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Botswana Market Watch 21 October 2021

GMT		International and Local Data			
	BO	Benchmark Interest Rate	Oct 21		3.75%
12:30	US	Initial jobless claims	Oct 16		293k
12:30	US	Philadelphia Fed index	Oct	24,00	30,70
13:00	US	Fed's Waller Discusses the U.S. Economy			
14:00	US	Existing home sales	Sep	6,02mn	5,88mn
14:00	EZ	Consumer confidence	Oct A	-5,00	-4,00
14:00	US	Leading Indicators	Sep	0.50%	0.90%

Factors Overnight	What happened?	Relevance	Importance	Analysis
China Evergrande	The highly indebted construction firm was in talks to sell a stake to smaller rival Hopson, but the deal fell through to purchase 50% of Evergrande property services. Shares briefly fell 10%	On Sat, Evergrande will close out its 30-day grace period for interest payments to investors and could be in default	**5/5** (economy, markets)	Although much of the market has priced the risk of this in, it is surprising that the authorities have not intervened. Equally, it is unclear exactly what the linkages and longer-term consequences and fall-out will be
US equities – earnings	The Dow has risen to a record high, with investors climbing the wall of worry as earnings reports continue impressing.	86% of the companies that have reported have beaten expectations	**4/5** (market)	For all the concerns about tapering and normalising monetary policy, logistics constraints, chip shortages and rising inflation, companies have done well
US Beige Book	Wage increases were significant, even though the economy was only expanding at a modest or moderate pace in Sep and early Oct, while employment improved but lagged due to weak supply	Nothing new in this report that would spark alarm and cause a reassessment of the US economic outlook	**3/5** (market)	The report effectively built the case for the Fed to press ahead with tapering in November. The higher inflation goes and remains stubbornly high, the greater the probability that the Fed will need to curtail monetary looseness

Factors on the Radar	What happened?	Relevance	Importance	Analysis
Vaccine boosters	The FDA has approved Moderna and J&J booster shots and has even allowed these vaccines to be mixed and matched as countries prepare booster shots	Heading into the Northern Hemisphere winter, booster shots will be deployed to boost immunity	**3/5** (economy)	The concern is that the waning immunity offered by the vaccines will lead to another round of deaths and lead to the fresh imposition of more restrictions. The more vulnerable will need boosters
UK Covid cases	UK Health Secretary Javid announced the jarring news that infections could top 100,000 per day through the winter months	No plans as yet to implement fresh restrictions with deaths still low	**4/5** (economy)	The upside to high infections and low death rates is that the vaccines are preventing deaths while allowing for growing natural immunity
CB tightening	It seems almost inevitable that 2022 will be the year of monetary tightening. Inflation has reached an 18yr high in Canada, the IMF has warned the EZ about inflation, and US inflation is high	Across the globe, logistics and input costs, wage inflation and commodity prices will force central banks' hands	**4/5** (economy, monetary policy)	Although most of the inflation is supply-side driven, central banks are concerned that the stubbornly high inflation rate will result in second-round effects that will leave it more entrenched for longer

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2419	1.3574	1.2658	1.3444
BWPUSD	0.0861	0.0937	0.0878	0.0928
GBPBWP	16.0255	14.6902	15.6788	14.9963
BWPEUR	0.0738	0.0806	0.0756	0.0791
JPYBWP			10.0510	10.4803
USDZAR	13.8445	15.0317	14.1690	14.7065
EURUSD	1.1190	1.2123	1.1452	1.1861
GBPUSD	1.3265	1.4375	1.3576	1.4064

Benchmark Yield Curve

6m	1.5750
3y	4.7550
5y	5.8250
22y	8.4750

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-2.3595	0.1498
3m	-7.3905	0.4761
6m	-19.0223	0.9683
12m	-41.6666	41.1368

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

- Today we have the Bank of Botswana giving us its verdict on interest rates. The consensus is that the bank will leave the benchmark rate on hold at 3.75% given that it views the uptick in inflation and transitory which has potentially been affirmed by the latest CPI print which came in at 8.4% versus the previous month's reading of 8.9%.
- At the last meeting the Governor Moses Pelaelo stated that the bank has pencilled in inflation returning to the target band (below 6%) in the second quarter of 2022. Equally the bank is predicting that the economy will operate below capacity in the short-to-medium term and thus they will be mindful of the impact a rate hike would have on the economy, which is not running hot like some of the LATAM countries given the degree of stimulus they have injected.
- Globally focus remains on inflation and the timing of the Fed taper (withdrawal of stimulus). As such energy prices remain front and centre as investors. Oil prices have steadied near their recent peaks as yesterday's EIA data provided the market with further support. The official government data revealed a surprise draw in crude stockpiles in the US, as well as a notable draw in gasoline inventories. This was despite the API data the day earlier showing a build in crude stockpiles. This shows that the market is still tightening even though we have started to see some signs that the energy crisis may not be as bad as initially thought. The supply-demand balance is still favouring higher prices, and it appears that oil is just one more market shock away from temporarily surging to levels back near $90 per barrel.
- Looking at the supply side of the equation, Saudi Arabia's oil minister believes that the OPEC+ cartel is currently powerless to stop the rise in prices, saying that they could do little to tame surging gas prices while predicting an increase in demand of 600k barrels a day if Europe experiences a cold winter. The comments from the Saudi Minister and those made by Russian President Putin last week suggest that OPEC+ isn't looking to open the production taps further at its next meeting. As such, the bias for the market remains tilted firmly to the upside.
- Moving over to the United States, the US FDA approved the Moderna and J&J booster shots to add to the existing, approved Pfizer booster shot and assist with the fighting of Covid 19. Rapidly waning immunity is causing consternation that the Northern Hemisphere winter will trigger another severe wave of infections that may lead to lockdowns. Authorities are encouraging the use of booster shots, but the take up has been low or limited so far. Covid fatigue has now become a real issue, and another round of infections seems inevitable as populations learn to live with the virus.
- There was nothing significantly new in the latest iteration of the Fed's Beige Book. It highlighted how inflation and wages remained elevated against a backdrop of modest or moderate economic growth. There was very little in this release that will change market expectations of the taper in November, although it did highlight the need to pay careful attention to inflation and to ensure that second-round effects remain well contained.
- Improved risk sentiment has seen the USD come under some pressure. Bitcoin has reached fresh record levels, while commodity currencies are performing exceptionally well at the moment as prices of commodities recover. With U.S. earnings results generally beating expectations, the rotation to the safety of the USD has waned. Technically, the USD is also showing signs of vulnerability and the likelihood of a deeper sell-off. Another solid showing of data this afternoon, and the USD will remain under pressure.
- This backdrop has seen the BWP crawl higher with a close above the 0.0900 level now within sight in the interbank market.

ZAR and Associated Comments

- While positive market sentiment continued to buoy riskier assets yesterday, the emerging market currency complex ended somewhat mixed. This was despite a broadly weaker USD, which has failed to regain its composure this week. In external data, UK CPI inflation unexpectedly slowed to 3.1% y/y in September from 3.2% in the previous month. The drop was more pronounced on a monthly basis, as inflation decelerated to 0.3% from 0.7% in August. While the pound fell post the CPI release, this did little to buoy the trade-weighted US dollar as it ultimately failed to sway expectations that the Bank of England would be the world's first major central bank to raise interest rates further down the line.
- As for the ZAR, the local unit weakened ahead of the domestic CPI print. However, this was short-lived as the data showed inflation accelerated to 5% y/y, matching expectations and ultimately raising the potential for the SARB to hike rates before year-end. According to the CPI report published by Stats SA, the main contributors to the marginal acceleration in annual headline inflation include food and non-alcoholic beverages, housing and utilities, transport and miscellaneous goods and services.
- Meanwhile, core CPI, which excludes volatile items such as food, non-alcoholic beverages, fuel and energy, rose 3.2% y/y, slightly faster than August's 3.1% annual increase. While markets continue to hold steady in pricing for a rate hike as soon as the SARB's November MPC meeting, core CPI remains anchored near the lower end of the reserve bank's target range. Evidently, demand-side inflationary pressures remain benign, while producers continue to take the brunt of the inflationary pressure. However, imminent increases in fuel prices pose upside risks to the inflation outlook and may see the SARB step in pre-emptively by raising rates to support the ZAR.
- Should the SARB continue to err on the side of caution given the weak demand environment, it could still opt for lower rates to be held into 2022, especially if the US Fed opts for a slower tapering schedule. On that front, two-year US Treasury yields continued to ease yesterday to reflect expectations for a slower pace of monetary policy tightening. In contrast, 10-year yields held steady at five-month highs.
- Following yesterday's drop, the USD has managed to steady overnight, finding support from yesterday's Fedspeak after Federal Reserve Governor Randal Quarles said he would favour a move to reduce monetary stimulus by slowing the pace of asset purchases next month. Despite Fed rate hikes remaining some time away, this has seen riskier assets take a breather in early

morning trade, with EM currencies broadly in the red. After yesterday's 0.70% advance, the ZAR swung further overnight gains to trade just shy of the 14.4500/$-handle. While the ZAR remains subject to broader market dynamics and expectations for the path of US monetary policy tightening, it may trade with a touch more resilience than the rest of the EM sample into the end of the week, given rising expectations for the SARB to hike rates next month..

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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