

Botswana Market Watch

25 October 2021

GMT		International and Local Data			
05:00	BO	Nothing on the cards			
08:00	JN	Leading index		Aug F	101,80
12:30	GE	IFO business climate		Oct	97,90
	US	Chicago Fed activity index		Sep	98,80
					0.29
Factors Overnight	What happened?	Relevance	Importance	Analysis	
China Evergrande	China's Evergrande avoided default last week when it came up with the funding for interest payments before the 30-day grace period and announced a shift in its business model	The company will rotate away from an overinflated property market and will shift to electric cars instead	4/5 (economy, markets)	The shift gives one a clear indication that the old development model in China will not drive growth in the future. It implies that the credit cycle will be much weaker and that focus will shift towards technology instead	
China coal futures	China's coal futures fell for a fourth consecutive day following a commitment from Beijing that it would intervene to contain the rise in coal prices	The most active thermal coal futures are down 32% since Tuesday's record levels	3/5 (market)	Many different measures will be deployed to contain an inflation spike. Doing so will prevent the central banking authorities from being forced to tighten monetary policy significantly	
US PMI data	Business activity as reflected in the IHS Markit services and composite PMIs rose solidly in Oct to reflect ongoing broader-based improvement	The data only further builds on the argument for the Fed to consider tapering next month	3/5 (economy)	Services companies have reported that unfinished work has piled up at the fastest pace on record, underscoring just how rapid the economic recovery has been	
Factors on the Radar	What happened?	Relevance	Importance	Analysis	
EZ Inflation expectations	A measure of inflation expectations (5yr-5yr interest rate swap) rose above the ECB's target of 2.0% for the first time in seven years	Although significant, it is only marginally above the 2% target, and the ECB will not react immediately	3/5 (economy, monetary policy)	If anything, the ECB will likely play down the significance of this event given that inflation has undershot the target for years and kept the ECB ultra-accommodative	
Fedspeak	Fed Chairman Powell was quoted on Friday as confirming that the time was right to taper its asset purchases, but not to look at raising interest rates	The Fed has indicated that it can be patient to allow the labour market to recover fully	3/5 (monetary policy)	The Fed will be in no hurry to lift interest rates but sees less reason to persist with its ultra-accommodative stance as the economy stages a strong recovery which appears to be gaining momentum	
CB Decisions	This week will see both the BoC and the ECB meet to decide on monetary policy. While the BoC will look to taper its asset purchases further, the ECB will prep the market for tapering	Although neither central bank will want to undermine their economic recoveries, they will need to push back against inflation	3/5 (monetary policy)	The theme for 2022 will be the unwinding of ultra-stimulus positions and the recovery in the global economy. Central banks will punish their own economies if they fall too far behind the monetary policy curve	

Local FX Opening Rates and Comment

CUSTOMER BUY SELL BUY SELL											
CASH		CASH		TT		TT		Benchmark Yield Curve		Forward Foreign Exchange	
BWPZAR	1.2654	1.3813	1.2898	1.3680	6m	1.5770		BWPUSD	BWPZAR		
BWPUSD	0.0856	0.0934	0.0873	0.0925	3y	4.7550		1m	-2.3790	0.1793	
GBPGBP	16.0710	14.7347	15.7233	15.0416	5y	6.0850		3m	-7.3028	0.4713	
BWPEUR	0.0734	0.0801	0.0752	0.0785	22y	8.4550		6m	-16.9650	0.9425	
JPYBWP			9.9527	10.3785				12m	-41.6910	56.4803	
USDZAR	14.1860	15.3826	14.5185	15.0498							
EURUSD	1.1196	1.2133	1.1458	1.1870							
GBPUSD	1.3232	1.4335	1.3542	1.4025							
				Equities		Economic Indicators					
				BSE Domestic Index	6928.18	GDP	36	Bank Rate	3.75		
				BSE Foreign Index	1548.83	CPI	8.4				

- Airlines across the world have been hard hit by the COVID-19 pandemic with many requiring government support to keep flying. Air Botswana is experiencing challenges and has not finalised its financial statements for the year ending 2020. The reason for

this is that the airline is waiting for a letter of support from the government, if it fails to receive this, auditors will have no choice but to declare the airline insolvent. MMEGI REPORTED - *This week, the airline's general manager, Agnes Khunwana faced a torrid period of questioning by members of the Parliamentary Committee on Statutory Bodies and State Enterprises who said the failure to submit the results was part of a pattern with Air Botswana. The committee, which ended its sitting on Wednesday, examines the books of state enterprises and grills accounting officers on organisations' performance and the use of public funds. This year, the committee also wanted state enterprises to detail their plans for the end of the State of Emergency*

- The fear of many in Botswana is that Air Botswana takes a similar path to that of South African Airways which has bled the coffers of South Africa for over a decade as poor management and corruption caused debt and the need for bailouts to swell. The airline was eventually placed into administration last year and emerged this year a much smaller entity, however challenges still remain and the jury is out as to whether SAA will survive even in its current format.
- Given the relevance of mining to the country we would like to draw the readers attention to developments in the base metals markets.
- Base metals took it on the chin into the close of the week driven by concerns of global growth dynamics and an element of profit taking. Pricing action across the complex remains volatile as investors grapple with the fundamentals of low inventories pegged up against higher energy costs which is sapping global economic dynamism.
- This morning we have copper trading higher with the low inventories in China providing the underlying bid. Shanghai copper inventories are at their lowest levels since 2009 falling to 39839 tonnes. LME inventories of the metal are currently marked at 161550 tonnes as we enter the new trading week.
- Interesting to note is that cash nickel is currently trading at a premium of \$118/tonne over the 3m benchmark contract which is the highest since October 2019 which points to tightening near term supplies.
- On the international front, although some interesting data will be released this week, it will be a quiet start to the data week, with only the Chicago Fed activity index scheduled for release today. The focus through this week will likely turn to a combination of earnings releases to ensure that they continue holding up well and beating expectations to the upside, as well as the advanced reading for U.S. Q3 GDP. The combination will further build the argument for the taper in November, although following Fed Chairman Powell's comments, that will now be a foregone conclusion.
- The week ahead heats up with a host of major central bank policy decisions, namely from Canada, Japan and the ECB. Investors will also be awaiting the first look at US third-quarter GDP performance, which will hold crucial importance ahead of the Fed's policy meeting next week. While there are plenty of potentially market-moving events in the week ahead, the USD has kicked off the new week on the back foot against most major currencies. However, with risk appetite remaining tetchy, emerging market currencies have traded with a little less conviction on aggregate this morning. This is likely to filter through to the local open and we expect a measured start to the day with the 0.0900 mark remaining elusive for now.

ZAR and Associated Comments

- The ZAR weakened for the second day on Friday after a notable uptick in risk aversion the day prior, which ultimately saw the local currency secure a weekly decline against the USD. This was despite SARB Governor Lesetja Kganyago amongst the newswires, saying at the BIS-SARB Centenary Conference that South Africa will be less vulnerable to impending major central bank tapering than the "taper tantrum" seen in 2013. The Governor also said that the SARB would raise rates if upside risks to the inflation outlook materialise, the drivers of which it currently sees as higher energy costs and normalising exchange rates as policy tightening in developed economies loom. While the SARB will act if inflationary pressures prove persistent, the central bank still sees current policy as appropriate for the economy, suggesting it remain data-driven and err on the side of caution rather than act pre-emptively.
- While this may take the sting out of the SARB's November meeting, now a little under a month away, traders continue to price in policy tightening through interest rate derivatives. Nevertheless, the ZAR remained on the back foot for the second day, trading 1.40% weaker to close at 14.8200/\$.
- This was also against a weaker USD on the day, which failed to add to the previous day's risk-off rally as US manufacturing PMI data came out weaker than expected and as Fed Chair Jerome Powell also spoke at the BIS-SARB conference. The Fed chairman signalled it was time for the Fed to begin cutting back asset purchases. Still, he maintained it was not yet time for any interest rate hikes, helping keep a lid on the USD as other haven currencies remained supported into the weekend. In other moves, the USD rose against the pound following weak UK retail sales data, while the euro steadied as a gauge of manufacturing activity showed less pressure on factories than expected despite current supply constraints.

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