

# Botswana Market Watch

# 20 September 2021

GMT		International and Local Data			
06:00	BO	Nothing out			
10:35	GE	Producer prices y/y		Aug	10,4%
14:00	EC	ECB's Schnabel Speaks in Riga conference			
	US	NAHB Housing market index		Sep	74 75
Africa	What happened?	Relevance	Importance	Analysis	
<b>Global economic data</b>	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	
<b>Africa-China trade</b>	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	
<b>OPEC +</b>	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	
<b>UK's travel list</b>	The UK took another step forward in opening up their economy for travel as they did away with the amber list and shrank the size of the no-go countries	There is another review that will take place on the 4 <sup>th</sup> October to further open up travel	4/5 (economy, markets, politics)	Travel restrictions will in the future be limited mainly to those that remain unvaccinated and will likely include mandatory PCR tests. Vaccine passports remain a contentious issue	
<b>US debt ceiling</b>	Treasury Secretary Yellen on Sunday again called on Congress to raise the federal debt ceiling, reminding lawmakers that a US debt default would damage the US permanently	The ball has been thrown into the Democrats' court, with Republicans unwilling to support Democrat spending	4/5 (economy, politics)	A debt default is a highly unlikely scenario, and the Democrats can use their majority in both houses to raise the debt ceiling. The Republicans, in turn, are using this opportunity as a protest to spending plans	
<b>US consumer confidence</b>	Michigan sentiment index for Sep steadied at a reading of 71.0 vs an Aug reading of 70.3, which reflected the largest drop in a decade.	Consumers' expectations gradually improved to more than offset current conditions	3/5 (economy, monetary policy)	Of some concern was the rise in inflation expectations, which the Fed will want to counter when they meet this week. The Fed will want to ensure that inflation expectations stabilise	

## Local FX Opening Rates and Comment

	CUSTOMER BUY		CUSTOMER SELL		Benchmark Yield Curve	Forward Foreign Exchange				
	CASH	CASH	TT	TT			BWPUSD	BWPZAR		
BWPZAR	1.2753	1.3919	1.2998	1.3786	6m	1.5750				
BWPUSD	0.0860	0.0938	0.0877	0.0929	3y	4.7250	1m	-1.9208 0.0000		
GBP/BWP	15.9134	14.5905	15.5691	14.8944	5y	5.8250	3m	-6.1230 0.0000		
BW/PEUR	0.0734	0.0801	0.0752	0.0785	22y	8.4750	6m	-14.6445 0.0000		
JPY/BWP			9.6776	10.0936			12m	-34.5833 0.0000		
USDZAR	14.2330	15.4317	14.5665	15.0979						
EURUSD	1.1242	1.2179	1.1505	1.1916						
GBPUSD	1.3161	1.4258	1.3469	1.3950						
					Equities		Economic Indicators			
					BSE Domestic Index	6848.31	GDP	0.7	Bank Rate	3.75
					BSE Foreign Index	1548.82	CPI	8.9		

- The Finance Ministry is looking at various options regarding the BWP3bn worth of Special Drawing Rights reserves allocated to Botswana by the International Monetary Fund last month. MMENGI reported the following - *Finance and Economic Development minister, Peggy Serame told BusinessWeek the Bank of Botswana could provide a loan to the government for some or all of the value of the SDR allocation. "This loan would be credited into the government's account at the BoB, and provide additional resources for government to spend," she said in a recent written response to BusinessWeek enquiries. "This would, therefore, increase public debt." Serame stressed that SDRs are not a currency and cannot be spent directly.*
- We previously mentioned that the way the government would access hard currency would be by exchanging them for hard currency with another IMF member on a voluntary basis. The additional SDRs should rather be viewed as a line of credit that can be used when needed.
- There was some good news on Friday as the global ratings agency, Standard & Poors upgraded Botswana's outlook to stable from negative citing prospects of a stronger economic recovery as a reason for the adjustment. The agency stated that they believe a recovery in the diamond sector will underpin the rebound while other mining activities will play a role in lifting the general outlook. The agencies analysts stated that *the country has "robust and predictable" institutional and monetary policy frameworks, modest net general government debt levels and relatively strong net external position, in justifying their review of the outlook.*
- On the international front, it will be a quiet start to the week with Japan and China on holiday, but it will not be a quiet week with a trio of key central banks announcing their decisions. The BoE, the BoJ and the Fed will all be offering fresh perspectives on the outlook for their respective economies and offer guidance on their policy stance. Of the three, it will naturally be the Fed that will take centre stage, with investors seeking insight over the timing of any monetary policy normalisation through the taper.
- Treasury Secretary Yellen again pleaded with Congress to overcome their party-political differences and raise the debt ceiling on the fiscal front. The Republicans stand firm in their reluctance to do so as a means of protesting the planned spending on infrastructure which the Democrats wish to undertake. Republican leader McConnell reiterated that the Democrats had the majority in both houses of Congress and therefore did not need the Republicans' support. However, it gets passed, Yellen reiterated the damage that would be done to the U.S. economy if a default were allowed to unfold. As always, this will likely go down to the wire, but it is highly improbable that Congress will allow any form of default event to take place.
- U.S. medical advisor to the president Dr Fauci on the pandemic indicated that data needed to determine the advisability of booster shots from Moderna and J&J shots is just weeks away. At this point, it remains unclear whether booster shots are even necessary, other than for the heavily immuno-compromised. On the vaccination of children, the data will become available towards the end of the month.
- Ahead of the FOMC decision, the USD is on the front foot. However, the reasons may not be related to the Fed's taper timeline. On the contrary, it is related to some of the heavy losses sustained in Asian markets this morning. Rising expectations that China's Evergrande could lead to domino effects on other developers have spooked investors that have rotated away from stocks. Risk aversion has risen, and investors in riskier asset classes will lighten up on their exposure in favour of USD assets.
- Given the movements in the dollar last week coupled with the weakness in the rand it was not surprising to see the BWP-USD slip below the 0.0900 handle and hold there. Emerging markets are taking a beating this morning and this suggests a difficult open for the local markets.

## ZAR and Associated Comments

- After running into topside resistance at its 50-day and 200-day moving average at the end of last week, the USDZAR initially looked set to end the week slightly less buoyant than it was in the preceding days. However, late Friday afternoon selling pressure saw the ZAR trade weaker against the USD, ending the day 0.90% down at 14.7200/\$. With that being its fourth consecutive daily decline, the local unit secured a 3.50% loss over the course of last week. While riskier assets and emerging market currencies struggled broadly against a rebounding US dollar, the ZAR led the underperformance by some margin. The next worst currency performer was the similarly volatile Turkish Lira, which sank 2% over the same period.
- The week ahead promises to be no less volatile than the last, with a US central bank policy decision as well as a domestic policy update from the SARB. While these will likely be the source of near term volatility in FX markets, markets will be wary of overstretching moves in the run-up to these events. Having said that, the USD has remained on the front foot over the weekend into morning trade today after surging into the end of last week. However, risks for the USD remain with the Fed holding its dovish stance. Given August's weaker hiring and softer inflation data last week, the Fed could hold back on any taper discussions and rather see fit to push these out to the November meeting. Should this be the case, the dollar will have few tailwinds in the near term to sustain a bull run.
- Domestically, markets will be gearing up for the SARB's policy decision. Given the disruptions to Q3 economic performance, in the form of tightened lockdown restrictions and civil unrest, the SARB will have ample justification in holding off on any rate hikes. However, this was already largely expected, with limited rate hike potential anticipated through to the end of the year. Of more importance will be the central bank's growth and inflation outlook, as these will provide an indication of when rate hikes could commence. On that front, in its Global Economic Outlook released Friday, ratings agency Fitch raised SA's 2021 economic growth forecast to 5.3% from 4.9% previously, following rebased GDP data showed that average output was higher through end-2020 to early 2021. While Fitch upgraded its growth forecast for 2021, it is worth noting that risks to the growth outlook remain tilted to the downside in South Africa.
- Ahead of the SARB's policy decision, domestic markets will also be anticipating August's CPI release due Wednesday. In the meantime, the ZAR is likely to remain sensitive to broader market momentum, which has already been the case in early morning

trade. While thinned liquidity has seen limited potential for a return of risk appetite, with Chinese and Japanese markets shut for holidays, the ZAR has continued to lead losses at the start of the week. The USD, meanwhile, should remain supported ahead of the Fed's policy update, suggesting the ZAR will have little upside in store in the near term.

## Contacts

Mogamisi Nkate	+267 3674335	email: <a href="mailto:mnkate@bancabc.com">mnkate@bancabc.com</a>
Phillip Masalila	+267 3674621	email: <a href="mailto:pmasalila@bancabc.com">pmasalila@bancabc.com</a>
Kefentse Kebaetse	+267 3674336	email: <a href="mailto:kkebaetse@bancabc.com">kkebaetse@bancabc.com</a>
Maungo Sebonego	+267 3674338	email: <a href="mailto:msebonego@bancabc.com">msebonego@bancabc.com</a>

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