# Botswana Market Watch

# 14 October 2021

| GMT | | International and Local Data | | | |
|---|---|---|---|---|---|
| 09:00 | BO | Nothing on the cards | | | |
| 12:30 | US | PPI final demand y/y | Sep | 8.80% | 8.30% |
| 12:30 | US | Initial jobless claims | Oct 9 | | 326k |
| 14:00 | US | Fed's Bostic Takes Part in Panel on Inclusive Growth | | | |
| 14:40 | UK | BOE's Mann speaks. | | | |
| 14:40 | UK | BOE's Catherine Mann speaks on Covid-19 | | | |
| 16:00 | US | New York Fed's Logan Gives Speech on Policy Implementation | | | |

| Factors Overnight | What happened? | Relevance | Importance | Analysis |
|---|---|---|---|---|
| **US CPI** | CPI rose 0.4% m/m in Sep, resulting in a y/y acceleration to 5.4%, while core inflation was a little more subdued rising 0.2% m/m and 4.0% y/y | The data was strong enough to encourage the Fed to persist with their tapering plans in Nov | 4/5 (economy) | The risk for policymakers is that inflation becomes a little more entrenched in the system the longer it remains elevated to impact the economy negatively and detract from GDP growth |
| **Evergrande crisis** | Contagion effects of the Evergrande crisis are becoming more visible. Shares in property companies are continuing to slide amid default fears and further rating downgrades | The default crisis is now extending beyond just Evergrande with other companies warning of possible default | 5/5 (economy, market) | Too much leverage has been applied for too long. Higher leverage was possible due to ultra-loose monetary policy. The distortions which arose were unsustainable and the correction now needed will be painful |
| **China factory-gate inflation** | September's PPI reading was the highest since records began in 1996 as it rose to 10.7% y/y. However, price rises are not yet being passed on to consumers | It implies that producer and retailer profit margins will continue to be squeezed | 4/5 (economy) | Ultimately this detracts from growth as there is less to reinvest into the economy. High energy and logistical costs, as well as supply shortages, have all weighed to create a price shock |

| Factors on the Radar | What happened? | Relevance | Importance | Analysis |
|---|---|---|---|---|
| **Chinese coal** | Chinese coal prices surged to a record high on Wed as recent floods only serve to compound coal supply problems in the midst of an energy crisis | In response, China has allowed power producers to charge market-related rates to customers | 4/5 (economy) | Without customers being able to secure much cheaper, longer-term contracts, power prices will ramp up to curb usage and alleviate supply pressures. But, it will amplify inflationary pressures |
| **IEA prediction** | Amid shortages of electricity and energy in some large economies, the IEA has indicated that investment into clean energy needs to triple by 2030 | The recovery from the lockdown has generated a record C02 rise to spark some alarm | 3/5 (economy) | The message from the IEA is that too little is being invested into renewable and clean energy and that the switch to new forms of energy is simply taking too long to combat climate change |
| **IMF growth forecast** | Supply bottlenecks and higher inflation and energy prices have caused the IMF to lower its growth forecast for 2021 to 5.9% from 6.0% | The risk in this forecast is to the downside as inflation potentially becomes more entrenched | 3/5 (economy, markets) | Central banks are now being called on to keep a close watch on inflation. However, the issues are supply chain and logistics related, something monetary policy has no control over |

## Local FX Opening Rates and Comment

| | CUSTOMER BUY CASH | CUSTOMER SELL CASH | CUSTOMER BUY TT | CUSTOMER SELL TT |
|---|---|---|---|---|
| **BWPZAR** | 1.2492 | 1.3685 | 1.2733 | 1.3554 |
| **BWPUSD** | 0.0845 | 0.0925 | 0.0861 | 0.0916 |
| **GBPBWP** | 16.1531 | 14.7586 | 15.8036 | 15.0660 |
| **BWPEUR** | 0.0729 | 0.0798 | 0.0746 | 0.0782 |
| **JPYBWP** | | | 9.8152 | 10.2768 |
| | | | | |
| **USDZAR** | 14.1960 | 15.3946 | 14.5287 | 15.0615 |
| **EURUSD** | 1.1130 | 1.2059 | 1.1391 | 1.1798 |
| **GBPUSD** | 1.3120 | 1.4215 | 1.3428 | 1.3907 |

**Benchmark Yield Curve**

| | |
|---|---|
| **6m** | 1.5770 |
| **3y** | 4.7550 |
| **5y** | 5.8250 |
| **22y** | 8.4750 |

**Forward Foreign Exchange**

| | BWPUSD | BWPZAR |
|---|---|---|
| **1m** | -2.2230 | 0.0000 |
| **3m** | -6.9615 | 0.0000 |
| **6m** | -16.0388 | 0.0000 |
| **12m** | -41.2571 | 0.0000 |

**Equities**

| | |
|---|---|
| **BSE Domestic Index** | 6914 |
| **BSE Foreign Index** | 1548.83 |

**Economic Indicators**

| | | | |
|---|---|---|---|
| **GDP** | 36 | **Bank Rate** | 3.75 |
| **CPI** | 8.9 | | |

- The world is currently massively concerned about one word "inflation". There has been a rise in inflation prints across the world spurred by higher energy costs, higher transportation and higher food costs. Some of these pressures are as a result of the COVID-19 pandemic whilst some are more cyclical, such as the higher food costs. Extreme weather globally coupled with Chinese restocking of staples has caused the spike in soft and agricultural commodities across the globe. Granted the SADC region has been exceptionally fortunate with higher than average rainfall leading to bumper crops, but the price of these does reference the global benchmarks which are trading significantly higher.
- Botswana is no different in its quest to tame inflation. While many Central Banks still view the inflation spikes as transitory, most are taking no chances and are tightening monetary policy. The Fed has pencilled in its taper programme, (the reduction of quantitative easing) to start between November and December while many emerging market Central Banks have tightened aggressively. Chile for example raised its benchmark rate by 125 bpts yesterday after doubling its benchmark rate at the previous meeting to 1.5%.
- Given this backdrop, it is instructive to also take a look at the energy markets from time to time.
- Oil prices are edging higher for the first time in three days this morning, despite the API data released yesterday showing a build in inventories. The market seems to be focussed rather on the decline in stockpiles in the key storage hub of Cushing, as well as the large reported product draws. With this, the benchmark Brent front-month contract is trading near $83.75 per barrel, while WTI is at $80.95, both just off their recent peaks. Contract spreads across both curves are also widening in backwardation, suggesting that the near term outlook remains fairly bullish.
- Interestingly, we have had some calls of $100 per barrel oil once again from some major institutions and Russia's President, Vladimir Putin. Bank of America yesterday suggested that oil could spike to over $100 as the current market deficit may widen, while the leader of oil-exporter Russia indicated that it is very possible that prices could rise to these levels, even though Russia is prepared to export more natural gas to Europe to try and ease the ongoing energy crisis. While $100 oil is still some way off, Putin's comments may be worrying as they could suggest that influential Russia will not yet back an increase in output from OPEC+ members at the next ministerial meeting. This will, of course, keep the oil market in a deficit and keep prices supported.
- Moving onto the FX markets, the USD came under considerable pressure yesterday afternoon despite the inflation data being a little stronger than anticipated and the Fed minutes offering very little new. It may be that there was simply more priced in concerning Fed expectations than was contained in the minutes, or it could also be a case of "buying on the rumour, selling on the fact." Either way, the USD retreated, although, through Asian trade, it appears to have stabilised. There are still many reasons that would justify the USD heading stronger again, including Evergrande contagion difficulties in China and commodity prices that are no longer quite as buoyant as they were courtesy of slowdown fears
- Not much movement has been recorded for the BWP against the greenback with the currency 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 with the bulls still eyeing the 0.09000 handle.

## ZAR and Associated Comments

- The ZAR rose for the second day running yesterday, driven stronger as the US dollar retreated from a one-year high reached the previous day. With yesterday's 1% gain for the local unit, it was able to break out of this week's range-bound trade, ultimately closing at the 14.8000/$-handle.
- While US Treasury yields continued to come off recent highs, limiting the USD's appeal, yesterday's stateside data did little to justify those moves. US inflation rose to 5.4% y/y in September, up from 5.3% in August, keeping inflationary concerns alive. Later on, the Fed's September FOMC meeting minutes showed policymakers are becoming increasingly worried over inflation, with most seeing upside risks to inflation and half seeing the need for rate hikes before the end of next year. While there was no ultimate decision on reducing the Fed's monthly asset purchases, policymakers did assess that, should the economic recovery progress uninterrupted, a gradual taper process could be concluded by mid-2022. The minutes did note that if the Fed decides to taper at its November 3rd policy meeting, this will open the door for a mid-November or Mid-December start to tapering. While inflation continues to prompt the Fed to act on policy tightening, recent soft labour market gains add to the mix, raising risks of paring policy too soon. Nevertheless, the significance of yesterday's releases suggests current moves in the USD and Treasury yields are more likely short-term corrections, as Fed policy tightening bets remain active.
- With the USD dominating currency dynamics at present, the ZAR was able to shrug off weaker retail sales figure yesterday. While retail sales increased 4.9% m/m in August, this was far lower than the 9.5% pencilled in by surveyed expectations and saw the sector potentially several months away from recovery after July's 11.1% m/m riot-driven contraction. At current levels, retail sales are 1.3% lower than in August 2020, highlighting the effects of the July riots and persistent restrictions on people's movements. On a broader scale, SA's retail sales figures have a substantial way to go to get back to levels it may have been at without the pandemic. Compared to linear trend estimates, in-house calculations have the sector down R112.3 billion in cumulative sales since the onset of the pandemic. With indications that low structural demand will likely persist for longer, this spells trouble for future tax intake once the cyclical commodity boom subsides, raising fiscal risk later down the line and pressuring sovereign bonds and the ZAR.
- As for the day thus far, FX markets have got off to a mixed start in early morning Asian trade. The USD seems to have found some support after yesterday's drop, while US Treasury yields have similarly ticked higher this morning. Meanwhile, the ZAR has held steady, managing to push slightly stronger alongside several other EM currencies. While investors will continue to digest last

night's FOMC minutes release, cautious trade may be evident in the day ahead as markets await further updates on the US economic recovery due tomorrow in the form of US retail sales and consumer confidence data.

**Contacts**


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