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Botswana Market Watch

8 October 2021

GMT		International and Local Data			
	BO	No Data			
0/N	JN	Current account total	Aug	¥1665.6bn (a)	¥1910,80bn
01:45	CH	Caixin services PMI	Sep	53,40 (a)	46,70
06:00	GE	Trade balance	Aug	15,00bn	18,10bn
12:30	US	Change in nonfarm payrolls	Sep	500k	235k
12:30	US	Unemployment rate	Sep	5,10%	5,20%
14:00	US	Wholesale inventories m/m	Aug F		1,20%
14:00	US	Wholesale sales m/m	Aug		2,00%

Factors Overnight	What happened?	Relevance	Importance	Analysis
US jobless claims	Weekly jobless claims declined 38k to 326k, slightly softer than the 348k the market anticipated. However, layoffs rose from the 24yr low in Sep	Overall, this data extends the trend of improvement. Further declines in claims anticipated	3/5 (economy)	Now the focus shifts across to today's non-farm payrolls data. A solid improvement in the data will go a long way to building the case for the taper to start as soon as November
ECB minutes	The minutes of the latest meeting held on the 9th Sep show that members of the board discussed inflation concerns and debated a bigger cut in asset purchases	December's meeting now takes on added significance. If the economy performs well, expect a taper	3/5 (economy, markets, monetary policy)	The ECB could trim the size of its asset purchases, possibly as soon as the next meeting in Dec. This after the latest accounts of the meeting show growing concern about inflation.
Debt ceiling	Democrats and Republicans have resolved to extend the debt-ceiling deadline to Dec. It is a short-term fix that facilitates negotiations	The Republicans remain reluctant to assist the big-spending Democrats to pass their bills	4/5 (economy, fiscal policy)	The Republicans want to wash their hands of the enormous spending bills the Democrats wish to pass and will stand in the way of any efforts to raise taxes and grow government influence

Factors on the Radar	What happened?	Relevance	Importance	Analysis
German politics	Germany's Social Democrats began their talks with two smaller parties in the Greens and FDP in an attempt to form a three-way coalition government	A coalition of this kind would be the first at a national level. Signs are good that it could happen quickly	2/5 (politics)	The mood amongst the parties is a constructive one. Investors hope a new government will be formed before the end of the year to start working on the policy strategies for the future
Natural gas	Natural gas prices this week have risen to fresh record highs, rallying over 500% so far this year, and the winter months are yet upon the Northern Hemisphere	Russia has indicated that it could help ease prices by providing more to Europe	3/5 (geopolitics)	Europe's vulnerability to Russia is growing, and Russia will likely use this strategic position to urge Germany to approve the Nord Stream 2 pipeline to facilitate gas supplies to Europe
US labour data	Today's non-farm payrolls data will take centre stage, with the market anticipating something in the order of 500k with an unemployment rate of 5,1% and average earnings up 4.6% y/y	A rise in line with expectations would strengthen the resolve of the Fed to progress to tapering asset purchases	4/5 (economy, monetary policy)	The danger for market participants is that a lot of this improved performance is already priced in. Unless the data beats expectations handsomely, it is possible the USD could correct weaker into the weekend.

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2652	1.3837	1.2896	1.3704
BWPUSD	0.0845	0.0924	0.0861	0.0915
GBPBWP	16.0810	14.7092	15.7331	15.0157
BWPEUR	0.0732	0.0800	0.0749	0.0784
JPYBWP			9.6776	10.1140
USDZAR	14.3776	15.5824	14.7146	15.2453
EURUSD	1.1089	1.2014	1.1349	1.1754
GBPUSD	1.3062	1.4151	1.3368	1.3845

Benchmark Yield Curve

6m	1.5770
3y	4.7250
5y	5.8250
22y	8.4550

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-2.2230	0.0000
3m	-6.7470	0.0000
6m	-18.4178	0.0000
12m	-41.3839	0.0000

Equities

BSE Domestic Index	6908.91
BSE Foreign Index	1548.83

Economic Indicators

GDP	0.7	Bank Rate	3.75
CPI	8.2		

- Local data and news flow remain on the thin side at the moment, with no economic releases scheduled until the next CPI release in two weeks' time, which will be followed by the latest interest rate announcement. It will be a key data point for investors given how price growth has surged in recent months, with headline inflation rising to a high of 8.90% this year. Base effects suggest that we may not see much of an acceleration beyond that, but it will remain elevated over the near term. The central bank has been looking beyond what it sees as a temporary spike in inflation, favouring the economy-side of the equation as it keeps rates low to support growth. Time may be running out for it to do so, however, with price pressures still embedded and other central banks, such as South Africa's, turning more hawkish now. The local central bank, therefore, may be forced into hiking rates sooner than what was expected just a few weeks ago.
- Looking at the global markets, US labour market data so far this week has kept with the theme of a tightening and recovering labour market. The private sector data was impressed by beating expectations, while the weekly jobless claims showed improvement but were more of a mixed bag. With infections and lockdown restrictions still a feature, the economy has not recovered to full potential capacity, but the trends are moving in the right direction. The definitive view will be generated from the payrolls data later today.
- At its September policy meeting, the Fed confirmed that it would likely begin tapering stimulus before the end of this year. Chairman Powell said that the central bank would complete the taper by mid-2022, paving the way for rate hikes soon after. Note that much of the Fed's hawkish assessment was built on the assumption that the US economy and the labour market would continue to recover strongly into the end of the year. 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 today's September NFP report, which will help investors position more completely for prospective monetary tightening.
- Finally, US Senate Democrat leader Chuck Schumer confirmed on Thursday that a short-term debt ceiling deal was struck with the Republicans until early December. The Democrats now have a few more months to negotiate a smoother passage to a bi-partisan agreement. However, the Republicans have quickly warned that the Democrats can achieve or suspend the debt ceiling through the reconciliation process without any assistance from the Republicans that wish to distance themselves from the Democrats' spending ambitions. This will offer markets a reprieve, although it constitutes little more than kicking the can down the road.
- The BWP-USD gapped higher at the open yesterday, opening at 0.0884, before paring those gains to finish the session back at the 0.0880 mark, remaining under the key 0.0900 handle for now. As we have noted throughout this week, the 0.0880 level continues to provide some notable support, with any dips below it quickly scooped up. We expect this to remain the theme going forward, although focus today will fall on the US and the release of the latest NFP data, which has the potential to move global markets.

ZAR and Associated Comments

- The ZAR led the charge yesterday before paring gains in late afternoon trade as a pick-up in global sentiment saw major and developing-nation currencies roaring back against the USD. However, advances in the EM FX space far outpaced those of other major currencies, leaving the USD trade-weighted index (the DXY) holding steady within its recent 94-94.50 range. With EM currencies generally taking a beating in the lead up to today's US nonfarm payrolls release, the return of risk appetite yesterday suggests the market sees recent moves as overdone for some riskier currencies. Given that Fed tapering at some point into the end of the year is well priced into the USD at current levels, developing nations, which hold greater expectations for near term rate hikes and those still receiving support from higher commodity prices, could yet see some near-term currency gains.
- However, that the USD index remained supported yesterday suggests the return of risk appetite may equally have been uncalled for. Regardless, the ZAR's higher beta status shone through as it led the EM basket of currencies for most of the day. The local unit remains subject to swings in global sentiment and ultimately closed 0.95% stronger on the day at 14.9500/$. Domestically, rising Inflation expectations off the back of higher energy/oil prices have begun to drive a more hawkish outlook for the SARB. This could see the ZAR hold up better than expected when the US Federal Reserve eventually announces a tapering of its asset purchases, that's if the SARB is able to keep up with rate hike projections, which ultimately depends on SA's economic performance going forward. While the SARB remains committed to its inflation-targeting mandate, dovish MPC members will be hard-pressed in hiking rates too quickly while the domestic economy remains in a weak state.
- As for recent developments, the state-utility Eskom announced bouts of overnight load shedding yesterday, taking place last night and Friday, due to reserves being depleted after multiple generation unit breakdowns. While not as economically damaging as prior bouts of load shedding, the news still stands as a potential precursor to further unstable electricity supply in the near term. On a positive note, the UK eased entry rules for 47 countries, including South Africa, which were subject to the most stringent conditions and COVID-19 protocols. The changes will take effect from Monday 11 October and should bring a significant boost for South Africa's tourism industry.
- Over to the markets, currency markets are off to a less buoyant start this morning despite Asian equities trading broadly up as Chinese markets return from a one-week break. As for data, a gauge of Chinese services activity rebounded significantly in September, which could help cool global growth concerns in the day ahead. However, the official US labour market report will undoubtedly dominate the focus heading into the weekend. Solid hiring in September could allow a break higher for the USD, while a weak jobs report will unlikely derail Fed plans to begin reducing monetary support to the economy, suggesting the USD will remain supported in the near term..

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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