Botswana Market Watch

6 October 2021

GMT		International and Local Data			
	BO	No Data			
06:00	GE	Factory orders y/y	Aug	17,20%	24,40%
08:30	GB	PMI construction	Sep		55,20
09:00	EZ	Retail sales y/y	Aug	0,50%	3,10%
11:00	US	MBA mortgage applications	Oct 1		-1,10%
12:15	US	ADP employment change	Sep	430k	374k

Factors Overnight	What happened?	Relevance	Importance	Analysis
US services and trade	The ISM non-manufacturing activity index rose to 61.9 in Sep from 61.7 in Aug. The trade deficit, on the other hand, rose 4.2% to $73.3bn in Aug	While the services data was encouraging, the trade data was not and will hurt GDP	3/5 (economy)	Interestingly, the trade data was not principally driven by the deficit to China, which has consolidated. The trade deficit to the rest of the world has exploded
IMF forecast	The IMF expects global growth for 2021 to rise to slightly below the 6% anticipated in the July forecasts. Debt, inflation and infections still influencing GDP	The dust is still settling, and many forecasts will be revised as recovery is better understood	3/5 (economy, markets, monetary policy)	The global economic recovery is unlike most other recoveries in that the lingering effects of all the lockdowns are still weighing on activity and keeping companies cautious in their behaviour
RBNZ	The RBNZ hiked interest rates today for the first time in seven years and indicated that there would be more to come	This is a theme that will gain traction as more central banks look to hike	4/5 (economy, monetary policy)	The market was well-positioned for the news, and the market reaction has therefore been limited. Investors are expecting more of the same

Factors on the Radar	What happened?	Relevance	Importance	Analysis
Debt ceiling	President Biden has for the first time indicated that the Democrats would consider dropping the filibuster and raising the debt ceiling on their own	The Democrats would not want a default or fiscal crisis unfolding on their watch when there was a solution	4/5 (economy, markets, fiscal policy)	The Republicans will feel that they have won a small victory by getting the Democrats to "own" their fiscal policy given them a sign of things to come on the bigger spending packages
UK factory inflation	A survey by the BCI showed the balance of factories expecting to hike prices rose to +60% in Q3 from +57% in Q2. This trend is unfolding around the globe	Supply shortages and high commodity prices mean inflation could remain stubbornly high	3/5 (economy, monetary policy)	The BoE will monitor this carefully and be mindful of allowing higher inflation to become more entrenched in their inflation expectations. The case for a hike is rising according to the BoE
US labour data	It is payrolls week, and investors will be looking with interest at the release of the private sector ADP today and official payrolls readings on Friday	Investors will be hoping for signs the labour market is gaining traction and warrants tapering	4/5 (economy, monetary policy)	The soft-patch in the labour market will likely prove transitory. But a convicted view on tapering will only arise once the labour market shows an economy steaming towards full employment

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2740	1.3957	1.2986	1.3823
BWPUSD	0.0845	0.0925	0.0861	0.0916
GBPBWP	16.0834	14.6926	15.7354	14.9987
BWPEUR	0.0730	0.0798	0.0747	0.0782
JPYBWP			9.6580	10.1038
USDZAR	14.4753	15.7002	14.8145	15.3605
EURUSD	1.1122	1.2049	1.1382	1.1789
GBPUSD	1.3062	1.4153	1.3368	1.3847

Benchmark Yield Curve

6m	1.5740
3y	4.7250
5y	5.8250
22y	8.4550

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-2.2718	0.0000
3m	-6.6593	0.0000
6m	-18.4080	0.0000
12m	-41.7544	0.0000

Equities

BSE Domestic Index	6900.67
BSE Foreign Index	1548.83

Economic Indicators

GDP	0.7	Bank Rate	3.75
CPI	8.2		

- SADC member countries yesterday, including Botswana, agreed to extend the deployment of troops in Mozambique to try and combat any acts of terrorism and create stability in the country's Cabo Delgado province. In his closing remarks during the extraordinary summit, President Ramaphosa, current chair of SADC, said that while a lot of progress has been made, more work needs to be done. We still wait for details on how long the extension of the deployment of troops will be for, and what the final cost of it will be for member states. Nevertheless, the deployment will help keep some stability in the province and may prevent any spillovers of violence into other regions of Mozambique or other SADC member countries.
- At the 7-day certificate auction yesterday, Botswana sold 3.885bn BWP worth after offering up 6.5bn BWP. The total amount allotted matched the amount tendered, with the price coming in at 99.9792, equating to a yield of 1.09% for the certificates that mature on 13 October. Demand was down from the prior week's 4.61bn BWP, keeping the recent trend going as we have seen demand taper off to some degree over the last few weeks.
- Globally, news released this morning is that President Biden has reportedly held talks with Chinese President Xi Jinping, and both countries have decided to abide by the Taiwan agreement. This may help defuse some of the tensions that have arisen between Taipei and Beijing. The agreement sees the U.S. recognise Beijing as the capital and has established diplomatic ties with China through Beijing as opposed to Taiwan on condition that the future of Taiwan is achieved through peaceful means. At least on this political front, tensions could subside.
- Even with this news, the USD is back on the front foot ahead of the US labour data, which begins today and ends with the payrolls figures on Friday. Anticipated monetary policy changes and interest rate expectations are once again playing a role in driving currency direction, and any data that alludes to a rise in interest rates or yields will support the USD. Underlying momentum for the USD appears to be constrained, with investors remaining cautious, but any further rise in UST yields will likely see the USD gain further traction.
- As the USD has firmed, so the copper price has retreated. Nothing untoward about this as the price adjusts for other currencies. The dip in copper price was accompanied by dips in the price of other metals, including aluminium which eased 0.1% and nickel which dropped 0.4%. Through the remainder of the week, the focus will turn to the U.S. data and the implications they hold for U.S. monetary policy and, in turn, the USD.
- The BWP-USD remains well contained under the 0.0900 handle for now as the 0.0880 level continues to provide some notable support. We had a few upticks over the last few days to around the 0.8880 region but these were quickly faded, keeping the BWP-USD steady. With this support level holding up, we could see the pair look to retake the 0.09000 level in the near term as the bulls are clearly looking to gain the upper hand at the moment.

ZAR and Associated Comments

- Emerging market currencies were under sustained pressure yesterday, with riskier currencies shrugging off gains seen in major equity benchmarks. FX markets were generally risk-off as concerns over China's Evergrande crisis deepened, leaving investors worried that it would have negative consequences for global growth. Meanwhile, US inflationary pressures continue to support expectations for the beginning of Fed policy normalisation this year. US Treasury yields resumed their advance yesterday and led the USD to receive most safe-haven bids. Despite this and SA's exposure to China's potential growth slowdown, the ZAR managed to swing prior losses following the SARB's bi-annual monetary policy review released yesterday afternoon, which painted an overall more hawkish outlook. The ZAR ultimately led EM currencies on the day, gaining 0.35% to close at the 15.0000/$-handle.
- Domestic data also offered some support to the ZAR yesterday as the Standard Bank PMI rebounded back above the 50-neutral mark, coming in at 50.7 versus 49.9 in August. According to details from the IHS Markit survey, the upturn in the private-sector gauge was mainly led by increases in output and new orders. Firms were also more optimistic about the future, with business expectations for the coming year climbing to their strongest level since July. Add to this the move to level one COVID-19 restrictions, and it suggests the private sector economy is likely to continue recovering in the coming months. However, the ongoing recovery would not be without risks. Supply shortages and unreliable electricity supply will continue to hinder output at firms, while rising input prices and structural constraints will continue to squeeze profit margins.
- In its bi-annual review released yesterday afternoon, the SARB warned of stronger underlying price pressures due to the stronger than expected recovery in the first half of the year and. It noted that delaying rate hikes could destabilise current CPI expectations and see the central bank playing catch-up with inflation. Furthermore, the central bank reiterated monetary policy's limited ability in influencing gross domestic product, stressing that structural reforms are needed to lift SA's growth potential. Overall, the hawkish comments supported the ZAR in intraday trade yesterday, but support going forward ultimately depends on SARB action. The SARB also noted that falling commodity prices would present greater fiscal risks, in that SA mistakes the current commodity cycle as a sustained cycle.
- Over to the spot markets, the ZAR has led EM currencies weaker in early morning Asian trade, erasing all of yesterday's gains overnight. The USD has remained on the front foot after yesterday's uptick in Treasury yields, with the greenback likely to maintain support into the end of the week as key US payrolls data looms. The day ahead sees US private payrolls data which is often a precursor to the official jobs report due Friday. A surprise print to the topside should lend the USD a tailwind into the end of the week. However, a slightly weaker than expected reading will unlikely hurt the USD too much at this stage, given US inflation expectations and the overall risk-off backdrop..

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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