

Botswana Market Watch

27 October 2021

GMT		International and Local Data				
12:00	BO	Nothing on the cards				
11:00	US	MBA mortgage applications	Oct 22		-6.30%	
12:30	US	Durable goods orders m/m	Sep P	-1.00%	1.80%	
12:30	US	Wholesale inventories m/m	Sep P		1.20%	
12:30	US	Advance Goods Trade Balance	Sep	\$-88,20bn	\$-87,60bn	
14:00	CA	Canada central bank rate decision	Oct 27	0,25%	0,25%	

Factors Overnight	What happened?	Relevance	Importance	Analysis
Chinese industrial profits	Profits in Sep rose 16.3% y/y despite the higher input costs. Curbs on input prices helped the mining and raw material industries recover profitability	Without those curbs on input factors of production, the picture might've looked different	3/5 (economy)	Although encouraging that profitability has recovered, which speaks to some solid demand, the profitability likely overstates the strength of the industrial profitability
US consumer confidence and housing	Consumer confidence recovered by 4 points to rise to 113.8 in Oct, while new home sales were up 14% in Sep, although house price growth slowed slightly	The data continues to point to a recovering economy that justifies the Fed's position on tapering	3/5 (economy)	It would appear that higher vaccine prevalence rates, the reopening of the economy. Gradually, households are seeing the end of lockdowns and expect more normalised activity to follow
British inflation	The BRC has warned of pre-Christmas price rises after they recorded the smallest y/y decline in prices since the start of the pandemic	It implies that the deflationary forces are giving way and that higher prices will be seen into Dec	4/5 (economy)	This will add to the headwinds facing the economy. Price increases will impact consumers more substantially, with inflation set to rise towards 5%, according to the BoE Chief Economist

Factors on the Radar	What happened?	Relevance	Importance	Analysis
Japanese elections	On Sunday, the Japanese head to the polls and new PM. After the shock by-election loss, last week has injected some uncertainty as to PM Kishida's support	If the LDP cannot secure a solid victory and consolidate a majority, political instability may arise	4/5 (economy)	Any developments that might undermine LDP support may weigh on Japanese markets as investors as question the kind of policy direction that might arise as a result
UK budget	The budget will be released at 11h30 GMT and will reflect the government's efforts to rebalance the books while still looking after healthcare and promoting investment	This will be the first budget post the lockdowns and holds major significance in guiding fiscal policy for the next 3 years	5/5 (fiscal policy)	The UK needs to recover from the biggest peace-time budget deficit on record. This theme will take the better part of a decade if the authorities are to be sensitive to growth. But will likely imply tax hikes to do so.
Fed board members	President Biden is considering a number of changes at the Fed, with his primary objective being to have a policy aimed at helping the poor and keeping maximum employment	Fed Chairman Powell may or may not be put forward to lead the Fed again. The mix will, however, be growth-friendly	3/5 (monetary policy)	This could mean a choice of Fed members that will be more inclined to persist with ultra-accommodative monetary policy. The USD might struggle to appreciate much further under those conditions

Local FX Opening Rates and Comment

CUSTOMER				CUSTOMER				CUSTOMER				CUSTOMER			
BUY		SELL		BUY		SELL		Benchmark Yield Curve				Forward Foreign Exchange			
CASH		CASH		TT		TT									
BWPZAR	1.2529	1.3780	1.2770	1.3648	6m	1.5750					BWPUSD	BWPZAR			
BWPUUSD	0.0845	0.0928	0.0861	0.0919	3y	4.7550					1m	-2.4863	-0.0994		
GBPBWP	16.2795	14.8240	15.9273	15.1329	5y	6.0850					3m	-7.3515	-0.2691		
BWPEUR	0.0728	0.0800	0.0745	0.0784	22y	8.4550					6m	-18.9443	-0.5383		
JPYBWP			9.8545	10.3480							12m	-41.1743	37.1287		
USDZAR	14.2370	15.4482	14.5707	15.1139											
EURUSD	1.1138	1.2070	1.1399	1.1809											
GBPUSD	1.3223	1.4326	1.3533	1.4016											
								Equities				Economic Indicators			
								BSE Domestic Index	6928.18	GDP	36	Bank Rate	3.75		
								BSE Foreign Index	1548.83	CPI	8.4				

- News out overnight underscores the importance of China and the mining sector to the progression of Botswana to a more diversified country with multiple hard currency income sources. The country's first iron-ore mine, Ikongwe has started production and delivered its first export shipment to China. The first shipment reached China last month and there is now a standing order of 50 000 tonnes a month from a state owned steel manufacturing company in China. Ikongwe is expected to produce 1 000 000 tonnes of iron-ore per year with an initial lift span of 10 years pencilled in. As it stands, the shipments current reach China via South Africa, but there are talks afoot with Botswana Railways to ship through Maputo which is expected to help ramp up production and exports. China has been looking for other sources of iron-ore following its trade spat with Australia which has led it to shun Australian raw materials.
- Keeping with China, we have Beijing strongly committed to moving towards a green future. The government has stated that it will take steps to reduce waste as well as promote renewables and unconventional fuels coupled with reforms across the electricity network which aim to bring carbon emissions to a peak by 2030. Beijing has targeted wind and solar capacity to 1200 gigawatts by the end 2030, while building more hydropower and nuclear plants. Why is this important to Botswana? Well, given the need for copper in the electronics that will drive the decarbonisation drive, Botswana is perfectly positioned as its Kalahari Copper Belt comes on line. Its worth noting that decarbonisation is not just a Chinese phenomenon, the EU has set strict timelines for motor manufacturers for electric vehicles and this can be seen in manufacturers targets. BMW for example has a target of 50% of new car sales to be electric within the decade.
- There are as always caveats, It is no secret that China has been a significant lender in Africa over the past decade with the world's second-largest economy lending billions of dollars to governments across the continent to fund infrastructure projects, budget shortfalls and more recently COVID-19 related spending. While in some instances the lending has led to improved growth conditions and infrastructure advancements, a number of African countries have slipped into debt spirals on the back of Chinese loans.
- China has been blamed for irresponsible lending to African countries, with many claiming that China's lending practices have led African countries into debt traps. China has said that these claims are false and has blamed Africa's fiscal problem on several economic factors. Commenting on the matter, Vice-chairman of the China International Development Cooperation Agency Zhou Liujun said African nations' debt problems are a historical issue resulting from rising protectionism and currency factors. Liujun said that "facts and data fully show that this accusation is purely politically driven," adding that "its real intention is to drive a wedge between China and Africa's friendly and cooperative relations." Liujun reiterated that China thoroughly considered the debt condition of African nations and their repayment capabilities when offering loans. China has pleaded to strengthen cooperation and communication with different parties to help African countries to face their debt problems
- Moving over to the financial markets, Emerging market currencies traded broadly in the green during the day yesterday, capitalising in part from a steadier US dollar which initially struggled to maintain momentum from the prior day. However, the USD picked up steam in late afternoon trade as it received support from rising short-dated US Treasury yields as well as a higher than expected reading for a gauge of US consumer confidence. Overall, positive market sentiment remained widespread yesterday, with major US equity benchmarks scaling record highs. This took the shine of the likes of gold and other hedge assets.
- Locally the BWP was unchanged but we had the 7-Day T-Bill auction to contend with. The Bank of Botswana sold BWP5.05bn with of 7-Day Certificates yielding 1.09% Settlement is today with the maturity being on the 3rd November.

ZAR and Associated Comments

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- With global markets moving in unison as they await a slew of central bank policy decisions this week to provide direction, the ZAR traded with a distinctive downwards bias as it led losses in the EM currency sample. However, notable upcoming risk events appear to be weighing on the local currency, including next week's municipal elections, while yesterday brought the official announcement that Finance Minister Enoch Godongwana's maiden budget address will be delayed for the second time to November 11.
- With investors looking to the Medium Term Budget Policy Statement for guidance on government's fiscal consolidation plans and the strategies it has eyed to reduce public debt, there will likely be additional questions on the funding of SOEs, specifically for state utility Eskom after it announced yesterday its funding requirements over the next 10 years for its transmission development utility plan. While this will aid SA's future electricity reliability, given Eskom's finances remain under pressure, these commitments are likely to land in government books eventually and thus remain a burden on the fiscus and taxpayers.
- As for domestic data yesterday, the SARB's leading indicator snapped a two-month decline as it registered an increase in August. Specifically, the index increased from 127.0 in July to 127.9 as the government relaxed restrictions and civil unrest subsided. The largest positive contributors were accelerations in the number of new passenger vehicles sold and the growth rate of job advertisement space. Meanwhile, the largest detractors were decreases in the average hours worked per factory worker in manufacturing and in the USD-denominated export commodity price index. This highlights how reopening-sensitive sectors drove

the growth, while SA's usual structural hindrances continued to detract from the growth outlook. Looking ahead, the leading index is likely to remain supported in the months ahead amid the further easing of restrictions. However, these lingering structural challenges and the uncertain path of the global recovery could partially offset this.

- In the spot markets, the ZAR has found its footing near the 14.8500/\$ handle, trimming yesterday's losses overnight as the USD's late-afternoon rally has cooled in early morning trade. However, sentiment during the Asian session has turned somewhat, with Asian equity benchmarks failing to follow gains on Wall Street, suggesting the USD may remain supported should positive risk appetite fade. Domestic markets will be gearing up for a bumper data card into the end of the week, beginning with tomorrow's producer price inflation statistics. Until then, currency direction will depend largely on upcoming central bank meetings, starting with the Bank of Canada later today..

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

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