Botswana Market Watch 15 October 2021

GMT	International and Local Data				
09:00	BO	Nothing on the cards			
12:30	US	Empire manufacturing	Oct	25,00	34,30
12:30	US	Import price index y/y	Sep		9.00%
12:30	US	Advance retail sales m/m	Sep	-0.30%	0.70%
12:30	US	Retail sales ex. auto and gas	Sep	0.20%	2.00%
14:00	US	Michigan consumer confidence	Oct P	73,50	72,80
14:00	US	Business inventories m/m	Aug	0.70%	0.50%

Factors Overnight	What happened?	Relevance	Importance	Analysis
China thermal coal	Thermal coal prices have risen to record highs. And this is before the effects of winter have even been felt. The fear is that demand drives prices even higher	The energy crisis is set to deepen as demand for heating ramps up to compound shortage	4/5 (economy)	Manufacturers have already seen productive ability drop off due to power shortages. With heating demand set to rise, the power shortages may increase in frequency and duration
US earnings	JP Morgan, Citibank, Wells Fargo and Bank of America posted very strong earnings results and beat expectations to the topside	The performance of these banks is seen as a clear sign of underlying strength	3/5 (economy, market)	The US economy has recovered strongly and continues to do so. This strength will encourage the Fed to taper slowly and seek to normalise monetary policy
US labour market	Weekly jobless claims fell below 300k to 293k while continuing claims declined by a further 134k to 2.594mn	It offers further evidence of the improvement in the labour market	3/5 (economy, market)	This will only strengthen the argument for tapering, although high energy prices will give rise to concerns that inflation may prove more stubborn than expected

Factors on the Radar	What happened?	Relevance	Importance	Analysis
IEA – Global recovery	Multi-year high oil and gas prices, surging or record coal prices, together with a strengthening recovery and power outages, will constrain economic growth	Rising inflation, surging input costs and margin squeeze could derail the economic recovery	4/5 (economy)	The IEA estimates that OPEC+ will pump 700k fewer bpd than actual demand. The risk is that energy suppliers do not respond to the demand soon enough and undermine final demand
BoC on inflation	Bank of Canada Chief Macklem highlighted that supply chain bottlenecks are not easing as quickly as anticipated, implying that inflation in Canada and IMF members would remain high	Such stubbornly buoyant inflation poses challenges for central bankers that will want to quell inflation but not GDP	4/5 (economy)	Finding the middle ground will be difficult, but given the backdrop, it will need to be a concerted effort by both energy producers and logistics companies together with central banks that eventually stabilise the situation
Australia opening up	With vaccine prevalence considered appropriate, even Australia is looking to open up to vaccinated travellers as of the 1st November	When the strictest country is prepared to open up, the end of the lockdowns is now more likely than ever	4/5 (economy)	Australia has been one of the most conservative in dealing with the pandemic and has been the slowest to open up, waiting for vaccine prevalence to ramp up.

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2566	1.3725	1.2809	1.3593
BWPUSD	0.0852	0.0930	0.0868	0.0921
GBPBWP	16.0467	14.7117	15.6995	15.0182
BWPEUR	0.0733	0.0800	0.0751	0.0784
JPYBWP			9.9331	10.3582
USDZAR	14.1677	15.3690	14.4997	15.0365
EURUSD	1.1142	1.2074	1.1403	1.1813
GBPUSD	1.3138	1.4233	1.3446	1.3926

Benchmark Yield Curve

6m	1.5740
3y	4.7550
5y	5.8250
22y	8.4750

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-2.2328	0.0000
3m	-6.7763	0.0000
6m	-18.8906	0.0000
12m	-41.1986	0.0000

Equities		Economic Indicators			
BSE Domestic Index	6916.02	GDP	36	Bank Rate	3.75
BSE Foreign Index	1548.83	CPI	8.9		

- We continue with the theme of inflation from yesterday given that we have the local release of CPI as well as the Bank of Botswana's decision on rates next week.
- One asset class that more broadly has tracked inflation sentiment both negative and positive has been gold, and thus we draw the reader's attention to developments in this market in todays note.
- The yellow metal is currently on target for its best week in more than five months as a result of a weaker USD and lower US Treasury yields enhancing golds appeal. This all despite the looming US Fed taper which is expected to start towards the middle of November and will remove the natural bid seen in US Treasuries causing them to rise.
- All of that said, much of this has been priced in and the market may well be looking at what is potentially structural inflation coming through rather than a transitory period which was touted by most Central Banks earlier this year. The world is awash with liquidity and many Central Banks are clambering to get a handle on rising inflation by raising rates aggressively. Against this backdrop, it is not surprising to see those that view gold as an effective hedge finding the current prices attractive.
- Equally other non-traditional asset classes like Bitcoin have surged. Investors buying these assets comprise two distinct classes of investor, first those speculating and looking to profit from the volatility, and those who view it as a shelter from what they view as the coming crisis created by all the Central Bank monetary stimulus. At the time of writing Bitcoin is trading just below the $60000/coin mark.
- Looking at the day ahead we have important data out of the United States which will set the macro backdrop into the weekend.
- In August, U.S. advance retail sales rose 0.7% m/m, smashing consensus expectations for a 0.7% decline. Excluding the automobile and gas sectors, retail sales rose 2%, suggesting U.S. demand remains solid. However, the spread of the delta COVID-19 variant appeared to curb demand for travel and leisure, allowing greater consumer spending on goods. Additionally, hospitality services such as restaurants and bars stagnated in the last print, highlighting the services sector's risks. Looking ahead, rising inflation presents a clear risk threatening the ongoing recovery should it impact broader consumer sentiment and see consumers begin to tighten their budgets. However, should retail sales hold up for another month, this would drive inflationary pressures further down the line, increasing the likelihood we see a Fed tapering announcement before year-end.
- The U.S. Michigan consumer confidence index unexpectedly rose in the September print, revised higher to 72.8 from a preliminary reading of 71. While consumer spending has held up in recent months, stubbornly high inflation has weighed on consumer sentiment during H2. Consumer expectations for inflation over the next year remained high at 4.6%. Over the next 5-10 years, inflation expectations rose to 3.0% from 2.9%. While this may see broader demand held back somewhat, the current economic conditions and future expectations sub-indices rose in the last print, suggesting the August dip may be short-lived. However, inflation expectations well above the Fed's target 2% level stills presents risks to the U.S.' post-pandemic recovery and may prompt central bankers to edge away from their views for transitory inflation.
- The BWP responded to the dollar weakness with the BWP-USD moving away from the 0.0800 handle to close nearer to 0.0890 in the interbank market yesterday. The general view is that we will in time move back above the 0.0900 handle but for now movements contained within a well worn range.

ZAR and Associated Comments

- The USD remained on the back foot in earlier trade yesterday, seemingly pressured by falling Treasury yields. As such, the majority of the EM currency sample was able to advance for another day, with the ZAR securing its third daily gain. However, with no clear basis for the halt in the USD's bullish trend this week, expectations are for it to prove short-lived. As the USD managed to pare losses through the session, the ZAR concurrently reversed gains of as much as 0.70% to close the day only marginally stronger at 14.7800/$.
- Providing the USD with some support yesterday, US initial and continuing jobless claims fell further than anticipated, showing the current labour market shortage remains to blame for weak hiring rather than reduced demand for labour. Moreover, Fed speakers yesterday backed bets for sooner tightening of US monetary stimulus. St. Louis Fed President Bullard noted an equally strong case that inflation would not naturally dissipate, while Richmond Fed President Barkin warned that inflation looks more broad-based and sees the need for tapering discussions to begin due to elevated risks. While Barkin stated that the Fed gave an advance warning to limit market surprises, with its September guidance that a reduction in the pace of asset purchases would soon be warranted should the recovery progress as expected, this still holds the potential to drive the USD stronger in the coming months.
- Domestically, deputy SARB Governor Kuben Naidoo noted in a webinar yesterday that SA will need to scale back its own stimulus measures once global financing conditions become more costly due to monetary policy tightening in the US, Japan, Europe and other major DMs. He noted this would affect the ZAR and domestic bond yields, suggesting that the SARB could need to step in with rate hikes to avoid too much market turbulence. Whether the SARB may do this pre-emptively remains to be seen. Either way, the time is soon approaching that we see a Fed taper, with nearest expectations being for mid-November or mid-December should the Fed announce taper plans at its meeting early next month. On the other hand, the deputy governor also noted that stimulus would need to be scaled back despite several large sectors remaining very weak, which could ultimately limit potential growth in the medium to longer term. While he noted a solution would be the better targeting of stimulus measures to specific sectors, it could equally see the SARB erring on the side of caution and opt for a more gradual rate hike cycle.
- Over to the spot markets, rebounding risk appetite has continued to see the USD trade with a downwards bias overnight, as Asian equity benchmarks have tracked higher following gains on Wall Street yesterday. With the ZAR remaining subject to changes in global market sentiment, we should see the unit continue to be buoyed by a falling USD. As for the day ahead, the

market will have notable US data to digest, with retail sales and consumer confidence rounding out the global data releases this week. While the data may add some support to tapering bets, it is unlikely to change the USD's course into the weekend, given tapering expectations already priced into the greenback and US treasuries. .

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