

Botswana Market Watch

12 October 2021

GMT	International and Local Data				
09:00	BO	7-Day Certificate Sale			
09:00	SA	Bond auction (R3,900mn of R 2030, 2040, 2048)			
09:30	SA	Mining production y/y	Aug	4,40%	10,30%
11:00	SA	Manufacturing production n.s.a y/y	Aug	-0,70%	-4,10%
0/N	US	Fed's Evans Gives Introductory Remarks at Award Ceremony			
06:00	GB	ILO unemployment rate (3mths)	Aug	4,50%	4,60%
09:00	EZ	ZEW economic sentiment	Oct		31,10
09:00	GE	ZEW economic sentiment	Oct	24,00	26,50
11:45	EC	ECB's Villeroy Speaks			
12:30	EC	ECB's Lane Speaks			
13:00	EC	ECB's Elderson Speaks			
16:30	US	Fed's Bostic Speaks on Inflation at Peterson Institute			

Factors Overnight	What happened?	Relevance	Importance	Analysis
EU – Energy prices	The EU is looking into the prospect of member states being able to collectively buy natural gas as a bloc to gain leverage and pricing power as a collective	The EU will also look at measures to mitigate against any future spikes in prices	4/5 (economy, markets)	What those measures look like is not yet clear, but they could entail subsidised caps on prices, energy tax reductions and the building of inventories as a buffer to weather such spikes
Japanese wholesale inflation	Wholesale inflation in Japan through September rose 6.3% y/y vs the 5.9% forecast rising to a 13-yr high as input costs remain extremely buoyant	Weak final consumer demand means that these producer margins are squeezed	3/5 (economy, markets, monetary policy)	A combination of high energy prices, high commodity prices, semiconductor chip shortages, logistics constraints and the recovery has created a perfect storm that will detract from GDP growth
Poor country debt	The World Bank warned on Monday that poor country debt levels rose 12% to a record \$860bn in 2020 as a result of the Covid-19 pandemic	Poor countries are now more indebted and vulnerable than ever and will require greater assistance	4/5 (economy, fiscal policy)	Debt reduction, forgiveness and transparency in reforms will be necessary in order to assist these countries to gain access to funding and assistance to avert a fiscal crisis
Factors on the Radar	What happened?	Relevance	Importance	Analysis
UK fiscal outlook	According to the Institute for Fiscal Studies, Britain's borrowing is set to decline faster than anticipated due to the recovery, but spending constraints persist	Oct 27 will see the Fin Min set out a new budget from the OBR in what will be a tough balancing act	4/5 (economy, fiscal policy)	Fiscal reconfiguration and the rebalancing of spending priorities is now a recovery theme across the globe. Reforms are necessary to restore sustainability
DM Bond yields	2yr UST yields have risen to the highest levels in 18 months, while German bund yields are up to highs last seen in May. Energy prices are stoking inflation fears	The result might be that the rise in bond yields will curtail the ability of DM central banks to taper	4/5 (markets, monetary policy)	Fearing that a rise in interest rates will curtail GDP, the central banks will be concerned that cutting back on asset purchases makes things worse. However, they have an inflation problem
Energy prices	Increasingly energy producers will come under intense pressure to do more to ease the spike in prices. With the US already calling on OPEC to release more oil	Over the longer term, it will be counter-productive for energy producers to allow runaway prices	5/5 (economy, markets)	Energy producers have been wary of the resumption of infections. However, it seems that most countries have resolved to open up, and this will keep the constraints intact

Local FX Opening Rates and Comment

	CUSTOMER BUY	CUSTOMER SELL	CUSTOMER BUY	CUSTOMER SELL	Benchmark Yield Curve		Forward Foreign Exchange			
	CASH	CASH	TT	TT						
BWPZAR	1.2734	1.3888	1.2980	1.3755	6m	1.5740		BWPUSD		
BWPUSD	0.0845	0.0920	0.0861	0.0912	3y	4.7250	1m	-2.8178		
GBPGBP	16.0810	14.7525	15.7331	15.0599	5y	5.8250	3m	-8.6483		
BWPEUR	0.0731	0.0796	0.0748	0.0780	22y	8.4550	6m	-18.4860		
JYPBWP			9.7955	10.2055			12m	-41.3985		
USDZAR	14.4707	15.6931	14.8098	15.3536						
EURUSD	1.1100	1.2026	1.1360	1.1765						
GBPUSD	1.3056	1.4151	1.3362	1.3845						
					Equities		Economic Indicators			
					BSE Domestic Index	6910.92	GDP	0.7	Bank Rate	3.75
					BSE Foreign Index	1548.83	CPI	8.2		

- The Citizen Entrepreneurial Development Agency (CEDA) has completed its study on Botswana's manufacturing sector in an effort to identify key priority sub-sectors and value chain opportunities as well as constraints faced by the export-oriented SMMEs within the sector. One of the key focal points of the study was to see why SMMEs fail within the first phase of their development, and how funding could help prevent this. In the report, CEDA said that it will now be willing to extend loans of up to BWP50mn to SMMEs while also giving surety that the debt will be paid even if the business fails. Other measures will also be taken to alleviate any funding stresses that these businesses face. So far, the agency has provided funding to the tune of BWP709mn for this reporting period, up significantly from the BWP450mn in the previous period.
- Local data remains on the thin side at the moment, with no economic releases scheduled until the next CPI release next week, which will be followed by the latest interest rate announcement. As we have noted in previous commentary, it will be a key data point for investors given how price growth has surged in recent months, with headline inflation rising to a high of 8.90% this year. Base effects suggest that we may not see much of an acceleration beyond that, but it will remain elevated over the near term. The central bank has been looking beyond what it sees as a temporary spike in inflation, favouring the economy-side of the equation as it keeps rates low to support growth. Time may be running out for it to do so, however, with price pressures still embedded and other central banks, such as South Africa's, turning more hawkish now. The local central bank, therefore, may be forced into hiking rates sooner than what was expected just a few weeks ago.
- Globally and on the issue of energy prices, the White House in the US has weighed in and raised pressure on OPEC+ to do more to curtail the rise in prices. OPEC+ has been cautious in opening up its production out of fear that another round of infections will curtail demand. However, indications now are that pressure in prices has risen to acute levels that justify the increase in oil production to avert a global slowdown that will materialise should energy prices remain too elevated for too long. Already inflation is a concern, as mentioned above, and acting as an additional tax. More price increases against this backdrop would be counter-productive.
- No change once again to the BWP-USD yesterday after it climbed to an intraday high of 0.0886, before paring those gains to finish the session back at the 0.0880 mark, remaining under the key 0.0900 handle for now. As we have noted throughout the last two weeks, the 0.0880 level continues to provide some notable support, with any dips below it quickly scooped up. We expect this to remain the theme going forward with the bulls still eyeing the 0.09000 handle.
- Note that today will hold the usual 7-Day certificate sale with 6bn BWP on offer. Recall at last week's auction that 3.885bn BWP worth were sold at a yield of 1.09%.

ZAR and Associated Comments

- Emerging market currencies traded mixed at the start of the week, while the US dollar managed some late afternoon gains yesterday despite Friday's jobs miss. While global inflationary pressures persist, this ultimately suggests the market still sees a high likelihood that the US Federal Reserve will announce a reduction in monthly asset purchases at its November policy meeting.
- Additionally, more major developed nations' central banks are beginning to turn hawkish in their policy outlooks. The British Pound saw notable gains against the USD in intraday trade yesterday after the Bank of England warned UK citizens over the weekend that earlier rate hikes may be necessary to stem current inflationary pressures. While domestic traders have begun to price in a greater chance that the SARB announces a rate hike at the November MPC meeting, trade in the ZAR suggests broader markets remain largely unconvinced given the weak domestic economic backdrop. The ZAR weakened the most in the emerging market currency sample yesterday, falling 0.60% to close at 15.0200/\$.
- In terms of South African economic insight, the SACCI business confidence index was released yesterday and showed business sentiment hit a one-year low in September. While the index has shown a recovery in business climate, with the current year's index average improved from that of last year, it is evident that the July riots dampened positive momentum and destroyed a vast amount of fixed capital assets that will take time to rebuild.
- While the picture appears to be darker than the relatively buoyant first half of the year, external sentiment is not showing signs of improvement either, with global investors continuing to turn sour on EM assets alongside expectations for a reduction in Fed monetary support. According to data compiled by Bloomberg, investors withdrew \$1.1 billion from US-listed ETFs, which purchase emerging market equities and bonds, in the week ending October 8. This was also the largest outflow since May 2020. Meanwhile, ETFs which invest in SA assets saw outflows for both bonds and stocks, totalling \$25.5 million.
- As for the day ahead, mining and manufacturing will be two notable releases on the data card. The mining data will hold importance given the tax windfall elevated commodity prices have created this year, while the manufacturing sector is expected to show a recovery from July's contraction. In the markets, trade in US Treasuries resumed this morning following the Columbus Day holiday yesterday. Treasury yields have held up in morning trade following their rise last week, equally keeping the USD supported. Thus far, the USD has succumbed to only a few EM currencies and the Japanese Yen following its hefty loss yesterday. As for the ZAR, the local unit has continued to lead EM currencies lower this morning as it remains highly sensitive to the ever-strengthening outlook for US central bank policy tightening.

Contacts

Mogamisi Nkate	+267 3674335	email: mnkate@bancabc.com
Phillip Masalila	+267 3674621	email: pmasalila@bancabc.com
Kefentse Kebaetse	+267 3674336	email: kkebaetse@bancabc.com
Maungo Sebonego	+267 3674338	email: msebonego@bancabc.com

Report produced by ETM Analytics for BancABC Botswana.

Disclaimer

The information provided herein has been prepared solely for informational purposes and is not an offer to buy or sell or a solicitation of an offer to buy or sell the securities or instruments mentioned or to participate in any particular trading strategy. These materials have been based upon information generally available to the public from sources believed to be reliable. No representation is given with respect to their accuracy or completeness, and they may change without notice. BancABC on its own behalf and on behalf of its affiliates disclaims any and all liability relating to these materials, including, without limitation, any express or implied representations or warranties for statements or errors contained in, or omissions from, these materials.