

Botswana Market Watch

14 September 2021

GMT	International and Local Data				
09:00	BO	7-Day Certificates on offer			
04:30	JN	Industrial production y/y		Jul F	11.60%
06:00	GB	ILO unemployment rate (3mths)		Jul	4.60% 4.70%
12:30	US	CPI y/y		Aug	5.30% 5.40%
12:30	US	Real ave weekly earnings y/y		Aug	-0.70%

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
Virus latest	Southeast China has announced lockdown restrictions on travel as they seek to quell what appears to be the start of a Delta variant outbreak that they may spread	Although the absolute numbers are small, the restrictions will still detract from economic growth	3/5 (economy)	China's economic data reflects a loss in momentum, with the economic surprise index also showing surprises in the data to the downside. Further restrictions only serve to exacerbate this move
USD speculation	It is worth noting that the net long speculative positions on the USD remained relatively stable as of a week ago	No major change in USD positioning against the EUR and the JPY	2/5 (markets)	Whereas specs reduced their positions on the GBP, CAD and CHF and AUD in favour of the USD, they raised positions on the MXN and NZD to offset that
Oil prices	Oil prices have broken above recent prior highs as investors position for the prospect of more disruptions courtesy of another brewing storm	The recovery from Hurricane Ida has been slow, and disruptions fairly substantial	4/5 (market)	Another disruption of similar magnitude may keep refineries operating well below potential for a while and further pressurise the market through higher prices

Local FX Opening Rates and Comment

	CUSTOMER BUY		CUSTOMER SELL		Benchmark Yield Curve	Forward Foreign Exchange					
	CASH	CASH	TT	TT			BWPUSD	BWPZAR			
BWPZAR	1.2400	1.3520	1.2639	1.3390	6m	1.5750					
BWPUSD	0.0876	0.0954	0.0893	0.0945	3y	4.7250	1m	-1.9598 0.0000			
GBPZAR	15.7754	14.4942	15.4342	14.7961	5y	5.8250	3m	-6.2790 0.0000			
BWPEUR	0.0742	0.0807	0.0759	0.0792	22y	8.4750	6m	-15.0053 0.0000			
JPYBWP			9.8741	10.2666			12m	-35.4023 0.0000			
USDZAR	13.5818	14.7435	13.9001	14.4245							
EURUSD	1.1340	1.2290	1.1606	1.2024							
GBPUSD	1.3291	1.4403	1.3603	1.4091							
						Equities					
						Economic Indicators					
						BSE Domestic Index	6740.77	GDP	0.7	Bank Rate	3.75
						BSE Foreign Index	1548.82	CPI	8.9		

- A number of substantial companies have appealed to the UK Prime Minister Boris Johnson to ease the travel restrictions that the UK has in place with southern Africa saying that it is hampering trade. A lobby group including the South African units of BMW AG, JPMorgan Chase & Co., Old Mutual and TotalEnergies SE were amongst the signatories of the business letter to the Prime Minister. The letter stated that the limit of movement is jeopardising the competitive advantage the UK has, which stem from its historical, cultural and economic links with Africa.
- Tourism in the region has taken a severe hit from being on the UK red list as it makes travel extremely cumbersome. Equally business travelers have steered clear of the region given the need to quarantine on return to the UK.
- From an international perspective, today's US inflation data is arguably the most important data event of the week. It is a major consideration for the Fed and will therefore hold market-moving potential. 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.
- While the inflation data holds consequences for monetary policy, fiscal policy is set to change significantly as well. The Democrat-controlled Congress will be seeking to roll back the Trump tax breaks in a bid to raise the funding needed to pay for the massive infrastructural spending programme that the Biden administration wishes to embark on. Democrats currently feel emboldened by their majority in the House and the ability to force through changes in the Senate and will utilise the pandemic as the justification for the government needing to do more. Increasingly, more socialist principles are being adopted, which comes attached to higher overheads that will need to be funded perpetually. The Republicans will challenge these views and policies were possible but are limited in the degree of resilience they can offer.
- Politically, the Biden administration came under scrutiny and criticism when Secretary of State Blinken testified before a congressional hearing, where two Republicans even called for his resignation. Blinken repeatedly pointed out that former President Trump was the one to make the original agreement they honoured. The Afghan army was the main culprit behind the quick and dramatic capitulation that allowed the Taliban to take control. It has become a P.R. nightmare for the Biden administration and the Democrats and has impacted them heavily in the opinion polls.
- Moving onto the FX markets not much change to the USD that continued to trade in a tight range ahead of today's CPI reading. Directional momentum is weak, and a fresh catalyst is needed. Equity markets are a little stronger today, and risk aversion has subsided, which has dampened some of the bid for USDs. Technical indicators are not favouring much direction either, leaving investors on the sidelines until the CPI data is released to offer something to trade on.
- The BWP remains anchored above the 0.0900 against the greenback. The bullish undertone is receiving additional support from the positive performance of the ZAR which remains strong in the face of a USD that has stabilised.

ZAR and Associated Comments

- Risk appetite kicked off the week on a tetchy note, with the USD remaining on the front foot for most of the domestic trading session. However, a late afternoon pullback saw the USD trade-weighted index (DXY) pare gains on the day as FX markets struggled for clear cut direction. The ZAR, meanwhile, snapped broader market moves as it gained amongst only a handful of emerging market currencies yesterday. The local unit was up amongst commodity currencies, ultimately gaining 0.35% for the first trading session of the week to close at 14.1600/\$.
- As for broader emerging market sentiment in recent weeks, risk appetite has remained largely supportive. Given the ZAR's sensitivity to risk dynamics, it is unsurprising that it has shot to the top spot in recent weeks as investors have continued to pour into EM asset classes. According to data compiled by Bloomberg, US-listed emerging market ETFs recorded inflows for the third straight week last week. This ultimately speaks to the outlook for US monetary conditions and the potential risks to Fed asset purchase tapering or overall tightening of monetary policy. With interest rates set to remain low for some time still, investors will continue to favour EM asset classes over traditional, safer stateside options, which will continue to contribute to downside pressure on the USD in the short to medium term. Additionally, the prospect of higher taxes amongst developed nations, especially in the US, will likely stoke the bias towards EM asset exposure. As for ETFs which purchase SA assets, these recorded inflows of \$7.2 million, of which \$6.3 million were equity inflows and the remainder into funds that purchase domestic bonds.
- As for the day ahead, delayed mining production data for both June and July will finally be released. Given last week's Q2 GDP release used estimates for June's mining output, this may be the source of some revision to second quarter growth estimates. However, these figures are extremely dated, which will remove most significance, especially given the social tensions which followed. The July figures, meanwhile, will provide further evidence into the impact of the civil unrest in the country, although the sector should have escaped largely unscathed.
- Externally, most focus will be drawn to the US' August inflation print later today, which is expected to have remained above 5% y/y for the fourth consecutive month. Investors will be gauging how heightened inflation will be debated amongst Fed officials and, with the Fed's September FOMC meeting due next week, this holds significant market-moving potential. In the spot markets currently, however, EM currencies have traded broadly in the green during early Asian trading hours. The USD has held a narrow range, however, with the market likely gearing up for potential turbulence in the event of a shock inflation print.

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