Botswana Market Watch

19 October 2021

GMT		International and Local Data			
`14:00	BO	Central Bank to place BWP7.3bn 7-Day Certificates			
12:30	US	Building permits	Sep	1670k	1728k
12:30	US	Housing Starts	Sep	1610k	1615k
14:00	EC	ECB's Lane Speaks at Online Conference			
15:00	US	Fed's Daly Makes Introductory Remarks at Regional Bank Forum			
18:50	US	Fed's Bostic Interviewed About Long-Term Unemployment			
19:00	US	Fed's Waller Discusses the Economic Outlook			

Factors Overnight	What happened?	Relevance	Importance	Analysis
Chinese business cycle	Hurt by electricity availability, chip shortages, Covid interruptions and the construction industry challenges, and the Chinese economy is stumbling	Slower growth will hurt China's ambitious growth targets and spill over into EMs	3/5 (economy, market)	Although the soft patch will be transitory, China will not contribute to global growth the way it normally does. On the contrary, China now poses a risk to the global economy
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Factors on the Radar	What happened?	Relevance	Importance	Analysis
EU budget rules	Due to Covid and the sharp rise in debt levels, coupled with a strong drive towards expensive clean energy, the EU is debating new budget rules	The EU may take another step towards a central EU Federal budget and fiscal unification	4/5 (fiscal policy)	Running separate fiscal policies for each country while still adopting the same currency has proved challenging, and it is questionable whether it is sustainable. Fiscal harmony is the target
UK green deals	Britain confirmed at an investment summit that it has raised £10bn from lenders to fund its green regeneration agenda.	Although this is a modest start, it is likely to become a theme in the upcoming years	3/5 (economy)	The EU and Britain are looking to invest in green technology, ultimately seeing it become more efficient and cost-effective. It is likely to become the dominant theme for DM countries
Logistics and supply chain challenges	The lifting of Covid-19 restrictions is helpful, but it has come with consequence. Consumptive restrictions have eased, but supply-side constraints persist and may get worse	Container and shipping dislocations, pent-up demand, ongoing mobility restrictions are still weighing heavily	4/5 (economy, markets)	Logistical challenges continue to impact supply chains that are unable to cope with the recovery in consumptive demand. The demand has bounced back more quickly than the supply chain logistics can cope with

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2476	1.3631	1.2717	1.3500
BWPUSD	0.0853	0.0931	0.0870	0.0922
GBPBWP	16.1089	14.7690	15.7604	15.0767
BWPEUR	0.0732	0.0799	0.0750	0.0783
JPYBWP			9.9626	10.3989
USDZAR	14.0344	15.2308	14.3634	14.9013
EURUSD	1.1184	1.2120	1.1446	1.1858
GBPUSD	1.3218	1.4321	1.3528	1.4011

Benchmark Yield Curve

6m	1.5760
3y	4.7550
5y	5.8250
22y	8.4750

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-2.4960	-0.0145
3m	-7.1663	-0.0467
6m	-18.8126	-0.0939
12m	-40.9841	53.5596

Equities

BSE Domestic Index	6920.03
BSE Foreign Index	1548.83

Economic Indicators

GDP	36	Bank Rate	3.75
CPI	8.4		

- On the local front, Gaborone has inked a deal with Tlou Energy for 10 megawatts of gas-fired power as the country aims to build out its energy generation capacity. This forms part of a broader strategy where Botswana is seeking to reduce its reliance on the South African State owned energy producer Eskom which is in a dire financial state as well as move away from heavily polluting coal. Coal projects are struggling to find funders as investors focus strongly on Environment Social and Governance credentials.
- Reuters reported - *Under a 20-year resource plan approved in August last year, Botswana plans to add more 600 megawatts (MW) of solar, coal and gas-fired power in the next five years as it looks to wean itself off imports while also possibly exporting power. Of that, 100 MW is expected to come from coal-bed methane, including the deal with Tlou, announced by the mines and energy minister Lefoko Moagi on Monday. Botswana's domestic power currently comes 100% from coal, and recurring breakdowns at one of its main power stations have left the country reliant on imports from South Africa and Mozambique, as well as diesel generators, to cover shortfalls.*
- Internationally investors remain focused on developments in the energy sector given its impact on inflation and the spill over seen in other markets. A near 8% plunge for natural gas prices helped ease some of the topside pressure within the crude markets yesterday. Warmer than expected weather conditions in the US forecasted for the next few days have helped ease some of the concerns surrounding demand for natural gas, which saw nat gas prices fall below $5 for the first time since 23 September. As such, crude prices declined yesterday, with the front-month Brent contract edging 1% lower to around $84.34 per barrel, while WTI came off its peak of $83.87 to currently trade near $82.55. With pressure within the natural gas market easing, we could see oil lose some of its topside momentum over the coming sessions which would be welcomed by consumers across the globe.
- In terms of the United States, Productive data released yesterday disappointed. It was soft across the board, whether one looked at industrial production or manufacturing production. Motor vehicle production was also way down, and while hurricane Ida was to blame for some of the underperformance, that only reflects half the picture. Between the chip shortages, logistical supply chain constraints and weather disruptions, the economy remains far below its productive potential and has raised questions around whether it would be appropriate for the Fed to press ahead with tapering before the end of the year. The deteriorating supply chain environment challenges the argument that these disruptions could be temporary and the difficulties companies are having in delivering their products to market on a large scale.
- Notwithstanding expectations for the Fed to begin tightening policy in the coming months, the U.S. housing market continues to soar. The number of housing starts in the U.S. has hit record highs this year and remain buoyed well above historical levels as consumers continue to take advantage of the favourable lending conditions. While the housing boom will persist in the months ahead, some alarms have been sounded that the housing boom is running too hot. Indicators such as the Fed's 2005 Housing Model has flagged bubble risk. That said, while housing prices are once again at troubling levels, the risk of a U.S. housing bubble is not yet an immediate concern.
- Moving over to the FX markets, the USD has come under some pressure following much weaker than expected data that was released yesterday. Investors are questioning whether they have been too quick to price in the chance of tapering, given the many growth challenges that persist. The recovery from lockdowns will be bumpy and fraught with fits and starts. The Fed might find itself debating the timing of the taper and may err on the side of tapering more slowly than previously anticipated, which could result in other major central banks reducing monetary stimulus faster than the Fed. For now, the USD is on the defensive and could depreciate a little further before it stabilises which should support the BWP at the margin.
- Local investors are reminded that the standard 7-Day T-Bill auction will be taking place today with 7.3bn on offer.

ZAR and Associated Comments

- After four straight sessions of gains, the ZAR came under a bout of weakness on Monday as appetite for riskier assets was lacking compared to the past week, with global inflationary concerns triggering a rotation into safer currencies. Weak Chinese data earlier in the day showed that the nation's growth concerns could be materialising, further weighing on the local currency. As such, the ZAR managed to give up much of Friday's gains as it closed 0.55% weaker at 14.6800/$. However, the ZAR was spared from losses of 1.35% as it hit 14.8000/$ in intraday trade. While the USD began the week more supported than where it left the last, US industrial and manufacturing production weighed on the greenback later in the session, causing it to pare all trade-weighted gains on the day.
- While markets got off to a risk-averse start at the beginning of the week, upside potential remains should appetite for emerging market assets pick up once again. Coinciding with last week's gains for EM currencies, broader emerging market asset classes also made a turn for the better. Specifically, US-listed ETFs which invest in EM stocks and bonds registered the first week of inflows in four in the week ending October 15. According to data compiled by Bloomberg, ETFs investing in South African assets saw inflows of $9.4 million, with $6.3 million of the inflows going to equities and $3.1 million to domestic bonds.
- All in all, the outlook for emerging market currencies remains, in part, dependent on overall risk appetite and the relative returns that they offer. Should expectations of global monetary tightening begin to simmer, we may well see further trends of inflows into emerging markets. However, with inflation remaining a concern for global investors and seen to be the driver of future tightening by major central banks, emerging markets with more fragile economic recoveries and the inability to pare back supportive monetary policy as quickly run a greater risk of market volatility. As a result, even with relatively higher yields on offer, emerging market currencies will begin to lose the support which has resulted in much of their resilience through the earlier stages of this year, especially holding true for the ZAR.
- While the day ahead is limited in terms of data releases, the global data card picks up tomorrow with highly anticipated inflation prints out of the UK and Eurozone area, and including the domestic inflation print for September. Meanwhile, the USD has

continued to trade weaker overnight after yesterday's US data provided further evidence that supply constraints are inhibiting growth. As a result, emerging markets have been offered some reprieve in early morning Asian trade, with the ZAR erasing almost all of yesterday's losses. However, with anticipated inflation prints waiting in the wings, this does have the potential to hold back a sustained return of risk appetite should it bolster bets that other DM central banks will need to act more hawkishly in the coming months.

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Report produced by ETM Analytics for BancABC Botswana.

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