Botswana Market Watch 28 October 2021

GMT		International and Local Data			
12:00	BO	Nothing on the cards			
11:45	EZ	ECB deposit facility rate	Oct 28	-0.50%	-0.50%
11:45	EZ	ECB rate announcement	Oct 28	0.00%	0.00%
12:30	US	GDP q/q annualised	3Q A	2.50%	6.70%
12:30	US	Personal consumption	3Q A	1.20%	12.00%
12:30	US	Initial jobless claims	Oct 23		290k
14:00	US	Pending home sales y/y	Sep		-6.30%
15:00	US	Kansas City manufacturing activity	Oct		22,00

Factors Overnight	What happened?	Relevance	Importance	Analysis
BoJ	As expected, the BoJ kept its interest rate targets unchanged, downgraded GDP expectations for 2021 and revised inflation expectations lower	With low inflation expected for years to come, there is no urgency in withdrawing stimulus	4/5 (monetary policy)	The BoJ will lag other central banks, rendering the JPY a funding currency for a while to come. There is simply no urgency to get remove stimulus while inflation is under 2%
UK budget	UK Fin Min Sunak upgraded the UK's GDP forecast to 6.5% vs 4.0% for 2021 and used the space that to reduce borrowing and raise spending	Spending will rise across all departments but a new fiscal rule will be introduced	4/5 (fiscal policy)	Underlying public sector net debt must be falling as a share of GDP, and day-to-day public spending must be balanced by revenues within three years. That is a solid commitment to fiscal sustainability
China – coal prices	Thermal Coal price futures fell limits down this morning after China's state planner met with coal producers to discuss price curbs.	Although the push towards green energy will be strong, the objective is to limit coal inflation impact	4/5 (economy, markets)	Further to efforts aimed at containing inflation and boosting supply, the authorities will also want to conduct regular assessments of producers and monitor profiteering

Factors on the Radar	What happened?	Relevance	Importance	Analysis
ECB	Amid buoyant inflation, the ECB will debate whether the need to taper should be brought forward or whether the board can remain accommodative of growth	Policy will likely remain unchanged for now but will need to turn less accommodative	4/5 (monetary policy)	The October meeting is too soon to expect a shift in policy. However, the ECB will likely lay the groundwork for a change in policy before the end of the year or the start of next
Evergrande	Advisors to Evergrande and some offshore investors have taken steps to start debt negotiations as the developer faces the prospect of defaulting	Debt restructuring is a default by another name. Bondholders will need to accept less	3/5 (economy, markets)	Such negotiations can play a significant role in reducing the contagion risks within the industry. Pain will need to be taken somewhere to mitigate systemic or widespread risks
US spending plan - taxes	Democrats internally debated the wisdom of a "billionaire's tax" to fund Joe Biden's spending agenda. The idea had been proposed earlier in the day	While it may seem politically palatable, it is unclear whether it enjoys enough support	3/5 (economy, market)	Such a tax would be complicated to implement, might not generate the tax revenues intended, and could discourage those affected from investing further in the US

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2739	1.3906	1.2985	1.3772
BWPUSD	0.0845	0.0921	0.0861	0.0913
GBPBWP	16.2476	14.8919	15.8961	15.2022
BWPEUR	0.0728	0.0795	0.0745	0.0779
JPYBWP			9.8250	10.2462
USDZAR	14.4765	15.6953	14.8158	15.3557
EURUSD	1.1139	1.2071	1.1400	1.1810
GBPUSD	1.3194	1.4298	1.3503	1.3989

Benchmark Yield Curve

6m	1.5770
3y	4.7550
5y	6.0850
22y	8.4550

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-2.4668	-0.0777
3m	-7.4880	-0.2166
6m	-18.9199	-0.4404
12m	-40.7014	30.3254

Equities

BSE Domestic Index	6930.2
BSE Foreign Index	1548.83

Economic Indicators

GDP	36	Bank Rate	3.75
CPI	8.4		

- Local news flow is on the thin side this morning but that it not to say that the markets will have nothing to focus on. Tomorrow we have the all important end of month bond auction. The bond auction will be watched closely for a number of reasons given that the endeavours to place the amount on offer at the yields government is prepared to pay has been somewhat underwhelming in the past.
- There have been questions raised about whether or not the local fund management industry is able to absorb the additional issuance, and what needs to be done to entice international funds to the market given the fact that Botswana is one of the most fiscally sound economies as measured by the ratings agencies in Africa. African hard currency bonds very often find homes quickly in frontier and emerging market funds given the yield they offer and questions will be doing the rounds as to whether or not it is necessary for Botswana to adopt a similar strategy to build out its presence in the debt capital markets abroad.
- Internationally, the focus for the day will rest on the ECB's policy rate decision, while third-quarter US GDP results also hold market-moving potential. Expectations are for the ECB to begin laying the groundwork for more significant policy changes come the December meeting as hawkish debates within the bank grow alongside persistent inflationary challenges for the Eurozone area. As for the Bank of Japan's policy announcement earlier this morning, the central bank signalled stubbornly low inflation expectations in the years to come, which will likely cause a delay in stimulus withdrawal. Despite this, the Yen has traded up against the USD, suggesting heightened risk aversion is currently playing a role in currency markets. Meanwhile, Asian equity markets have followed losses in Europe and the US yesterday, with EM currencies also struggling for traction despite a broadly softer trade-weighted USD in early morning trade thus far.
- This backdrop suggests that the local FX markets will experience some pressure at the open. Equally we have idiosyncratic factors related to power outages hitting ZAR sentiment (see comments below) which have the ability to spill over into the regional markets.

ZAR and Associated Comments

- The ZAR weakened shortly after domestic markets opened yesterday, extending past 15.0000/$ for the first time in over two weeks. The local currency led EM FX losses for a portion of the day, with the unit ultimately declining 1% as the domestic mood soured on news that state utility Eskom would need to ramp up load shedding in order to cut 4000 MW of electricity supply to the national grid.
- This ultimately brought one of South Africa's structural issues to the fore yesterday, which has in recent years and will likely continue to inhibit the country's economic growth potential. Coming out of a likely third-quarter dip in economic productivity due to lockdown restrictions and July's civil unrest, this bodes ill for South Africa's growth potential into the end of the year and could see dovish SARB MPC members gain the upper hand at next month's meeting.
- Surprisingly, not even notable USD weakness helped to stem the ZAR's losses yesterday. Longer-term Treasury yields continued to track lower yesterday while shorter-dated two-year yields edged higher on persistent inflationary concerns. This yield curve flattening comes as investors fret over the US economy's ability to handle rate hikes as soon as next year following the likely end of the Fed's asset purchases around mid-2022. However, the ZAR was not alone in its decline yesterday as the EM currency basket closed with mixed performances, while global equity markets similarly turned risk-off.
- As for the day ahead, September producer price inflation statistics graces the domestic data card. Annual producer price inflation in SA appears to have found a base above the 7% mark since May, with input costs continuing to rise rapidly due to a contribution of low base effects and sharp increases in commodity prices, freight costs and materials amid the global shortages. Based on leading indicators, a further rise in the PPI index is expected, but the acceleration in PPI may be starting to slow. These increasing costs are beginning to weigh heavily on companies' bottom lines and will be pressuring them to try and pass on more of this increased cost to consumers. As a result, further topside pressure on CPI could be expected in the months ahead.

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