Botswana Market Watch 11 October 2021

GMT		International and Local Data		
	BO	No Data		
-	CA	Thanksgiving		
06:00	JN	Machine tool orders y/y	Sep P	85,20%
07:00	EC	ECB's Villeroy speaks in Paris		
12:00	EC	ECB's Lane Speaks		
14:00	EC	ECB's Holzmann Speaks		
14:45	EC	ECB's Elderson Speaks		

Factors Overnight	What happened?	Relevance	Importance	Analysis
Soaring energy prices – UK	Energy-intensive producers exposed to soaring energy prices may be forced into stopping production in some cases. The UK government is looking for ways to support them	Some kind of subsidy may be needed to help companies weather the higher prices and hope that it is temporary	**5/5** (economy)	Such high prices are not only negatively impacting producers, it is also affecting the disposable income of households and acting like another large tax that will detract from overall economic performance if sustained
US - Global minimum tax	On Friday, 136 countries around the globe agreed to a corporate minimum tax. Treasury Secretary Yellen expressed her confidence that Congress would pass the bill	Such a minimum tax agreement comes at a good time for countries seeking to raise more revenues	**3/5** (economy, markets, monetary policy)	It is politically beneficial to pass this tax, and it will therefore face only moderate resistance. The bill hopes to target large companies that have avoided paying tax in higher tax jurisdictions
US labour market	Two of the three data releases last week in the ADP and jobless claims showed that the labour market was recovering. The payrolls data, however, showed that it was in a soft patch	The data disappointed even the most bearish of expectations, raising questions about the Fed's taper timing	**4/5** (economy, monetary policy)	It also raised serious questions about the growth outlook of the US amid economic difficulties in China. The recovery is not unfolding as anticipated, which may give the Fed reason to rethink the timing of the taper

Factors on the Radar	What happened?	Relevance	Importance	Analysis
Evergrande	Last month, the company missed two coupon payments. Today, investors are bracing for the possibility that it may miss another $148mn payment	The company is still working through its 30-day grace period before being declared in default	**5/5** (markets)	Default would have substantial consequences not just for the company but the industry more broadly. It could also send shockwaves through highly leveraged riskier investment structures
Energy prices	Global energy prices have surged again to more than $83pb. Alongside the massive surge in natural gas prices ahead of winter, this holds the potential to spike inflation and hurt GDP	Energy prices around the globe are rising sharply, and organisations like OPEC will come under pressure to respond	**4/5** (markets)	It is in nobody's interests to lift energy prices to such an extent that it hurts the overall business cycle. Growth has been negatively affected, and energy-intensive industries will suffer another shock so soon after lockdowns ended
ECB taper	The ECB is expected to taper its PEPP around March of 2022, where the reduced stimulus will effectively leave governments to reform their fiscal positions to become more sustainable	This will make 2022 a tricky year from a fiscal framework point of view, in that many governments will find that difficult	**4/5** (economy, monetary policy)	The ECB, alongside the Fed, will need to curtail the amount of monetary support for governments out of concern that the moral hazard it creates will lead to ever-rising debt levels that render the EZ economy more fragile and vulnerable

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2642	1.3883	1.2886	1.3749
BWPUSD	0.0845	0.0927	0.0861	0.0918
GBPBWP	16.1306	14.7017	15.7816	15.0080
BWPEUR	0.0730	0.0801	0.0747	0.0785
JPYBWP			9.7464	10.2259
USDZAR	14.3664	15.5815	14.7031	15.2444
EURUSD	1.1109	1.2039	1.1369	1.1779
GBPUSD	1.3099	1.4195	1.3406	1.3888

Benchmark Yield Curve

6m	1.5770
3y	4.7250
5y	5.8250
22y	8.4750

Forward Foreign Exchange

	BWPUSD
1m	-2.2230
3m	-6.7470
6m	-15.6975
12m	-37.9763

Equities		Economic Indicators			
BSE Domestic Index	6910.92	GDP	0.7	Bank Rate	3.75
BSE Foreign Index	1548.83	CPI	8.2		

- Following on from the COVID pandemic and the impact that it has had on the government's books, it is no surprise to hear that the fiscal authorities are looking at ways to broaden the tax base. In the recently launched Budget Strategy Paper, it was suggested that a digital economy tax be looked at. Although details in the paper were thin, such a tax would encompass levying taxes on transactions and commercial values coming from platforms that include the big tech firms such as those in social media and e-commerce trading networks. *"In an effort to address the challenge of revenue collection and hence, boost domestic revenue, several strategies are being developed, including broadening of the tax base by considering taxation of the digital economy,"* stated the paper. Moving to a digital tax will be in line with global trends, but as we have seen already, it will be a difficult process and has the potential to dial up tensions with the US where all these major tech firms are based.
- Further to the discussions regarding a digital tax, other suggested measures included in the paper were improving existing tax collection through the introduction of electronic billing/invoicing platforms to improve VAT compliance and introducing a business intelligence and data analytics function within the tax agency to assess the behavioural patterns of taxpayers in order to apply targeted interventions. Finally, the paper suggested looking at a transaction tax on mobile money market services. The value of these transactions has surged to well over BWP1bn in recent years, making it an attractive potential source of government revenue.
- Local data remains on the thin side at the moment, with no economic releases scheduled until the next CPI release next week, which will be followed by the latest interest rate announcement. As we have noted in previous commentary, 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.
- No change to the BWP-USD after it gapped higher at the open Friday and climbed to an intraday high of 0.0889, 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 the last two weeks, 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.

ZAR and Associated Comments

- Cautious trade in currency markets persisted into the end of last week, while the anticipated US September jobs reports did little to en-courage clearer direction. US hiring dynamics fared worse than expected in September, with the headline nonfarm payrolls figures show-ing 194k jobs were added compared to expectations for 500k, a significant downside surprised considering solid private payrolls figures earlier in the week. While the USD took an initial hit post the jobs report release, further details softened the blow and saw the USD pare losses later in the US session. Specifically, August's jobs gains were revised higher from 235k to 366k and the unemployment rate dropped to its lowest since March 2020 at 4.8%, although partly driven by a drop in the labour force participation rate.
- As for the ZAR, it remains highly sensitive to external sentiment and the outlook for US Fed policy tightening. After strengthening to a two-week high of 14.7800/$ in intraday trade, the ZAR was whipsawed into the end of the domestic session as the USD regained its footing. While the ZAR managed to end the day marginally stronger than the previous close at 14.9200/$, it failed to hold onto gains over the last two sessions, which saw the currency end the week 0.30% weaker than where it began.
- Despite the weaker US jobs report, it is unlikely to dissuade hawkish Fed members nor market participants that the US central bank will need to begin reducing its monthly asset purchases before year-end. Inflation remains a concern that the Fed will need to deal with, and tolerating higher prices for too long while aiming for full reemployment will open the door for consequences further down the line. The ultimate impact for emerging markets lies with the end of highly accommodative policies in developed nations. Lower DM rates have resulted in cash-flush investors seeking a higher return on capital in developing countries. As DM rates begin to rise again on expectations of reduced central bank asset purchases and subsequent rate hikes, emerging markets run the risk of capital outflows, resulting in potential currency depreciation.
- While this remains a medium-term risk for emerging markets, with the timeline for global DM policy tightening remaining unclear, changes to the outlook holds the potential to bias sentiment towards or against EM currencies in the near term. As for the week ahead, markets get notable updates on the US inflation front and Fed FOMC meeting minutes, both due Wednesday. In South Africa, the data card heats up with the SACCI business confidence index today, followed by mining and manufacturing production and retail sales later in the week. In the spot markets, sentiment has kicked off the new week mixed for EM currencies. The ZAR is currently leading EM currency laggards during the Asian trading session, having traded 0.50% weaker to arrive at the 15.0000/$-handle. For the day ahead, it seems little may come in the way of the USD, which remains supported by higher Treasury yields. South African markets may also get off to a less buoyant start after the announcement at the end of last week that stage 2 load shedding will persist until Thursday.

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