Botswana Market Watch 18 October 2021

GMT		International and Local Data			
09:00	BO	Nothing on the cards			
13:15	US	Industrial production m/m	Sep	0.20%	0.40%
13:15	US	Manufacturing production m/m	Sep	0.30%	0.20%
14:00	US	NAHB Housing market index	Oct	75.00	76.00
14:30	UK	BOE's Jon Cunliffe speaks on digital currencies			
18:15	US	Fed's Kashkari Discusses Improving Financial Inclusion			
20:00	US	Net long term TIC flows	Aug		$2,00bn

Factors Overnight	What happened?	Relevance	Importance	Analysis
China GDP	Q3 GDP growth was the slowest in a year as it rose 4.9% y/y vs the 5.2% forecast. The power crunch, logistics bottlenecks and Covid-19 outbreaks have weighed	Policymakers now have some tough choices to make on whether to stimulate or tackle debt	4/5 (economy)	Stimulating and supporting the economy through monetary policy encourages the very debt problems that led to the Evergrande crisis in the first place and which China is trying to contain
Bond fund outflows	Lipper data shows that bond funds suffered their first major outflow in seven months in the week to the 13th of Oct	It is a sign that inflation concerns are now concerning investors	3/5 (market)	Rising inflationary pressures and tightening monetary policy will lead to a phase of bond outflows in favour of the more growth-friendly equity markets
Oil prices	Brent has risen to the highest level since Oct 2018, while the WTI is up to the highest level since 2014	As gas prices have risen, so a shift back to oil has assisted in bolstering demand	4/5 (economy, market)	Pressure building on OPEC+ to respond to the stronger demand dynamics, with the Covid pandemic no longer driving decision making in the way that it was

Factors on the Radar	What happened?	Relevance	Importance	Analysis
BoE on inflation	Governor Bailey indicated yesterday that the BoE is gearing up to lift interest rates since the onset of the pandemic in a bid to curb inflation expectations	Monetary policy can help contain second-round effects from the first-round supply shock price hikes	4/5 (economy)	The BoE is indicating that it will be forced to act to contain the rise in inflation expectations and may even become the first major central bank to raise rates
Inflation	Inflation will be in the spotlight this week, with several countries reporting on it. It is affecting central bank expectations and, by extension, the performance of bond markets	Supply-side shocks, logistics, rapidly rising demand and curbed supply have all resulted in inflation rising the world over	4/5 (economy)	Central banks will collectively seek to respond to the rise in inflation expectations out of fear that it undermines the stability of the economic upswing that loose monetary policies have sought to foster
US earnings season	After a strong showing from companies last week, including Goldman Sachs on Fri, it will be another important earnings week ahead to influence sentiment	The US economy still appears to be in the midst of a strong recovery that will impact policy	4/5 (economy, markets)	Netflix, J&J, United Airlines, P&G, Tesla, Verizon and IBM are all companies that are set to report back this week. The collective outcome will guide sentiment, although it is expected to be positive

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2487	1.3633	1.2727	1.3502
BWPUSD	0.0852	0.0931	0.0868	0.0922
GBPBWP	16.1007	14.7612	15.7523	15.0688
BWPEUR	0.0735	0.0802	0.0753	0.0786
JPYBWP			9.9626	10.3887
USDZAR	14.0778	15.2666	14.4078	14.9363
EURUSD	1.1117	1.2044	1.1377	1.1784
GBPUSD	1.3182	1.4281	1.3491	1.3972

Benchmark Yield Curve

6m	1.5745
3y	4.7550
5y	5.8250
22y	8.4750

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-2.2328	-0.0154
3m	-6.7763	-0.0496
6m	-15.8730	-0.0997
12m	-37.9275	68.3940

Equities

BSE Domestic Index	6920.03
BSE Foreign Index	1548.83

Economic Indicators

GDP	36	**Bank Rate**	3.75
CPI	8.4		

- Statistics Botswana released the CPI figures for September on Friday which showed the year on year rise in inflation falling from 8.8% in August to 8.4% in September. The major contributor was the Transport component at 4%, while Housing, Water, Electricity, Gas and other fuels added 1.5%. Food and non-alcoholic beverages added 0.9%. The Trimmed Mean Core Inflation rate was at 8.0% which was a drop of 0.3% versus the previous month.
- This does set the stage for this week's Bank of Botswana decision on rates. The bank has been steadfast in its view that inflation is transitory and that it would prefer to look through the inflation cycle. This is a very similar narrative to the likes of the South African Central Bank who have yet to embark on any form of adjustment in monetary policy expectations. Granted other countries globally have moved quickly to tighten monetary policy as inflation takes hold, but we expect the BoB to continue on its same path with Friday's CPI figure perhaps supporting the direction.
- Internationally focus has been on China this morning was fears of a slowing in economic dynamism remain entrenched as a result of the latest round of data. The Q3 reading for the world's second largest economy came in at 4.9% year on year versus the 5.2% forecast by a group of economists. The Chinese economy has been hurt by Beijing curtailing production in certain industries to clean up the environment, power shortages, supply chain bottlenecks and of course pressure in the property sector which has now blown up in the form of the Evergrande debt crisis. The fact of the matter is that the recovery in China as with most economies is uneven and in fact unstable, we would not be surprised to see further challenges in the quarters ahead.
- In terms of the United States, Earnings data released last week was strong, which, combined with the stronger than expected retail sales data, confirms that the U.S. economy is still in an economic upswing that is in full swing. This week's focus will remain with companies reporting, with some important earnings releases across a broad spectrum of the U.S. economy giving their performance feedback. Amongst the companies reporting will be Netflix, J&J, United Airlines, P&G, Tesla, Verizon and IBM. Another strong showing will only further build expectations that the Fed is about to start tapering.
- Despite all the headwinds stemming from the COVID-19 pandemic and supply chain challenges, the recovery in the U.S. industrial sector remains underway. Consensus expectations suggest that industrial production in the U.S. expanded for a seventh straight month in September. The recovery in the sector is underpinned by the stimulus in circulation and the easing of virus containment measures, leading to a recovery in demand domestically and internationally. While we expect the recovery in the U.S.'s industrial sector to persist in the months ahead, there are still several headwinds facing the sector, which suggests that the pace of industrial production growth will remain relatively modest in the months ahead.
- Moving over to the FX markets, after retreating towards the back end of last week to end the week on the defensive, the USD appears to have found a firmer footing this morning, although underlying momentum is still lacking. Strong earnings results and a strong US retail sales report has given rise to expectations of a tightening in monetary policy that will support the USD. This week, more earnings reports and economic data will prove important as will overall levels of risk appetite. If risk appetite remains strong, any USD surge will remain contained.

ZAR and Associated Comments

- Amidst rebounding global market sentiment, the ZAR extended its winning streak to a fourth day at the end of last week as it led emerging market currencies with a 1.25% daily gain. The local unit ultimately reached a three-week high of 14.6000/$ by the end of domestic trading hours, cementing a 2.20% weekly advance.
- The ZAR's performance was ultimately spurred on by a falling USD, while the local currency's higher beta nature, its sensitivity to broader market moves, saw it near the top of the EM currency basket. As for the USD, the dollar index (DXY) secured its first weekly decline since the beginning of September after ending Friday similarly on the back foot despite US Treasury yields ticking higher.
- Bringing last week's data card to a close, a gauge of US consumer confidence unexpectedly fell, highlighting the risks of stubbornly high inflation on the US' economic recovery. While the US economic recovery has outpaced other developed nations' recoveries, higher inflation prints around the world have driven investors to see the potential for other central banks besides the US Fed needing to act more aggressively to tame rising price pressures. While Fed tapering potential this year and rate hike expectations for next year hold the ability to drive the USD stronger as we move forward, rising expectations for global monetary policy tightening could limit the USD's further potential given its rise solely on Fed policy tightening up until now. Bank of England Governor Bailey said yesterday that surging energy prices may cause more persistent inflation and that UK central bank policymakers would need to act if these risks strengthen. Meanwhile, in overnight data, New Zealand posted its largest quarterly jump in CPI in a decade.
- As global inflationary risks intensify, triggering expectations for more hawkish major central bank action, this could hold up any bullish trend underway for the USD. Whether the ZAR can capitalise on this in the near term ultimately depends on domestic economic growth and whether the SARB would act pre-emptively to avoid currency weakness.
- In a snap change to last week's end, sentiment has kicked off poorly this morning, with the USD firmer against most currencies while Asian equity benchmarks have dipped broadly after weaker than expected Chinese data this morning. China registered 0.2% q/q GDP growth in the third quarter, down from last quarter's 1.3%, while industrial production also lagged expectations as it grew 3.1% y/y, down from 5.3% in August. While broader risk appetite appears to be getting a slow start to the week, SA's exposure to Chinese growth, being SA's largest trading partners, may see the ZAR heavier hit than other EM currencies for the day ahead.. .

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