

Botswana Market Watch

21 September 2021

GMT	International and Local Data				
09:00	BO	BWP7.9bn 7-Day certificates on offer			
07:05	EC	ECB's Guindos Speaks			
09:00	EC	OECD Publishes Interim Economic Outlook			
12:30	US	Building permits	Aug	1595k	1635k
12:30	US	Housing Starts	Aug	1543k	1534k
12:30	US	Current account balance	2Q	\$-190bn	\$-195,70bn

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
Stock markets	Stock markets in Asia, in particular, are correcting lower on fears that Evergrande's collapse could spark knock-on difficulties in other construction companies	It speaks to a fragile, over-indebted system that is prone to shocks and a correction	4/5 (economy, markets)	No signs of any plans to bail out the company, and investors are therefore positioning for the risk of a default and all the knock-on implications it might have on other companies and growth
Canadian elections	Justin Trudeau's Liberals have won the election in Canada but were unable to secure a majority. How stable the minority govt will be is up for debate	It is likely to be more of the same for Canada, with policy continuity likely given Trudeau's win	4/5 (economy, politics)	It remained an election dominated by concerns over the Covid pandemic and the rebuilding of the economy. On balance Trudeau is considered to have done a good job
US travel ban lifted	The US has decided to lift its travel ban on fully vaccinated people from the UK and most EU. In addition, Ireland, China, Iran, Brazil, India and South Africa also enjoy the ability to travel	This is a positive step that will help kick-start the tourism and hospitality industries and lead the way for others to follow	3/5 (economy)	Biden's move unwinds the travel ban imposed by the Trump administration. Increasingly, governments are opening up and placing the onus on people to get vaccinated. This move will likely see other countries follow suit.

Local FX Opening Rates and Comment

	CUSTOMER BUY	CUSTOMER SELL	CUSTOMER BUY	CUSTOMER SELL	Benchmark Yield Curve		Forward Foreign Exchange			
	CASH	CASH	TT	TT			BWPUSD	BWPZAR		
BWPZAR	1.2582	1.3797	1.2824	1.3664	6m	1.5770				
BWPUSD	0.0853	0.0933	0.0870	0.0924	3y	4.7250	1m	-1.9208 0.0000		
GBP/BWP	15.9954	14.6127	15.6494	14.9172	5y	5.8250	3m	-6.1230 0.0000		
BW/PEUR	0.0728	0.0796	0.0745	0.0780	22y	8.4650	6m	-14.6445 0.0000		
JPY/BWP			9.5696	10.0122			12m	-34.5833 0.0000		
USDZAR	14.1530	15.3636	14.4847	15.0312						
EURUSD	1.1264	1.2203	1.1528	1.1939						
GBPUSD	1.3122	1.4220	1.3430	1.3912						
					Equities		Economic Indicators			
					BSE Domestic Index	6850.41	GDP	0.7	Bank Rate	3.75
					BSE Foreign Index	1548.83	CPI	8.9		

- The global landscape can certainly be viewed as colourful at the moment. Investors are gearing up for the US Federal Reserve's decision on rates as well as further guidance on monetary policy tomorrow while navigating the perils caused by the Chinese property developer Evergrande.
- While the likes of gold have received a safe haven bid as a result of the Evergrande debt crisis, the same cannot be said for base metals. There is a cloud over the base metal counters this morning in Asia as investors price for the worst.
- The Chinese property giant has been scrambling to pay its suppliers as it buckles under the weight of \$305bn worth of liabilities, fears of contagion risks in the broader Chinese financial system are warranted however it is unlikely that the Chinese will let a default occur. The most likely outcome will probably be nationalisation given the fact that the Beijing will want to save workers interests but will not be keen to be seen supporting the rich with a "bail-out"
- Copper has recovered off its lows this morning. The 3m LME benchmark is currently marking time around the \$9070.00/tonne level as we head into the start of the EU session.
- These developments are important to Botswana as the country relies strongly on China as a consumer of its raw materials especially from the Kalahari Copper Belt which is a strategic growth area for the country. China's influence and funding structures across Africa are well documented, and thus any potential wobble in Africa's largest market will cause investors to sit up and pay attention.
- Moving over to the US, the Biden administration has taken the decision to lift its travel ban on the U.K. and most of Europe, together with a list of other countries including Brazil, India, South Africa, Iran, China and Ireland. The move effectively rolls back the Trump administration's travel ban and raises the pressure on other significant economies to do the same. Vaccinations are now easily obtained, and the data shows are effective against severe Covid sickness and hospitalisations. Although it is unclear how efficient the vaccines are at preventing transmission, vaccinated people are less likely to impact healthcare systems and are allowed to travel. The onus is gradually being placed on adults to make their choice. It is, however, clear that those who choose to remain unvaccinated will not enjoy the same travel benefits. The move is seen as a positive step for the tourism and hospitality industries of all the countries listed.
- There is not much change from yesterday, with the USD still consolidating its recent gains. Ahead of the FOMC decision and guidance on Friday, investors could well turn a little consolidative in their stance, and trading ranges could tighten. Risk aversion levels remain elevated, and although not out of its normal trading range, it is trading closer to the more USD supportive part of the range. Emerging market currencies are still looking fragile, and commodity prices remain well off their best levels. The scales, for now, remain tilted towards a stronger USD, although there is a lot of Fed tapering news priced in.
- 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 remain on the back foot this morning and this would suggest a similar cautious open as experienced yesterday for local markets.

ZAR and Associated Comments

- The ZAR continued yesterday from where it left off last week, securing its fifth daily decline to close above the 14.8000/\$-handle, its weakest level in over three weeks. However, major and emerging currencies were broadly pressured as the USD remained supported ahead of the Fed's policy update due Wednesday. Furthermore, a notable elevation in risk aversion has hit riskier assets and EM currencies. This has stemmed from Chinese property developer Evergrande's potential inability to make upcoming debt payments, which investors fear may have contagion effects should the Chinese government fail to step in. All in all, this provided a significant boost to haven currencies at the start of the week, with investors predominantly preferring the safety of the greenback.
- Domestically, developments on the political spectrum were on newswires yesterday, with the Constitutional Court dismissing the Democratic Alliance's application to prevent the Independent Electoral Commission (IEC) from reopening candidate applications. This effectively allows the ruling ANC to participate in the upcoming municipal elections and reregister candidates in over 90 municipalities after failing to meet the initial deadline. While markets were unreactive to the decision yesterday, it ultimately raises serious questions over the IEC's independence and could increase political risks associated with investment into SA in the future. The ZAR, which has retained a great deal of resilience over the past year in part due to SA's relatively higher yields on offer, will likely bear the brunt of growing political pessimism in the medium to longer term.
- In the near term, while the ZAR still has limited potential for upside in the coming sessions, its decline has taken a breather in early morning trade today. The USD has incurred a slight dip overnight, while the ZAR's higher sensitivity to swings in global sentiment has seen the unit reverse almost all of yesterday's losses at the time of writing. However, traders still see near term volatility as likely for the USDZAR. Recall, one-week implied volatilities, which represent the cost of hedging fluctuations of the currency pair, have spiked on account of central bank meetings both domestically and stateside. However, as of yesterday, both one-month and three-month volatilities have jumped to their highest since April, suggesting the outcomes of this week's central bank meeting may spark some exchange rate volatility further out.
- As for the day ahead, the domestic data card kicks off with the SARB's leading indicator, with expectations that the indicator will have fallen in July given the civil unrest which disrupted supply chains and economic activity. Externally, despite not holding onto yesterday's gains, the USD remains supported near one-month highs. Given Chinese markets remain closed for holidays until tomorrow, we will unlikely see a large change to the market's current risk aversion. As such, emerging market currencies such as the ZAR should remain vulnerable in the session ahead.

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