

Botswana Market Watch

17 September 2021

GMT		International and Local Data			
	BO	Nothing out			
06:00	GB	Retail sales excluding auto fuel y/y	Aug	2.40%	1.80%
08:30	GB	BoE/GfK inflation (next 12 months)	Aug		2.40%
09:00	EZ	CPI y/y	Aug F	3.00%	2.20%
09:00	EZ	Construction output wda y/y	Jul		2.80%
14:00	US	Michigan consumer confidence	Sep P	72,00	70,30
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	
Biden approval	US President Biden's approval rankings have dropped to the lowest in his presidency with just 44%. His administration's handling of the virus and the pandemic are key factors	Trump's ratings at the same time were lower, and the possibility exists for recovery if the economy improves	3/5 (politics)	An economic recovery coupled with better management of the pandemic will play an important role in whether the Biden administration will recover to offer the Democrats a stronger platform to campaign with, in 2024	
China - Trade relations	China has applied to join the CPTPP as it seeks to extend its influence in global trade. 11 countries have already signed the CPTPP	This is strategically important given the US's withdrawal. The door is now open for China to play a part	4/5 (economy)	Although there may be some internal resistance, most notably from Japan, that will set very high standards that China may find difficult to meet, it highlights China's desire to grow its influence	
US debt ceiling	Republican Senate leader McConnell has told Treasury Secretary Yellen that Democrats will have to raise the debt ceiling on their own as a protest against Democrat spending sprees	Raising the debt ceiling should not be a major challenge given the unified Congress for the Democrats	3/5 (politics, fiscal policy)	The remaining room to fund the government will be exhausted by October, and the Democrats will have to use their majorities in the House and the Senate to pass the bill which the Republicans will not be a party to	

Local FX Opening Rates and Comment

	CUSTOMER BUY		CUSTOMER SELL		Benchmark Yield Curve		Forward Foreign Exchange			
	CASH	CASH	TT	TT						
	BWPZAR	1.2584	1.3707	1.2826	1.3575	6m	1.5750		BWPUSD	BWPZAR
BWPUSD	0.0863	0.0942	0.0880	0.0933	3y	4.7250	1m	-2.0183	0.0000	
GBPWP	15.9644	14.6700	15.6190	14.9757	5y	5.8250	3m	-6.2303	0.0000	
BWPEUR	0.0733	0.0798	0.0751	0.0782	22y	8.4750	6m	-18.6859	0.0000	
JPYBWP			9.6973	10.0936			12m	-35.4023	0.0000	
USDZAR	13.9976	15.1796	14.3256	14.8512						
EURUSD	1.1299	1.2242	1.1564	1.1977						
GBPUSD	1.3247	1.4352	1.3558	1.4042						
					Equities		Economic Indicators			
					BSE Domestic Index	6848.31	GDP	0.7	Bank Rate	3.75
					BSE Foreign Index	1548.82	CPI	8.9		

- Local news flow is on the thin side however that does not mean that markets have nothing to trade on and corporates do not feel the impact of macro developments globally.
- China remains the focal point from an international perspective given the impact that the potential collapse of the Evergrande Group will have on the price of base metals and sentiment in general. News vendors have focused on this topic since the start of the week with analysts unpacking the various permutations and impact it will have on the market. To date the group has some \$300bn worth of liabilities and there is a strong chance that the Chinese government will need to step in with a bail-out. The contagion risk is high given how the Chinese property sector is so intertwined into global raw material supply chains.
- In terms of the United States, U.S. Treasury Secretary Yellen has called on Congress to press ahead with extending the debt ceiling, or the government will run out of room to fund itself through October. Thus far, very little has been done, and it would appear that party politics will play a role. Senate Republican leader McConnell has reiterated that the Democrats will have to pass the bill on their own, and their majority in both the House and the Senate allows them to. He has placed the ball firmly in the Democrats court, announcing publicly the Republicans' unwillingness to countenance any further spending ahead of the \$3.5trln infrastructure spending package which the Biden administration wishes to pass. The Republicans will effectively force the Democrats to "own" the entire process, from the tax hikes to the spending they believe is excessive and wasteful.
- Regionally, leaders on the continent this week met to discuss ways to minimize the impact of climate change. Africa generates about 3% of global greenhouse gas emissions, the lowest of any continent. But it is more vulnerable than any other region in the world since it is heavily reliant on the natural environment for food, water, and medicine. Speaking at the virtual conference, Nigerian Vice-President Yemi Osinbajo said that African governments need to keep the climate in mind as they try to boost their economies. Note that the Center for Research on the Epidemiology of Disasters reported that in 2019, Africa recorded 56 extreme weather events compared to 45 in the previous year. The extreme weather patterns affected the lives of 16.6mn people in 29 countries. At least 13mn of them were from five countries: Kenya, Mozambique, Somalia, Tanzania, and Zimbabwe. Meanwhile, West Africa had fewer weather-related catastrophes but is feeling the effects of global warming just the same. United Nations officials called for the need to improve cross-border information-sharing and cooperation to handle climate-related crises, while Osinbajo suggested that governments encourage greater use of natural gas and plant more trees to maintain forests that can soak up carbon dioxide and prevent it from warming the atmosphere.
- Moving onto the FX markets, ahead of next week's FOMC meeting, the USD appears to have consolidated yesterday's gains. It remains rangebound for the most part, and directional momentum is still lacking. However, there is an underlying firmer bias to the USD promoted by the global stock market correction, which lifted overall levels of risk aversion, and a correction lower in commodity prices. Both will count against emerging markets that will tend to rotate to the safety of the USD. Only the upcoming weekend may be enough to dissuade investors from taking any significant position and keep the USD rangebound.
- Given the movements in the dollar overnight coupled with the weakness in the rand it was not surprising to see the BWP-USD slip below the 0.0900 handle. Emerging markets have consolidated this morning which does suggest that for now further losses are unlikely.

ZAR and Associated Comments

- Global FX markets took a dive yesterday as the US dollar surged ahead on more robust than expected retail sales data. The stronger stateside data came despite labour market growth subsiding in August and painted the picture of healthy consumption dynamics in the US, ultimately reducing the impact of softer inflation data earlier in the week. This feeds the view that there are is yet more upside pressure on inflation occurring than simply base effects, especially as labour market slack is taken up. The risk here for the Fed is that it may be forced to begin abandoning its transitory inflation narrative and potentially announce prospects to reduce asset purchases.
- While the potential for tapering asset purchases comes into view, emerging market currencies that thrive on loose offshore financing conditions will likely be pressured into trading with a downside bias. This should indeed be the case for the local currency. Yesterday continued to highlight the ZAR's sensitivity to a strengthening US dollar as it traded amongst the laggards of the EM sample of currencies. Closing 1% down just shy of the 14.6000/\$-handle, the local unit extended losses to a third day.
- Looking ahead, higher ZAR volatility is still being priced into the market. Implied volatility on USDZAR at-the-money options continued to rise yesterday, with the one-week tenor surging to its highest since mid-July. This suggests a higher degree of risk is to be expected as the following week holds both the Fed's FOMC policy event, as well as the SARB's rate decision. As for this week, the ZAR is currently sitting at the bottom of the EM currency sample as it has traded roughly 2.50% weaker against the USD from last week's close. Should the USD continue to trade with a tailwind ahead of the important policy events next week, pressure on the local currency should be comparatively heavier given its higher-beta nature.
- As for the day ahead, the external data card remains hot with the final Eurozone inflation print for August, followed by a provisional September US consumer confidence release. After yesterday's US retail sales data, which appeared to revive prospects of sooner Fed policy tightening, markets will be eyeing consumer confidence dynamics for an indication of how US consumption demand has held up in September thus far. The consumer confidence index fell to a near decade low at the last print as higher inflation and smaller job gains in August weighed on consumer sentiment. However, should sentiment have remained subdued, there is the potential for the USD to lose some of its shine heading into the weekend. In the meantime, sentiment in Asian stock markets has improved, with Chinese equities broadly in the green following this week's string of losses.

As for emerging market currencies, the market's mood remains mixed, but a major return of risk appetite is unlikely ahead of next week's US central bank policy decision.

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