Botswana Market Watch

7 October 2021

GMT		International and Local Data			
	BO	No Data			
06:00	SA	Net reserves	Sep	$55,20bn	$55,67bn
-	CH	National Day			
05:00	JN	Leading index	Aug P	101,80 (A)	104,10
06:00	GE	Industrial production wda y/y	Aug	5,00%	5,70%
11:30	EC	ECB Publishes Account of September Rate Decision			
12:30	US	Initial jobless claims	Oct 2		362k
19:00	US	Consumer credit	Aug	$16,50bn	$17,00bn

Factors Overnight	What happened?	Relevance	Importance	Analysis
ADP data	The first of three key labour market data releases out of the US in the form of the ADP data showed that private-sector jobs rose by 568k, well above market expectations	The private sector labour market is now hiring rapidly, and this bodes well for a sustained economic upswing	**3/5** (economy)	It also implies that the payrolls data due on Friday is likely to rebound, if not in this week's data then in the months ahead. The outlook for employment is looking good, and the Fed will feel justified in looking to hike rates
Debt ceiling	Senate GOP leader McConnell confirmed that Republicans would agree to a short-term suspension of the debt ceiling to avert a default at a fixed dollar rate	This will ease concerns in the markets and remove one potential source of market volatility	**3/5** (economy, markets, fiscal policy)	The agreement only allows the Democrat-controlled Congress enough time to expedite a reconciliation bill to allow them to pass a debt ceiling expansion on their own
IMF – Inflation	The IMF expects inflation globally to peak through Q3 and retreat back to pre-Covid levels by the middle of 2022	Logistics costs, commodity prices, food and energy all weighing	**4/5** (economy, monetary policy)	Add to that housing costs that have risen and the spike in inflation will be uncomfortable, although inflation expectations remain under control

Factors on the Radar	What happened?	Relevance	Importance	Analysis
US-Sino relations	The presidents of both countries have agreed in principle to hold a virtual meeting before year-end, following high-level talks to improve relations	This will further help reduce overall risk perceptions and reduce risk aversion within markets	**4/5** (geopolitics)	Although relations are strained, both countries are prepared to hold dialogue. That is constructive. Persisting with hard-line positions will accomplish little other than to elevate concerns
EZ inflation	Bank of Spain's Deputy Gov has expressed concern that wage agreements in the EZ could lead to "very persistent" high inflation	Stubbornly high inflation could anchor inflation expectations higher	**3/5** (economy, monetary policy)	Central banks are keen to show that they are still able to contain inflationary pressures and inflation expectations. Pressure is building on the ECB to act
US labour data	After the very strong ADP data yesterday, the focus now turns to today's weekly jobless claims and tomorrow's non-farm payrolls data for further insight	Confirmation that the labour market is gaining momentum will support the argument for 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 payrolls data 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	1.2657	1.3789	1.2901	1.3657
BWPUSD	0.0845	0.0919	0.0861	0.0911
GBPBWP	16.0503	14.7443	15.7031	15.0514
BWPEUR	0.0732	0.0796	0.0749	0.0780
JPYBWP			9.6383	10.0224
USDZAR	14.3821	15.5985	14.7192	15.2611
EURUSD	1.1091	1.2016	1.1351	1.1756
GBPUSD	1.3036	1.4123	1.3341	1.3818

Benchmark Yield Curve

6m	1.5750
3y	4.7250
5y	5.8250
22y	8.4550

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-2.1938	0.0000
3m	-6.7860	0.0000
6m	-15.1320	0.0000
12m	-41.4131	0.0000

Equities		Economic Indicators			
BSE Domestic Index	6900.67	GDP	0.7	Bank Rate	3.75
BSE Foreign Index	1548.83	CPI	8.2		

- According to the World Bank, the Sub-Sahara African economy is set to expand by 3.3% this year and 3.5% in 2022, supported by elevated commodity prices, the further easing of some anti-coronavirus restrictions, and a pick-up in global trade. Growth will continue to accelerate through 2023, with the World Bank forecasting GDP expansion at 3.8% for then. It also noted that there are some upside risks to these estimates, which could see growth come in at a notable 5.1% in 2022 and 5.4% a year later depending on how fast COVID-19 vaccinations were rolled out, while a slower vaccination rate would obviously lower these growth projections.
- There were no specific forecasts given for Botswana but of interest was the Bank's outlook for copper prices. The Bank still estimates that copper prices will continue to rise, but made sure to point out that downside risks are building given slower growth of China amid rising cases of infection caused by the Delta variant, as well as the unfolding debt crisis during a time when officials are looking to tighten up and deleverage.
- It should be noted, however, that even though these growth numbers seem relatively strong, the rebound is likely to be weaker than growth in advanced economies and emerging markets, a result of what is likely to be persistently subdued levels of investment in Sub-Saharan Africa and a slowing rebound in private consumption as structural constraints come back to the fore. Most economies, as well, are expected to miss their vaccination targets given a slow roll-out and high hesitancy rates, as well as limited access within rural areas. Therefore, a return to pre-pandemic trends is expected to be fairly prolonged, especially compared to more developed countries and even some emerging market peers.
- In more good news in terms of global sentiment, China and the U.S. have committed to holding a virtual summit before the end of the year. After some early negotiations to improve relations between the two countries, the two presidents will meet to hold frank and candid discussions on various issues. Relations, for now, remain frosty, but this is a step in the right direction, although the issue of trade relations will likely make it onto the agenda, with the U.S. still running a massive $30bn per month deficit with China. Nonetheless, it will help reduce risk perceptions.
- Once again, 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 0.08880 region but these were quickly faded, keeping the BWP-USD steady. Yesterday also saw an attempt to break below 0.08800 but this dip was quickly scooped up. 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 still looking to gain the upper hand at the moment.

ZAR and Associated Comments

- The ZAR traded weaker alongside most emerging market currencies yesterday as the USD continued its rebound, once again testing one-year trade-weighted highs reached last week. With markets looking to official US labour data due tomorrow, risk aversion is expected to drive more cautious trading conditions into the end of the week. However, given the USD's lofty levels at present, a significantly poor reading for nonfarm payrolls tomorrow holds the potential for the greenback to see a correction, albeit likely not too substantial.
- If yesterday's private payrolls data is anything to go by, though, September will likely see more solid hiring dynamics, with further slack being taken up in the jobs market bolstering bets that the Fed will announce a tapering of stimulus before year-end. Specifically, ADP employment change data showed that 568k private sector jobs were added in September, up from 374k in August and beating consensus expectations of analysts surveyed by Bloomberg for a 430k rise.
- Should the nonfarm payrolls print also surprise to the upside tomorrow, this will be yet another tailwind for the USD, which has already been drawing support from higher Treasury yields as rising global energy prices have added to inflationary concerns. Rising global energy prices have recently been driving inflation expectations, with dual concerns that it will impede global growth and simultaneously force developed nations to act sooner in withdrawing monetary stimulus. As a result, overall market sentiment was enough to overpower some ZAR-positive hawkish comments from the SARB in the previous session. While the ZAR could gain some support from SARB willingness to fast-track rate hikes, given the weak domestic economic backdrop, the likelihood remains low. As for trade yesterday, the USD-ZAR surged ahead, testing the 15.2000 before pulling back in afternoon trade to end 0.60% higher, just shy of 15.1000.
- In the wake of initial global lockdowns in 2020, South Africa's robust terms of trade have been a pillar of resilience for the ZAR. However, with global inflation seeing greater risk of sooner policy tightening in developed nations and growth risks becoming evident in China, SA's largest trading partner, the strong external position is likely to erode as we move forward. Ultimately, the domestic economy remains subdued by inherent structural constraints which have inhibited growth in recent years. Furthermore, SA would still be in a fiscally fragile position once the commodity cycle begins to wane and if government has been unable to rein in expenditure sufficiently.
- As for the day ahead, there appear to be signs of returning risk appetite. EM currencies have recouped some of yesterday's losses overnight, with the ZAR leading riskier currencies this morning, while equity benchmarks have traded in the green during the Asian trading session thus far. However, the USD has held steady on a trade-weighted basis, suggesting the market remains cautious ahead of the official September jobs report due tomorrow.

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