recovering. It has been hailed as a significant step forward, although each course is fairly expensive at \$700. Nonetheless, it has helped reduce risk aversion, as will any material breakthrough in tackling the virus. Similar efforts are being conducted in Israel, and there will be more such treatment breakthroughs in the months ahead. The USD appears to have retreated, in part due to the news, and we should see global markets stabilise as a result following the volatility seen over the last two weeks or so.
- Looking at the oil markets given their importance regarding the global and local inflation and monetary policy implications, we see that prices are holding relatively steady this morning ahead of today's OPEC+ meeting, keeping Friday's gains after what was a fairly volatile week last week. The benchmark Brent crude contract is trading just north of \$79 per barrel, while WTI's front-month contract is near \$76 per barrel as the meeting looms. Given the recent surge in demand and shuttering of output in the Gulf of Mexico, oil demand is seen outstripping supply notably over the next few months. As such, market watchers will be paying close attention to today's meeting, given that we could see OPEC+ members announce a larger increase in output as compared to what we saw last month.
- OPEC's supply decisions will likely be the main driving force behind oil prices over the next few months, given that Iranian oil supply is unlikely to come back to the market anytime soon, while US shale producers are holding off on major investments. The question that will need to be answered today, therefore, is how much of OPEC+ members' spare capacity can they bring online in the near term. With this potentially limited, we could see the announcement today disappoint and prices continue to rise in expectation of strong demand over the northern hemisphere's winter months.
- The BWP-USD remains well contained under the 0.0900 handle for now. Not much to report back on as we enter the first day of trade for the week. The 0.0880 level continues to provide some notable support with the BWP-USD failing to break below this level throughout last week despite several tests below it. With this support level holding up, we could see the pair look to retake the 0.0900 level in the near term.

## ZAR and Associated Comments

- The ZAR capitalised on a softer US dollar at the end of last week to record a substantial 1.55% daily advance for the first trading session of October. US data Friday showed increased consumer spending in August and solid factory activity in September, which should support the USD going forward. Meanwhile, US PCE core inflation, the Fed's preferred measure of inflationary pressure, held steady at 3.6% y/y. While persistent inflation should bolster calls amongst hawkish Fed officials to reduce asset purchase targets this year, the USD nevertheless fell out of favour on Friday as Treasury yields ticked lower from a three-month high reached earlier in the week.
- AS for the ZAR, the local unit ultimately led EM currencies on the day as it traded back below the 15.0000/\$-handle to close at 14.8800/\$. While the local currency remains highly sensitive to changes in global sentiment, the ZAR appeared to receive a boost from the announcement of lockdown restrictions being eased the previous evening. Furthermore, domestic data fared better than expected, with the Absa manufacturing PMI coming in at 56.8. While this marked a decline from August's reading of 57.9, it nevertheless points to stabilisation following large swings in the prior two months after several well-documented shocks pushed the PMI sharply lower in July.
- While it is promising that the PMI remains above the 50-level, separating contraction from expansion, despite the damage to businesses and confidence from July's riots, significant risks to the domestic economic outlook remain. The nature of the post-pandemic recovery remains uneven given disruptive stop-start restrictions, while SA's economic environment remains hampered by structural constraints. On a positive note, Finance Minister Enoch Godongwana noted in a National Treasury annual report on Friday that faster implementation of structural reforms is crucial to SA's long term recovery. At the same time, National Treasury also sees the SA economy reaching pre-pandemic levels by the end of 2022, an improvement from NT's February estimate of late 2023.
- Over to the spot markets and the ZAR has given up some of its Friday gains alongside several other EM currencies as the USD has begun the week on a firmer footing than it left off the last. Resurgent concerns over China's property sector have weighed on sentiment during early Asian trade, with equity markets dipping on the potential fallout from indebted property developer Evergrande. However, Chinese markets are shut for holidays until the end of the week, which may be exacerbating volatility at present. Meanwhile, concerns of persistent inflationary pressures in developed nations are weighing on emerging markets at the start of the week, as it increases the likelihood of tighter DM monetary policy being announced by the end of the year. The week ahead also holds official US employment data, which could reignite the USD's rally should there be continued take-up of slack within the US labour market.

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