Botswana Market Watch

22 October 2021

GMT		International and Local Data			
	BO	Nothing on the cards			
07:30	GE	Markit/BME manufacturing PMI	Oct P	56,80	58,40
08:00	EZ	Markit/BME manufacturing PMI	Oct P	57,30	58,60
08:00	EC	ECB Survey of Professional Forecasters			
08:30	GB	Markit manufacturing PMI	Oct P	55,00	57,10
13:45	US	Markit PMI manufacturing	Oct P	60,50	60,70
14:00	US	Fed's Daly Discusses the Fed and Climate Change Risk			

Factors Overnight	What happened?	Relevance	Importance	Analysis
China Evergrande	China's Evergrande is set to avoid default after it reportedly paid its bond interest due on the 23rd of September, before the 30-day grace period expired.	This offers relief. However, interest payments of around $2.79bn were due through Sep and Oct	5/5 (economy, markets)	The risks with Evergrane remain as high as ever. The risk of default is still large, and it remains unclear whether the interest payments can be met without large scale restructuring
GfK UK inflation expectations	According to GfK, a record number of 48% of the British public believes that inflation will rise over the next 12 months	The highest proportion since Thatcher raises the chance of tightening	4/5 (monetary policy)	The BoE will want to stamp out inflation expectations long before they become entrenched. This is a problem many other developed market CBs will have
US House prices	NY Fed President Williams acknowledged that the rising property market could correct but played down the probability that the property market posed any threat to financial stability	Central banks will tend to look at the rise in asset prices as a positive boost to household balance sheets	3/5 (market)	With banks now recapitalised and with interest rates low and unlikely to rise for some time still, it is unlikely that the property market will become the epicentre of any fresh risks to another crisis

Factors on the Radar	What happened?	Relevance	Importance	Analysis
New Delta Variant	Although too early to tell whether it is a variant that has further undermined the vaccines and which could be more transmissible, it has been labelled a variant of concern	Already the UK govt is coming under pressure to mandate more restrictions. The risk of another lockdown has risen	4/5 (economy)	The number of new infections in the UK has been accelerating at alarming levels. Even though the spread is not generating a high death rate, it is still raising the risk of another round of lockdowns
DM bond yields	Yields across many developed markets are rising on the growing expectation that inflation will become a factor that central banks will have to deal with	As inflation expectations rise, so central banks will be forced to tighten despite slow growth	3/5 (economy)	Whether the rise in bond yields will be sustained through another equity market retreat is debatable. However, expectations of a rise in inflation will keep the rising yield bias intact
EU energy crisis	Although EU leaders have not settled on a harmonised solution to tackle rising energy prices, the inflation shock will force many countries to mitigate the impact to households	This could result in delays to restoring fiscal stability and credibility as one solution has been tax breaks	3/5 (economy)	It is unclear what the best solution is to minimise the impact on households and not derail the economic recovery, but the most obvious would be to reduce the taxes imposed on energy prices to offset the rise in market prices

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2612	1.3781	1.2856	1.3649
BWPUSD	0.0861	0.0940	0.0878	0.0931
GBPBWP	15.9930	14.6474	15.6470	14.9525
BWPEUR	0.0740	0.0809	0.0758	0.0794
JPYBWP			10.0510	10.4904
USDZAR	14.0606	15.2445	14.3902	14.9147
EURUSD	1.1159	1.2093	1.1421	1.1831
GBPUSD	1.3241	1.4346	1.3552	1.4035

Benchmark Yield Curve

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

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-2.4278	0.3815
3m	-7.2248	1.0519
6m	-16.8188	2.1499
12m	-41.1450	58.7062

Equities / **Economic Indicators**

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

- The highlight of yesterday's trading was undoubtedly the Bank of Botswana's verdict on interest rates. As expected, the bank left the benchmark rate unchanged at 3.75%. The message delivered during the accompanying statement was largely the same as the previous one citing inflationary risks being skewed to the upside despite the decrease in inflation to 8.4% y/y in the month of September.
- The factors mentioned as risks for inflation in the press release include *potential increase in international commodity prices beyond current forecasts; persistence of supply and logistical constraints due to lags in production; possible maintenance of travel restrictions and lockdowns due to the COVID-19 pandemic; domestic risk factors relating to regular annual price adjustments; as well as second-round effects of the recent increases in administered prices and inflation expectations that could lead to generalised higher price adjustments.*
- These risks are however offset potentially by the weaker demand domestically including risks of periodic lockdowns as new variants of COVID-19 make landfall. The full statement can be read by clicking here
- There was also other news to cheer about which will have a direct impact on the level of investment that Botswana will be able to attract. Botswana has been removed from the Financial Action Task Force "grey-list", the country has been on the list since 2018, and this resulted in it being included in the European Union blacklist since 2019.
- Moving over to the United States, Data released yesterday shows that the U.S. economy continues to recover. Weekly jobless claims have now fallen to the lowest levels in 19 months. Continuing claims have fallen a further 122k to 2.481mn while existing home sales have jumped 7% on the month. All in all, it is a strong set of data, which, when combined with the recent earnings outcomes, suggests that the economy is still in the midst of a strong recovery that helps explain the rise in equity markets.
- New York Fed President Williams has been quoted as saying that although he sees the risk and potential of the property market correcting, that he does not see high property prices as a financial stability risk. With the benefit of hindsight, banks are well capitalised and are positioned to weather any difficulties in the market. Furthermore, from a credit cycle perspective, the rise in house prices helps to boost (on paper) the balance sheets of households against which they can borrow in the future. With interest rates as low as they are, the pressure on households will remain low and the risk of further property price increases, high.
- Overnight, the USD has continued to trade on the front foot, with the reversal in trend gaining in pace in late evening trade. Adding to yesterday's snap change in market sentiment and further supporting the USD, US initial jobless claims fell to a 19-month low. Despite labour shortages slowing hiring dynamics in the US, high-frequency data continues to point to a tightening labour market, albeit slower than what was initially expected.
- While the USD has held steady on a trade-weighted basis after its overnight bounce, it is as yet unclear whether the market has reached an inflection point in the greenback's decline from one-year highs touched a little over a week ago. Furthermore, risk aversion appears to have settled overnight on news that debt-laden Chinese property developer Evergrande has made an interest payment before its 30-day grace period was scheduled to end over the weekend. As a result, most Asian equities have traded up. However, emerging market currencies have comparatively struggled to regain traction which left the BWP below the 0.0900 handle once again.

ZAR and Associated Comments

- Risk aversion picked up notably yesterday, with the likes of haven currencies, namely the Japanese Yen, Swiss Franc and US dollar, all bid on the day. Concerns over a potential looming default by China's Evergrande shaped the sour mood during earlier Asian trade, with contagion risks driving losses for riskier assets through the day. Comments from Fed officials complicated the mood, as some reaffirmed that US interest rate hikes would not be occurring any time soon. In contrast, others noted they favoured a tapering of Fed asset purchases as early as next month. The combination of yesterday's risk-off trading environment and Fed comments ultimately saw the trade-weighted USD steady during the day, ending domestic trading hours flat.
- Meanwhile, the ZAR was amongst the weakest on the day, losing 1.40% against the USD to close at 14.6200/$. The local currency only fared better than the Turkish Lira in the EM currency sample, which was pressured into a 2.30% loss after the Turkish central bank cut its benchmark repo rate by 2%, twice as much as expected. Overall the souring mood brought the ZAR's rally to a halt, paring all weekly gains thus far.
- The day ahead sees manufacturing PMI data out of Europe and the UK, followed by the US later in the day. Should there be continued signs that supply constraints are weighing on factory production, increasing the potential for more persistent inflation globally, a rebound in risk appetite heading into the weekend could be a tough ask. The day ahead also features a continued panel discussion hosted by the SARB and the BIS, featuring SARB Governor Lesetja Kganyago together with Fed Chairman Jerome Powell, with markets looking for hints on risks to the policy outlook post-pandemic.

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