



- There is a strong global trend in place and that is one of decarbonisation. News wires have been tracking information coming out of the global COP26 climate change summit in Scotland where there is a strong push to ease the world's reliance on coal. South Africa for example inked a deal where it would receive \$8.5bn to help end its reliance on coal. South Africa has been targeted as a major emitter of greenhouse gases given its coal fired power stations. The deal will be funded by wealthier nations and does have regional and global implications.
- Regionally, Botswana is upping its production of coal which has been earmarked for export to the likes of China. The question is however how long or sustainable with this market be in the coming decades. Botswana has signed a commitment to ease the use of coal, but has stopped short of signing an agreement which would stop the issuance of new coal mining licenses. MMEGI reported - *Botswana has more than 200 billion tonnes of untapped coal resources and minerals authorities have made it clear they intend to exploit these using clean technology, within the three-decade window provided by global climate change commitments.*
- On the international stage, capturing the headlines yesterday was President Biden's announcement on Covid vaccine rules for businesses. The Biden administration has mandated that workers at U.S. companies with at least 100 employees be vaccinated against Covid-19 or be tested weekly from 4th January onwards. This decision will undoubtedly be challenged in the courts, while the Republicans have responded quickly with a backlash, vowing to do everything possible to protect individual freedoms of choice. Biden has adopted this stance to drive up the number of vaccinated people to overcome the pandemic.
- Today will see the House of Representatives vote on the social and climate change bill and the bipartisan infrastructure bill. The Democrats feel they have the internal support needed to get these bills passed and seek to do it before the weekend. Biden's popularity and that of the Democrats has been waning recently, and a political win of this nature will help them generate some positive press. Treasury Secretary Yellen chimed in, that the legislation would raise \$2.0trln to pay for the bill and still allow for some deficit reduction. Critics have said that such views assume a lot and will require very efficient implementation by the government.
- Much of the market's recent positioning for Fed rate hikes as soon as next year is built on the assumption that the U.S. economy and the labour market will continue to recover strongly in the months ahead. Therefore, in the unlikely event that the expected improvement in economic and labour market conditions does not materialise, the market may need to reassess its recent positioning. Against this backdrop, the market will digest the upcoming October employment report, which will help investors position more accurately for prospective monetary tightening.
- The USD is ending the week on a firmer footing, boosted by the combination of some strong labour market data earlier in the week. The data has given rise to expectations that the payrolls figures scheduled for today will beat expectations to the upside. Also, supporting the USD has been the weakness of the GBP after the BoE failed to lift rates yesterday. Furthermore, the possibility of some risk aversion exists on account of more difficulties in the Chinese property sector that will raise concerns about China's economic prospects in the coming quarters. Barring any nasty surprise in the payrolls data, the USD should end the week on a slightly firmer footing, although it should be added that there is a lot priced into the USD
- Moving on to the local FX markets we witnessed an improvement in the fortunes of the BWP against the greenback. Some caution is expected into the close of the week as investors price for volatility around the release of the US Non-Farm payrolls this afternoon.

## ZAR and Associated Comments

- Notwithstanding the surge in the USD, the ZAR was still able to close out yesterday's trading session a little stronger. Overall levels of risk appetite have improved, the cost of hedging against a collapse in US equity markets has dropped recently, and oil prices have retreated off their recent highs in a boost to SA's terms of trade. Add to that some local factors such as the conciliatory tone of political parties to work together following the elections, and there is some justification for the retreat in the USD-ZAR from recent highs.
- However, the ZAR is not out of the woods just yet. Wall St futures are trading flat to slightly lower this morning, and focus has turned back to China after another property developer appears to be in financial trouble. Kaisa Group Holdings and three of its subsidiaries halted trading in their shares just before the market opened in Hong Kong after its finance company missed a payment to a wealth management product. This is significant so soon after the revelations on Evergrande because it is the second-largest issuer of dollar-denominated offshore bonds behind Evergrande. It speaks to a far greater debt problem in China than was first understood.
- For SA this is all particularly relevant in that China is SA's single biggest trading partner. As it is, the Chinese economy has entered a soft patch. Add to that some headwinds concerning the property market's indebtedness and weaker demand for SA exports may start to weigh. Therefore, while there is a lot priced into the USD-ZAR and some retreat into the weekend may look warranted, it is unclear whether it will be sustained.
- Finally, it is worth noting that US non-farm payrolls data will be released today. Although the data has lost some significance on account of the Fed's policy decision and statement on Wed, it will still hold some market-moving potential. It may still hold enough significance to keep investors a little cautious ahead of the weekend. Furthermore, SA still has the upcoming MTBPS to contend with in a week's time. Although it will deliver a more upbeat assessment of the government's fiscal position, it will still reflect how much work SA needs to do to stabilise its finances. Expect some cautious trading ahead of the weekend..

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