

Botswana Market Watch

13 September 2021

GMT	International and Local Data			
18:00	BO US	Nothing on the cards Monthly budget statement	Aug	\$-302,10bn

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
Japanese inflation	Wholesale inflation in Japan through August rose to a 13-year high of 5.5% y/y, as imports costs continue to surge	Recovering global demand, logistics costs and commodity prices all weigh	3/5 (economy)	This is a theme that is prevalent across many markets and has yet to fully filter through into consumer prices as costs are absorbed through the value chain
Fedspeak	Cleveland Fed President Mester has indicated that she would still like the Fed to begin its tapering later this year	The disappointing Aug employment data has not changed her mind	4/5 (economy, monetary policy, markets)	The general trend in the labour market is an improving one, and with inflation high, there is very little justification for not tapering later this year
Iran nuclear deal	Geopolitically, it is positive that a deal was struck between the UN atomic watchdog and Iran to allow the overdue servicing of monitoring equipment	This may be the start of thawing relations to the point where a fresh nuclear deal could be struck	2/5 (geopolitics)	This took the form of a last-minute agreement before the 35-nation Board of Governors passed a resolution criticising Iran for preventing the monitoring from taking place

Local FX Opening Rates and Comment

CUSTOMER					CUSTOMER					CUSTOMER					CUSTOMER				
BUY		SELL		BUY		SELL		Benchmark Yield Curve					Forward Foreign Exchange						
CASH		CASH		TT		TT													
BWPZAR	1.2418	1.3630	1.2657	1.3499	6m	1.5740					1m	-2.0963	BWPUSD	0.0000					
BWPUSD	0.0875	0.0959	0.0891	0.0950	3y	4.8250					3m	-6.2888	BWPZAR	0.0000					
GBPZAR	15.7998	14.4094	15.4580	14.7096	5y	5.8250					6m	-15.0345		0.0000					
BWPEUR	0.0741	0.0812	0.0758	0.0797	22y	8.4750					12m	-35.6655		0.0000					
JPYZAR			9.8447	10.3175															
USDZAR	13.6304	14.7831	13.9498	14.4633															
EURUSD	1.1331	1.2279	1.1596	1.2014															
GBPUSD	1.3285	1.4394	1.3597	1.4082															
					Equities					Economic Indicators									
					BSE Domestic Index	6742.79	GDP	0.7	Bank Rate	3.75									
					BSE Foreign Index	1548.82	CPI	8.9											

- Following on from the good news surrounding the mining sector last week we have De Beers reporting a provisional revenue number of \$515m for the 7th auction of rough diamonds which was held in Gaborone recently. This is slightly higher than the \$514m reported at the last auction but it is a 54% improvement on the corresponding auction last year where we were in the thick of the COVID-19 uncertainty and travel restrictions.
- While there has been an improvement in the numbers, De Beers have been quick to warn that there are risks in the second half of 2021. New COVID-19 variants are threatening key consumer markets such as China and the US. The delta variant has taken hold and this may dampen consumer sentiment.
- Looking at the week ahead, the inflation data out of the United States will hold significance. Consumer inflation in the U.S. is expected to have moderated slightly from the surge seen in July. Price pressures within reopening-sensitive sectors are easing as the economy is slowly normalising, but certain categories such as used vehicles and rents will keep the headline elevated over the next few months. Given the sensitivity of global markets to inflation at the moment, any surprises in the data will be market moving. A miss will increase bets that the Fed will delay the tapering of its bond-buying programme, while conversely, any higher than expected numbers will see bets increase that tapering will happen before the end of this year.
- In other developments, it is notable, although not surprising, that the Dow and S&P have posted five days worth of losses. Whether this is sustained or not will impact sentiment across many other risk markets. Recent earnings reports have been strong, so instinctively, one could argue that the retreat is not warranted and is nothing more than a breather in a long-term trend. However, in most market-related matters, it is not always the obvious argument that wins the day. Often it also relates to just how much good news has been priced in relative to recent trends.
- Moving onto the FX markets, through the past week, the USD staged a recovery. It is not surprising given the retreat in equity markets that has raised overall levels of risk aversion, although it should be added that Wall St futures are moderately positive this morning at the time of writing. U.S. inflation tomorrow will take centre stage, and anything higher than the 5.3% y/y anticipated could further boost the USD's performance. Technicals on the daily are non-committal and do not favour any outright direction one way or another. This may be in anticipation of the data this week and the bias it might generate.
- The BWP remains anchored above the 0.0900 as we head into the new work week, we would however expect a cautious start to the session given the fact that the USD has staged a mild recovery.

ZAR and Associated Comments

- The ZAR initially led emerging market currencies into the end of the week, hitting a 14.0600/\$ intraday high, the unit's strongest level since late June. However, the local currency ultimately reversed gains, with the USD-ZAR currency pair sticking to support around the 14.2000/\$-handle. Nevertheless, the ZAR still led weekly gains amongst a broadly depressed EM currency basket, securing its third weekly gain as it advanced 0.75% from the previous week's close. Meanwhile, the US dollar stabilised enough during the week for it to post its first trade-weighted weekly gain in a month.
- Some positive news over the weekend has followed with President Ramaphosa announcing last night that virus restrictions will be relaxed by one level from the government's alert level three. Included in the changes, alcohol sales will now be permitted on Fridays, non-essential establishments such as bars and restaurants will be allowed to remain open until 10pm, with shortened curfew hours and increased sizes of gatherings permitted. The relaxation of ongoing restrictions, allowing more freedom of trade and economic activity, is undoubtedly positive for the broader economy and economic recovery underway. However, this will likely have only a marginal effect in the near term, especially given July's domestic unrest.
- Furthermore, the stop-start nature of restrictions and potential risks from a fourth wave of infections will likely see business confidence subdued for some time until there is greater clarity of an exit to the pandemic and no more return of restrictions. On that front, Ramaphosa urged the public to get vaccinated so that risks from a fourth wave of infections could be mitigated, while he also announced plans to introduce "vaccine passports" with more information to follow in the next two weeks.
- As for the day ahead, a slim global data card means markets may err on the side of caution ahead of a data-filled week. Sentiment during the Asian trading session has been a poor showing, with most Asian equities trading weaker. Moves in FX markets have been similar, with the USD picking up where it left off last week, stronger against most major currencies. Markets will be waiting in anticipation for tomorrow's US August CPI release, which has yet to show any easing of inflationary pressure and is proving to be an ongoing bugbear for a Fed preferring to maintain its highly accommodative policy stance. Domestically, July's delayed mining production data is expected to kick off the domestic data card tomorrow, while retail sales data is due Wednesday. As for the local currency, its moves remain highly correlated with market risk appetite and thus broader USD dynamics. With the USD stabilising and looking to form a base, this suggests the ZAR may encounter some headwind resistance on its current bullish run..

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