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Botswana Market Watch

5 October 2021

GMT		International and Local Data			
09:00	BO	7-Day Certificate Sale 6.5bn			
00:30	JN	Markit composite PMI	Sep F	47,90 (A)	47,70
03:30	AU	RBA rate decision	Oct 5	0,10% (A)	0,10%
08:00	EZ	Markit composite PMI	Sep F	56,10	56,10
08:30	GB	Markit composite PMI	Sep F		54,10
09:00	EZ	PPI y/y	Aug	13,40%	12,10%
12:30	US	Trade balance	Aug	$-70,50bn	$-70,10bn
13:45	US	Markit composite PMI	Sep F		54,50
14:00	US	ISM non-manufacturing composite PMI	Sep	59,80	61,70

Factors Overnight	What happened?	Relevance	Importance	Analysis
US manufacturing	Factory orders rose 1.2% m/m in August, alluding to a sustained economic upswing that has gathered momentum	It is encouraging that this was achieved despite the logistics disruptions	3/5 (economy)	The performance of the sector might've been even stronger had it not been for the supply-side constraints, building the case for policy normalisation
RBA	The board decided to maintain the cash target rate at 10bp, while maintaining the target rate for the 2024 bond at 10bp. It will continue purchasing bonds at a rate of A$4.0bn a week to Feb 22	With the delta outbreak disrupting the economic recovery, the board has remained ultra-accommodative	2/5 (economy, markets, monetary policy)	The impact of the lockdowns and of the Delta variant will be temporary as vaccine prevalence rises quickly to allow the authorities the comfort to open up the economy. Wage and price pressures in Australia remain subdued for now.
OPEC +	The world's major oil producers decided to keep an existing cap on crude oil supplies. The objective is to increase production only gradually	OPEC+ believes that another wave of infections could detract from growth to curtail demand	4/5 (economy, markets)	For now, OPEC+ will enjoy the benefits of these higher prices, but the global economy could do with softer oil prices to help generate a sustainable economic recovery

Factors on the Radar	What happened?	Relevance	Importance	Analysis
Debt ceiling	Political grandstanding continues. Biden has accused the Republicans of putting the US at risk. The Republicans argue that the Democrats can raise the debt ceiling without them	Republicans want nothing to do with Democrat spending programmes and will not offer them a bi-partisan solution	4/5 (economy, markets, fiscal policy)	Biden's criticism of the Republicans will only serve to harden their stance. There is an option available to the Democrats, but they would like the debt ceiling raised in a normal fashion, with the support of the Republicans
Evergrande – Chinese property market	This will remain a key news event for a while still. The company is now looking at a $5bn property unit sale to raise capital, while a smaller rival in Fantasia has now also missed a bond payment	This speaks to a broader market problem and not just an Evergrande issue. China's property market is vulnerable	5/5 (economy, markets, monetary policy)	Years of cheap money, an unsustainable credit cycle, and the accumulation of debt has boosted Chinese growth but left the property sector vulnerable, now that it cannot rely on massive economic growth rates to soak up supply
US labour data	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	4/5 (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

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2736	1.3972	1.2982	1.3838
BWPUSD	0.0845	0.0926	0.0861	0.0917
GBPBWP	16.0609	14.6556	15.7135	14.9610
BWPEUR	0.0729	0.0799	0.0746	0.0783
JPYBWP			9.6089	10.0733
USDZAR	14.4733	15.6988	14.8126	15.3592
EURUSD	1.1125	1.2057	1.1386	1.1796
GBPUSD	1.3044	1.4134	1.3349	1.3828

Benchmark Yield Curve

6m	1.5760
3y	4.7250
5y	5.9250
22y	8.4650

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-2.3498	0.0000
3m	-6.6690	0.0000
6m	-15.1905	0.0000
12m	-36.2213	0.0000

Equities

BSE Domestic Index	6900.67
BSE Foreign Index	1548.83

Economic Indicators

GDP	0.7	Bank Rate	3.75
CPI	8.2		

- After being approved in June, Botswana's loan from the World Bank to the tune of $250mn was agreed and signed on yesterday according to news agency Xinhua. The loan is aimed at helping Botswana accelerate key economic reform and supporting the implementation of Botswana's Economic Recovery and Transformation Plan. According to Minister Serame, the loan will help the country strengthen the development of the private sector and promote a resilient green economy. Officials from the World Bank, meanwhile, have said that Botswana has massive potential in the renewable energy sector, which power generation a possible export over the coming years.
- On the corporate front, a Dutch wealth manager has announced its plans to take over the Mowana mine, clearing most of the BWP800mn that is currently owed to creditors while also pumping in new working capital and funding the investment into new equipment. The deal also means that salaries of workers who worked up to the judicial management of the mine and those who worked under the care and maintenance period that followed would be paid alongside all taxes and other amounts owed to the government. It is estimated that the mine owes the government around BWP13mn in unpaid taxes. The takeover aims to capitalise on the surge in copper prices recently, driven by the global economic recovery and inventory shortfalls in many key markets.
- Shifting to politics now and BDP Secretary General Balopi has said that he has no intention of challenging President Masisi, quelling rumours ahead of the party's elective congress next year. Balopi's comments will help ease some concerns that there is a major rift within the ruling party and that new factions could be formed to challenge the status quo in the next elections. However, we do know that some ministers are not happy with the President's leadership style and we could see other challengers arise in the build-up to the elective congress.
- On the global front, and ahead of the US payrolls data later this week, a risk-off environment evident in the equity markets has helped support the USD. Specifically, investors are concerned about the risk of stagflation, given the slowing growth in China and other Asian countries while inflation and input costs remain extremely high. The inflation spike will prove temporary across most jurisdictions, but the risk is that it stays elevated enough to warrant the central banks taking action to prevent a sustained rise in inflation expectations.
- Looking at the oil markets given their importance regarding the global and local inflation and monetary policy implications, we see that prices jumped yesterday as OPEC+ stuck to its approach of adding 400k barrels a day of supply through the month ahead. Expectations were that the recent surge in prices would see the cartel and its allies raise the amount by which they are increasing supply, but this was not to be. The market has reacted bullishly to the news, unsurprisingly driving the front-month Brent contract up to $81.60 per barrel this morning, while the WTI benchmark is trading near $77.80 per barrel.
- Unless OPEC+ makes a notable change to its policies next month, we should see oil prices remain supported through the final quarter of the year. The Northern Hemisphere winter months will drive demand, especially as crude oil will be switched for natural gas given the shortages in that market. This bullish outlook is corroborated by spreads across the futures curve, with Brent's prompt timespread widening in backwardation compared to last week's levels, while the spread for the December 2021 contract compared to December 2022 remains near its widest level in years.
- The BWP-USD remains well contained under the 0.0900 handle for now as 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 0.09000 level in the near term. There was a tentative uptick for the pair yesterday, suggesting that the bulls could be looking to begin their move to try and take this level.
- Today will see the usual auction of 7-day certificates, with BWP6.5bn on offer.

ZAR and Associated Comments

- The prospect of US Fed policy tightening remains at the front of investors' concerns, and which kept emerging market currencies on their toes yesterday. In comparison to major currencies, riskier currencies traded with less buoyancy against the USD, with the ZAR falling 1.15% yesterday as it led the EM sample lower alongside other commodity exposed currencies. However, the USD was broadly pressured yesterday despite an uptick in us Treasury yields on the day, suggesting market participants may see the greenback's late September rally as overdone.
- Adding to souring sentiment, Moody's said in a note yesterday that SA's credit risks remain elevated given the fragility of the domestic economic recovery due to low vaccinations levels and governance shortcomings that have created financial and solvency pressures at public-sector organisations. The rating agency also sees the government being able to provide only limited support as it remains constrained by its rising debt burden. While it seems government remains committed to fiscal consolidation, support packages to ease social pressures as seen recently pose a significant challenge. Moody's sees a high risk that sovereign debt continues to grow, limiting the government's ability to provide support to public sector entities.
- As for the broader economy, the standard bank PMI to be released later this morning will provide an update on the ongoing recovery. Recall the so-called economy-wide PMI slipped back below the 50-mark, separating expansion from contraction, In July for the first time since September 2020 as social unrest and riots took their toll on the private sector. While the August recovery is expected to have followed through in September, it will be unlikely that the gauge will return to levels seen in Q2 owing to more challenging global economic conditions. Additionally, local issues remain prevalent such as depressed business and consumer confidence, weak domestic demand, increased slack in the labour market, depressed credit growth and the absence of structural reforms, all of which continue to pose downside risks to the private sector.
- Over to the spot markets, overnight losses on Wall Street have led to a sour start to the day in early Asian trade. The ZAR has tracked emerging market currencies weaker, while the USD appears to be on a firmer footing after its three-day slide off one-year highs. While Asian equity markets and emerging market currencies have traded broadly in the red, given Chinese markets remain closed for holidays, current liquidity-thinned trade may not give an appropriate indication of sentiment for the day ahead. Domestic markets will also have the SARB's bi-annual monetary policy review due later today, which will be watched for clues on the trajectory of interest rates going forward. Externally, final readings for September services PMIs from across the globe will hold focus in the day ahead. However, markets may let these pass by in

anticipation of US private payrolls data due tomorrow and official non-farm payrolls due Friday, which could stoke some market volatility later in the week.

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