BancABC

Botswana Market Watch 29 October 2021

GMT		International and Local Data			
11:00	BO	91, 182, 364 day bills on offer			
11:00	BO	BWP200m 2027, BWP300m 2031 and BWP100 2043 Bonds to be sold today			
	BO	Sovereign Debt to be rated by Moody's			
09:00	EZ	GDP sa y/y	3Q A	3.60%	14.30%
12:30	US	BLS Employment cost index q/q SA	3Q	0.80%	0.70%
12:30	US	PCE core y/y	Sep	3.70%	3.60%
13:45	US	Chicago PMI	Oct	63,10	64,70
14:00	US	Michigan consumer confidence	Oct F	71,40	71,40

Factors Overnight	What happened?	Relevance	Importance	Analysis
China – Evergrande	Chinese developer Evergrande made another coupon payment to foreign investors before today's 30-day grace period expired to stave off a default	Heading into the weekend, this reduces levels of risk aversion and will help riskier markets	4/5 (markets)	Although it is unclear what the source of the funds was, avoiding default has prevented some $19bn worth of cross defaults. The company made the $47.5mn payment today
ECB – Policy	The ECB pushed back against the notion that higher inflation should trigger a tightening, in line with expectations. ECB Chief Lagarde pointed out that conditions for tightening have not yet been met	Despite inflation being higher for longer, the ECB will not remove stimulus yet. PEPP to end in March 2022	4/5 (monetary policy)	The ECB describes the inflation spike as temporary, driven by more cyclical factors. They also believe that more support is needed to advance the recovery for tightening conditions to be met
US GDP	GDP growth in Q3 decelerated to 2.0%, much softer than the 2.7% anticipated and the 6.7% growth rate in Q2. A modest drawdown on inventories accounted for most of the growth	The growth was soft due to logistical supply constraints, high input costs and the resurgent virus through Q3	4/5 (economy)	The impact on growth will be temporary, and the economy will reflect a rebound in Q4. As supply-side constraints ease, so the economy will expand at a less restricted pace. The economy is now 1.4% larger than it was pre-Covid

Factors on the Radar	What happened?	Relevance	Importance	Analysis
Japanese election	This weekend, Japanese voters take to the polls in a lower house election that threatens to deal the ruling party a severe blow	Sunday will offer a significant test for the LDP and new PM Fumio Kishida	3/5 (politics)	The question is not whether the LDP will lose support for its poor handling of the pandemic, but rather how much? The ruling coalition appears to be safe
G20 and COP 26	This weekend will generate much headline news as the G20 seeks to cement the economic recovery, tackle what's left of the pandemic and commit to climate change objectives	Although none of the news flow will be market moving, the information could hold implications for fiscal policy	3/5 (economy, policy)	Large scale commitments to green energy, increased taxation to reduce pandemic induced debt, and support for the global economy are all factors that will come up for discussion this weekend. Fiscal policies will be affected
US spending plan - taxes	President Biden's ambitions have been severely curtailed as he appealed to Congress yesterday to help him pass a $1.75trln climate and social spending package over and above the $1.0trln infrastructure bill	Still, the numbers are staggeringly large and will result in a rise to tax burdens, something many in Congress are finding difficult to support	3/5 (economy, fiscal policy, politics)	Biden was appealing to moderate Democrats rather than the Republicans that would not support his efforts. Biden had hoped to have something passed before heading out to the COP 26 summit this weekend, but he has been unable to do so.

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2785	1.3924	1.3032	1.3790
BWPUSD	0.0845	0.0919	0.0861	0.0911
GBPBWP	16.3009	14.9777	15.9482	15.2898
BWPEUR	0.0724	0.0787	0.0741	0.0772
JPYBWP			9.8250	10.2259
USDZAR	14.5285	15.7510	14.8691	15.4102
EURUSD	1.1205	1.2143	1.1468	1.1880
GBPUSD	1.3240	1.4345	1.3551	1.4034

Benchmark Yield Curve

6m	1.5740
3y	4.7550
5y	6.0850
22y	8.4550

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-2.3108	0.4950
3m	-7.3028	1.4540
6m	-16.9845	2.8769
12m	-40.7160	43.0689

Equities

BSE Domestic Index	6930.2
BSE Foreign Index	1548.83

Economic Indicators

GDP	36	Bank Rate	3.75
CPI	8.4		

- Today we have a deluge of debt coming to the local markets across the yield curve. There will be 91, 182 and 364 Day paper available in the short end and then further out we have BWP500m worth of 5.5% 2027s, BWP300m worth of 7.75% 2031s and BWP100m worth of 5.3% 2043s on offer.
- We expect good demand for the shorter dated paper and this is reflected in the amounts on offer with Gaborone providing chunky amounts for 2027s and 2031s. What will be interesting to note is the level of interest which will be reflected in the bid to cover ratios announced post the auction.
- All of this comes ahead of the Moody's sovereign rating decision today. It is expected that the announcement will be made after trading hours and thus the impact on local markets will manifest on Monday should there be any statement or decision that sidesteps current market expectations. We expect the agency to highlight the recovery made by Botswana and the improvement in commodity markets which will be supportive of the economy. Equally there should be caveats which relate to the COVID-19 vaccination roll outs and potential for additional waves of the variants of the coronavirus.
- Moving over to energy given its significance in the inflation equation, Oil prices are set for their first weekly drop since August this week, although we have seen prices come off yesterday's lows. The front-month Brent contract touched an intraday low of $82.30 per barrel yesterday but has since rebounded to currently trade near $84.45. WTI, meanwhile, is just below $83 per barrel this morning with both benchmarks down by around 1% on the week as supply concerns are easing. Data this week pointed to a build in stockpiles in the US, while natural gas prices have also come off their recent highs to ease some of the pressure on the oil market. Furthermore, progress is being made with regard to talks between Iran and the EU, setting the stage for an eventual return of Iranian crude to the market.
- Emerging market currencies continued their choppy trade yesterday, with mixed performances despite a broadly softer US dollar. The USD came under pressure following third-quarter GDP results, which showed the economy grew at the slowest pace in over a year in the three months through to September as the Delta variant compounded effects of labour shortages and supply constraints.
- Furthermore, the USD was pressured by gains for major currencies, with the euro advancing following the ECB's policy announcement. While the ECB ultimately kept policy unchanged, the central bank noted it could continue slowing asset purchases under the pandemic emerging purchase program whilst still maintaining favourable financing decisions, thus keeping December bets for more significant changes to current policy.

ZAR and Associated Comments

- Amidst the flurry of data and central bank decisions, the ZAR had a tough time steadying while domestic sentiment remained subdued by load shedding ahead of next week's municipal elections and the following week's Medium Term Budget Policy Statement. The ZAR ultimately fell amongst the laggards for the third day, closing at 15.1100/$, 0.70% weaker than the previous day's close.
- As for domestic data yesterday, PPI data showed producer prices accelerated by more than expected in September, rising 7.8% from August's print of 7.2%. While Stats SA listed coke, petroleum, chemicals, rubber and plastic products, equipment, food products and beverages as the main drivers behind the increase in the headline figure, the ZAR's depreciation through September would have only added to higher producer costs. While we can expect base effects to diminish towards the back-end of the year, producer prices are likely to remain elevated for a while longer until the commodity cycle slows and supply chains are restored. On a monthly basis, producer prices rose 0.9%, up from 0.8% and surpassing expectations of a drop to 0.4%. Ultimately, this will influence the SARB's monetary policy stance, as manufacturers' costs are eventually passed onto consumers, driving inflationary pressures. However, for now, we still see the SARB standing pat at its November policy meeting.
- The day ahead sees a bumper domestic data card with private sector credit growth and money supply data this morning, followed by government budget statistics and SA's September trade balance. With money supply and credit growth remaining below historical trends, these will continue to have a marginal impact on consumer prices and aid the SARB in extending its accommodative policy stance towards year-end, likely at the expense of the ZAR. The trade data is expected to show a narrowing in the current surplus as commodity prices declined during the month and domestic demand improved amid the easing of lockdown restrictions. While the surplus should still show exports remained buoyed by elevated commodity prices, risks lie further down the line with a potential growth slowdown in China which could affect SA's exports and thus remove a significant part of the ZAR's resilience.
- Externally, markets will focus on a flash Eurozone CPI print for October, which is expected to rise and thus could further bolster bets for sooner policy tightening. Stateside data includes US PCE core which is one of the Fed's preferred measures of inflation, where a higher print could equally stoke bets for Fed policy tightening and thus provide some support to the USD after yesterday's drop. As for the local currency, the ZAR has continued to lead EM currencies weaker in early morning trade, which could remain the case into the weekend with limited scope for improving sentiment ahead of upcoming local risk events..

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