Botswana Market Watch 20 October 2021

GMT		International and Local Data			
	BO	Nothing on the cards			
09:00	EZ	CPI y/y	Sep F	3.40%	3.00%
11:00	US	MBA mortgage applications	Oct 15		0.20%
13:40	EC	ECB's Holzmann Speaks at Financial Regulation Conference			
15:00	EC	ECB's Villeroy speaks in Paris			
16:00	US	Fed's Bostic, Kashkari, Evans and Bullard Speaks			
17:00	US	Fed's Quarles Discusses the Economic Outlook			
18:00	US	U.S. Federal Reserve Releases Beige Book			

Factors Overnight	What happened?	Relevance	Importance	Analysis
Japanese trade	September exports rose 13% y/y, which, although stronger than expected, was still the softest in seven months as supply chain problems and import costs weigh	Concerns arising that stagflation will become a more permanent feature in many countries	3/5 (economy, markets)	Furthermore, the outlook will likely deteriorate further as terms of trade deteriorate with the rise in energy prices that Japan imports. This, too, will be a theme affecting many economies
US home building	Housing starts fell 1.6% in Sep, while the Aug data was revised lower. Furthermore, building plans passed fell 7.7%	Acute shortages of materials and labour have now become a headwind to growth	3/5 (economy)	Alongside the very high trade deficit and some other disappointing data, the Q3 GDP stats in the US could disappoint to the downside to raise concerns
COP26 – UK	Ahead of COP26, where the UK's own green credentials will be in the spotlight, UK PM Johnson announced £9.7bn in green investments and declared the UK open for green business	Amongst other things, the UK is looking to encourage private sector investment into green technology as a growth strategy	3/5 (market)	Johnson will be hoping for some significant deals to be made at COP26 and will dial up the pressure on world leaders to follow suit and kickstart some significant investment into technologies that aim to slash emissions

Factors on the Radar	What happened?	Relevance	Importance	Analysis
US spending package	Some tough negotiations have been underway in recent days, and the Biden Administration may seek to pass the spending package in the coming days	The package aims to expand the social safety net and raise infrastructure spending	4/5 (fiscal policy)	While the original target was a bill of some $3.5trln, that will likely drop to an amount closer to $2.0trln to achieve the buy-in from more conservative Democrats
IMF forecasts – Asia	The IMF has downgraded its Asia forecast for GDP in 2021 to 6.5%, but has upgraded its 2022 forecast to 5.7% from 5.3%	Supply chain disruptions and inflation are the main culprits	3/5 (economy)	The IMF has stated that the risks to growth are tilted to the downside as the threat of infections and lockdowns persists
EU – Russian pipeline	Debates are ongoing on whether to grant Russia authorisation to use Nordstream 2 to transport much-needed gas supplies to the EU amid shortages and high prices	EU rules don't allow the producer of the gas to own the pipeline, as is the case with Nordstream 2 and Gazprom	4/5 (economy, markets)	The EU is concerned about the growing reliance on Russia, with some German politicians now warning against being blackmailed by Russia. Russia, for its part, counters this by reminding the EU that it is delivering on all its contracts

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2463	1.3606	1.2703	1.3475
BWPUSD	0.0859	0.0937	0.0876	0.0928
GBPBWP	16.0474	14.7122	15.7002	15.0187
BWPEUR	0.0737	0.0805	0.0755	0.0789
JPYBWP			10.0706	10.5006
USDZAR	13.9248	15.1008	14.2512	14.7741
EURUSD	1.1180	1.2113	1.1442	1.1851
GBPUSD	1.3256	1.4362	1.3566	1.4052

Benchmark Yield Curve

6m	1.5730
3y	4.7550
5y	5.8250
22y	8.4750

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-2.8373	0.1485
3m	-8.8238	0.4721
6m	-18.7931	0.9601
12m	-41.1206	33.0802

Equities / **Economic Indicators**

BSE Domestic Index	6924.15	**GDP**	36	**Bank Rate**	3.75
BSE Foreign Index	1548.83	**CPI**	8.4		

- Moody's has announced a periodic review of the ratings of Botswana. This is not a ratings announcement by merely an announcement stating that its standard processes have been followed. Bloomberg reported the following - *Moody's conducts these periodic reviews through portfolio reviews in which Moody's reassesses the appropriateness of each outstanding rating in the context of the relevant principal methodology(ies), recent developments, and a comparison of the financial and operating profile to similarly rated peers. Since 1st January 2019, Moody's issues a press release following each periodic review announcing its completion. Moody's has now completed the periodic review of a group of issuers that includes Botswana and may include related ratings through a discussion held on 14 October 2021. The review did not involve a rating committee, and this publication does not announce a credit rating action and is not an indication of whether or not a credit rating action is likely in the near future; credit ratings and/or outlook status cannot be changed in a portfolio review and hence are not impacted by this announcement.*
- Investors keep an ear to the ground when it comes to the outcomes of ratings agency reviews as these have a material impact on the whether or not a country or asset is favourable from an investment perspective. Ratings that are under pressure result in higher returns being demanded by investors and in the case of government bonds sees yields rise across the curve as the market prices for the negative fiscal conditions.
- Botswana has been engaging with all stake holders to improve its bond market which by international standards is still in its infancy. Liquidity in the secondary market and the ability for the local institutional market to absorb additional issuance by the government has been questioned. Bond auctions this year have not attracted the investors to the degree that the government had hoped given that investors have demanded higher yields than the government was prepared to offer.
- Looking ahead, we still hold the view that Botswana holds tremendous promise in its quest to develop a fully functioning fixed income market with strong market liquidity given the fact that the country has strong fiscal metrics and good prospects for diversifying its economy away from diamonds. The Kalahari Copper Belt and latest energy investments are cases in point.
- Moving over to the United States, Alongside the Fed's Beige Book, a host of Fed speakers will take to the podium today and offer further guidance on the outlook for Fed policy. A poll conducted by Reuters shows that the Fed may well prove more sensitive to the growth environment than first thought and only embark on lifting rates in 2023. In between now and then, the taper will take place, but at a gradual pace. Investors are hoping that today's Fed speakers will offer some clarity, although it is unclear whether there is anything new to discuss and whether it will change market expectations to any significant degree. Hard data is likely to be more impactful in driving equity markets and the USD in the coming days.
- The Biden administration will seek to push forward their efforts to pass their enormous spending plan on the political front. However, to secure the level of support needed, some compromise was necessary. The final size of the spending package is likely to shrink towards the $2.0trln mark to win over the more moderate Democrats. Republicans will still rally hard against the bill and the associated tax increases that will follow. Biden would like to widen the U.S. safety net and re-invigorate infrastructural spending that has been neglected in recent years.
- Alongside stock markets that have rallied on expectations the Fed may turn more sensitive to growth, the USD has come under pressure. Risk appetite has improved, and risk assets have responded to the firmer USD by rallying themselves. Bitcoin is trading just below record levels while emerging market currencies are capitalising on the trend too. Nothing in the way of data today will see the focus turn to the Fed speakers that are scheduled to offer further perspective on their expectations and the context against which they will make their decisions. Given how much information already exists in the market, it is unlikely that they will offer investors anything new.
- This backdrop has seen the BWP crawl higher with the 0.0900 level now within sight in the interbank market.

ZAR and Associated Comments

- The ZAR swung into positive territory for the week so far yesterday, gaining 1.15% to close at 14.5150 to the USD which remained burdened by evidence of an uneven recovery amid supply constraints. While the ZAR's sensitivity to external market sentiment saw the unit amongst the leaders of the EM currency sample yesterday, this was shared amongst most emerging market and major currencies. The USD's drop from recent one-year highs has coincided with more hawkish communication involving inflationary concerns from other major central banks. With the next Fed meeting at the start of November, the market may be positioning itself for the potential that the Fed announces a slower than expected tapering process, resulting in other DMs reducing monetary stimulus at a faster pace.
- With these concerns at the fore of the market psyche at present, today's inflation releases out of the UK and Eurozone area will be of great importance. UK inflation is expected to remain elevated at 3.2% y/y, while the final September reading for EZ inflation is expected to rise to 3.4% y/y from a flash print of 3%. With growing concerns that a spike in inflation will prove to be less transitory than initially expected, higher inflation prints could bolster bets that other major central banks would need to fast track policy tightening, which could further weigh on the trade-weighted USD given how much relative Fed tapering has been priced in.
- Domestically, Stats SA also releases September's CPI figures. On an annual basis, CPI is expected to rise 5%, up from 4.9% y/y in August, which would be the fifth month SA consumer price inflation has remained buoyed above the midpoint of the SARB's target 3-6% range. Persistent supply-side constraints alongside rising logistics, energy and global commodities prices all tilt the risk to the inflation outlook to the upside, suggesting that inflation will remain above this mid-point level in the months ahead.
- Alongside some ZAR strength since the start of the month, the SARB may have been bought some time should the Fed ultimately play according to cooling expectations of policy tightening. However, the SARB, in its latest monetary policy review, expressed concerns about these elevated inflation pressures and are worried about destabilising CPI expectations if they do not hike rates soon. On the other hand, the weak demand environment and low credit growth, evident from the recently released retail sales data, raise some question marks over the SARB's ability to tighten monetary policy.

- Overall, this implies the local currency may have a more volatile end to the year and should remain highly sensitive to changes in the outlook for global monetary policy tightening, which is already evident. Over to the spot markets and the ZAR has managed to hold onto yesterday's gains, while the USD has remained under pressure after failing to sustain moves higher overnight. Asian stocks are off to a buoyant start this morning, following gains on Wall Street, with US stocks receiving a boost from earnings results. In addition to today's inflation prints, markets will turn to a host of Fed speakers later in the day, where hawkish comments could provide the USD with some support.

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