

Botswana Market Watch

13 October 2021

GMT		International and Local Data			
09:00	BO	Nothing on the cards			
11:00	US	MBA mortgage applications		Oct 8	-6.90%
12:30	US	CPI y/y		Sep	5.30%
12:30	US	Real ave weekly earnings y/y		Sep	-0.90%
14:30	UK	BOE's Cunliffe Speaks.			
18:00	US	Fed FOMC Meeting Minutes		Sep 22	
20:30	US	Fed's Brainard Speaks at Fed Listens Event			

Factors Overnight	What happened?	Relevance	Importance	Analysis
Evergrande	Property shares in China are taking a beating after Evergrande missed its third interest payment in three weeks, sparking fears of default and contagion	Pressures are now extending to other developers whose health is also being questioned	5/5 (economy, markets)	Again this highlights the risk of credit-driven growth and the vulnerability of a system when debt levels rise too far. Risk assets are now being questioned, and volatility is enhanced
Chinese trade data	Exports grew more than expected by 28.1% y/y vs the 21% forecast, but imports missed expectations rising just 17.6% y/y vs the 20% y/y growth forecast	The combination led to a trade surplus of \$66.76bn, much higher than the \$46.8bn forecast	3/5 (economy)	The data suggests that domestic demand is not holding up as well as expected, in a warning to commodity producers that demand from China may not be as strong as first anticipated
US debt ceiling	The House of Representatives gave its approval on Tue to temporarily raise the government's borrowing limit to \$28.9trln	For now, a debt default has been averted, and this issue goes to the back burner	4/5 (economy, fiscal policy)	This delays the more substantial vote on the debt ceiling to Dec. It is unlikely that the Republicans will have softened their stance. The Democrats may be forced to pass this on their own

Factors on the Radar	What happened?	Relevance	Importance	Analysis
Chinese coal	Chinese coal prices surged to a record high on Wed as recent floods only serve to compound coal supply problems in the midst of an energy crisis	In response, China has allowed power producers to charge market-related rates to customers	4/5 (economy)	Without customers being able to secure much cheaper, longer-term contracts, power prices will ramp up to curb usage and alleviate supply pressures. But, it will amplify inflationary pressures
IEA prediction	Amid shortages of electricity and energy in some large economies, the IEA has indicated that investment into clean energy needs to triple by 2030	The recovery from the lockdown has generated a record CO2 rise to spark some alarm	3/5 (economy)	The message from the IEA is that too little is being invested into renewable and clean energy and that the switch to new forms of energy is simply taking too long to combat climate change
IMF growth forecast	Supply bottlenecks and higher inflation and energy prices have caused the IMF to lower its growth forecast for 2021 to 5.9% from 6.0%	The risk in this forecast is to the downside as inflation potentially becomes more entrenched	3/5 (economy, markets)	Central banks are now being called on to keep a close watch on inflation. However, the issues are supply chain and logistics related, something monetary policy has no control over

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	1.2631	1.3805	1.2874	1.3672	Benchmark Yield Curve				Forward Foreign Exchange										
BWPUSD	0.0845	0.0922	0.0861	0.0914	6m	1.5760				BWPUSD	BWPZAR								
GBPZAR	16.0916	14.7355	15.7435	15.0425	3y	4.7550			1m	-2.2913	0.0000								
BWPEUR	0.0732	0.0799	0.0749	0.0783	5y	5.8250			3m	-6.7178	0.0000								
JPYBWP			9.8054	10.2361	22y	8.4750			6m	-15.6293	0.0000								
									12m	-41.5545	0.0000								
USDZAR	14.3529	15.5634	14.6893	15.2267															
EURUSD	1.1088	1.2016	1.1348	1.1756															
GBPUSD	1.3070	1.4161	1.3377	1.3854															
												Equities				Economic Indicators			
												BSE Domestic Index	6911.99	GDP	36	Bank Rate	3.75		
												BSE Foreign Index	1548.83	CPI	8.9				

- The IMF released its Global Economic Outlook in which it has revised its global growth outlook lower. Currently the higher energy prices are the major risk to derailing the current economic trajectory as the world emerges from the COVID-19 pandemic.
- That said, both the IMF and the World Bank have predicted the sub-Saharan region growing at 3.7% for 2021, however growth will not evenly distributed across the region with only four countries in the region expected to record growth figures north of 6% for 2021.
- Botswana is expected to grow by 9.2% this year, the highest rate on the continent. Seychelles will follow with 6.9%, Burkina Faso with 6.7%, and Côte d'Ivoire rounding off the outperformers with 6%. Botswana is expected to record a strong positive number as the mining sector with specific reference to the diamond industry records a strong rebound post the 2020 COVID-19 slump.
- Internationally all eyes will be on the US inflation data due for release later today. Consumer inflation in the U.S. is expected to have remained unchanged at 5.3% y/y after the recent moderation in July and August. Price pressures within reopening-sensitive sectors have been easing amid persistent concerns over COVID-19, although demand remains robust due to accumulated household savings. At the same time, supply-side price pressure also remains a significant risk, as was highlighted during the recent increase in oil and gas prices. The Fed thus finds itself in a difficult situation, with the labour market recovery showing signs of slowing while the outlook for inflation looks increasingly uncertain. Should inflation prove to be less transitory than the Fed previously anticipated, Governor Powell and Co. may need to tighten monetary conditions more aggressively down the line. Consequently, market agents will closely watch the CPI data as they look to position for the eventual taper and subsequent rate hikes.
- The Fed's September meeting minutes will be scrutinized for any further insights into the central bank's policy bias given recent uncertainty surrounding the labour market's slowing recovery in an environment of mounting inflation pressures. Recall that Chairman Powell took on a slightly hawkish tone at the meeting, saying the Fed would begin reducing stimulus "soon". He likely opted for this vague language to leave the door open for a later start should the expected improvement in economic conditions not materialize. At the same time, however, there were intimations that the Fed would aim to complete the taper by mid-2022, paving the way for rate hikes soon after. Given these vague signals in the post-meeting communique and prevailing uncertainty due to the weak September employment report, the minutes will be examined for clarity.
- Looking at the FX markets, not much movement has been recorded for the BWP against the greenback with the currency remaining under the key 0.0900 handle for now. As we have noted throughout the last two weeks, the 0.0880 level continues to provide some notable support, with any dips below it quickly scooped up. We expect this to remain the theme going forward with the bulls still eyeing the 0.09000 handle.

ZAR and Associated Comments

- The ZAR swung earlier losses yesterday as sentiment towards the local currency turned positive. While the ZAR managed to bag a 0.40% gain to close at 14.9500/\$, it nevertheless remains well within its recent range around the 15.0000/\$-handle. However, the ZAR and a handful of other EM currencies were notably more resilient than most major currencies during intraday trade, as the USD remained on the front foot against its DM counterparts, drawing support from lofty US Treasury yields and risk-off sentiment.
- As investors remain concerned over global inflationary pressures affecting global growth, markets have been quick to price in rate hike risks, with SA notably expected to be next in line. While ZAR sentiment may improve on that front ahead of the SARB's November MPC meeting, we maintain that the SARB, which remains steadfast in its data-driven approach, would have enough justification in keeping rates on hold this year should the ZAR hold up. Inflation remains a little over the midpoint of the central bank's target range at 4.9% y/y, while domestic data continues to show an uneven recovery underway.
- As for yesterday's data releases, mining production fell by 2.4% m/m in August. While output was 2% higher on an annual basis, the data still suggests the sector's recovery is topping out. With the industry struggling with persistent structural challenges, this is likely to dampen many of the positive effects from the commodity cycle boom, both for the fiscus and the ZAR. On a positive note, the manufacturing sector recovered more than anticipated in August. Output expanded 7.6% m/m, coming from a July contraction of -8.4%, and beat expectations for a 6.1% m/m increase. With the easing of restrictions at the end of July and the revival of supply chains following the July riots, it should be no doubt that the sector was able to post such a significant gain. However, the pace of recovery is likely to be limited going forward. The SARB has already noted the post-pandemic recovery has largely been completed, while rising input costs remain a headwind for the sector.
- For the day ahead, retail sales data will conclude this week's domestic data card and will offer valuable insight into the ongoing recovery of aggregate demand across SA. The easing of restrictions and following July's riot-driven contraction should have equally lifted retail sales in August. However, subdued consumer sentiment may have dampened sales figures, while persistently high unemployment continues to constrain demand. While a rebound is expected, a softer figure could see the currently priced-in rate hike potential scaled back in trade today, which would put downside pressure on the ZAR. Externally, notable stateside data will steal focus later in the afternoon, with US inflation and the Fed's September FOMC meeting minutes gracing the data card. Stubbornly high inflation will continue to put pressure on the Fed to begin reducing monthly asset purchases, and when it may do so will be gauged from its September meeting minutes. While the USD has come under pressure in early morning trade, the gravity of these releases could see the greenback continue to trade with an upwards bias going forward should they support Fed tapering bets.

Contacts

Mogamisi Nkate	+267 3674335	email: mnkate@bancabc.com
Phillip Masalila	+267 3674621	email: pmasalila@bancabc.com
Kefentse Kebaetse	+267 3674336	email: kkebaetse@bancabc.com
Maungo Sebonego	+267 3674338	email: msebonego@bancabc.com

Report produced by ETM Analytics for BancABC Botswana.

Disclaimer

The information provided herein has been prepared solely for informational purposes and is not an offer to buy or sell or a solicitation of an offer to buy or sell the securities or instruments mentioned or to participate in any particular trading strategy. These materials have been based upon information generally available to the public from sources believed to be reliable. No representation is given with respect to their accuracy or completeness, and they may change without notice. BancABC on its own behalf and on behalf of its affiliates disclaims any and all liability relating to these materials, including, without limitation, any express or implied representations or warranties for statements or errors contained in, or omissions from, these materials.