# Botswana Market Watch

# 4 November 2021

| GMT | | International and Local Data | | | |
|---|---|---|---|---|---|
| | BO | Nothing on the cards | | | |
| 11:00 | US | MBA mortgage applications | Oct 29 | | 0.30% |
| 12:15 | US | ADP employment change | Oct | 400k | 568k |
| 14:00 | US | Durable goods orders m/m | Sep F | | -0.40% |
| 14:00 | US | ISM non-manufacturing composite PMI | Oct | 61.80 | 61.90 |
| 14:00 | US | Factory orders | Sep | -0.10% | 1.20% |
| 14:45 | US | Markit composite PMI | Oct F | | 57,30 |
| 18:00 | US | FOMC rate decision | Nov 3 | 0,25% | 0,25% |

| Factors Overnight | What happened? | Relevance | Importance | Analysis |
|---|---|---|---|---|
| **Japanese service sector** | Japan's services sector grew for the first time in 21 months in Oct as consumer sentiment rose after Covid infections subsided | Broad based demand appears to have found a floor and a recovery is under way | 2/5 (economy) | This is a significant event, in that it is the strongest result in two years and finally signals expansion. There is therefore substance to the recovery |
| **FOMC** | As anticipated the Fed announced a reduction in asset purchases, even as it expects inflation to be transitory and will subside as supply-side bottlenecks ease | The Fed is therefore set to remain accommodative of growth for a while, although it will drop extraordinary support | 4/5 (economy, monetary policy) | Powell pinned the inflation episode currently as a function of logistical constraints and supply-side bottlenecks which will ease. The Fed will remain supportive of the labour market and will not seek to hike rates anytime soon |
| **US data** | The ISM non-manufacturing activity index rose to a record high of 66.7 in Oct, confirming a strong recovery is under way. ADP data also showed a strong increase of 571k jobs | The combination only added pressure to the Fed to taper. The economy is strong enough to absorb the taper impact | 3/5 (economy) | This improved performance will spill over into other sectors of the economy and the labour market will tighten up. This raises the risk of inflation through wage increases, and offers perspective on the Fed's response |

| Factors on the Radar | What happened? | Relevance | Importance | Analysis |
|---|---|---|---|---|
| **US labour data** | Private sector data was released yesterday and impressed. Today will see weekly jobless claims data released and that will precede tomorrow's NFP data | The data will show how the labour market is improving and that the Fed taper was warranted | 3/5 (economy, markets) | The labour data now will lose some of its significance given that its main relevance was to the Fed's decision, which is now known. The market will take the NFP data in its stride. |
| **OPEC +** | OPEC + nations will meet today to decide on whether to increase production, in the face of mounting pressure to do so as prices continue to rise | It is unclear that OPEC will respond to call for higher production as they recover 2020 losses | 4/5 (economy, monetary policy) | OPEC+ will enjoy the sweet spot they find themselves in with rising demand and high prices. However, they will also encourage other more marginal producers back into the market |
| **BoE** | BoE decision today will be one of the most interesting in a while. The market seems divided on whether a rate hike is needed. Inflation is double the BoE target | Inflation is set to rise towards 5%, against a backdrop of an economy that is struggling to grow | 4/5 (economy, monetary policy) | On balance, a small hike is anticipated to signal that high levels of inflation will not be tolerated. However, it is far from a foregone conclusion, with infection rates still very high |

## Local FX Opening Rates and Comment

| | CUSTOMER BUY CASH | CUSTOMER SELL CASH | CUSTOMER BUY TT | CUSTOMER SELL TT |
|---|---|---|---|---|
| BWPZAR | 1.2607 | 1.3886 | 1.2850 | 1.3753 |
| BWPUSD | 0.0826 | 0.0908 | 0.0842 | 0.0899 |
| GBPBWP | 16.5214 | 15.0191 | 16.1640 | 15.3320 |
| BWPEUR | 0.0712 | 0.0783 | 0.0729 | 0.0768 |
| JPYBWP | | | 9.6482 | 10.1445 |
| | | | | |
| USDZAR | 14.6591 | 15.9058 | 15.0027 | 15.5616 |
| EURUSD | 1.1130 | 1.2059 | 1.1391 | 1.1798 |
| GBPUSD | 1.3112 | 1.4208 | 1.3419 | 1.3901 |

**Benchmark Yield Curve**

| | |
|---|---|
| 6m | 1.5750 |
| 3y | 4.7550 |
| 5y | 6.0550 |
| 22y | 8.4550 |
| | |

**Forward Foreign Exchange**

| | BWPUSD | BWPZAR |
|---|---|---|
| 1m | -2.3595 | -0.0989 |
| 3m | -7.3418 | -0.3033 |
| 6m | -18.8663 | -0.5999 |
| 12m | -40.6624 | -1.2032 |

**Equities** / **Economic Indicators**

| | | | | | |
|---|---|---|---|---|---|
| BSE Domestic Index | 6948.4 | GDP | 36 | Bank Rate | 3.75 |
| BSE Foreign Index | 1548.83 | CPI | 8.4 | | |

- The latest round of trade data released this week may well explain one of the factors which has kept the pula under pressure. The August reading showed that imports were valued at BWP8 698.2m over the measurement month while exports stood at BWP 6 984.5mn resulting in a trade deficit of BWP 1 713.6m. A positive trade balance is one of the key components to creating an environment of currency resilience, policymakers will be certain to keep an eye on the trend as a negative trade balance renders the currency vulnerable which at a time of high inflationary pressures would not be welcomed.
- When unpacking the numbers one sees that diamonds continue to make up the largest portion of the export leg. The precious stones accounted for some 85.7% of all exports, while the next largest export was copper and nickel exports which amounted to 5.3%.
- The government remains steadfast in its commitment to grow other sources of export revenue. Copper and Nickel have good prospects as does manufacturing in due course.
- Given the importance of copper to the local markets, we from time to time would like to draw readers attention to developments in this market. The price of copper has picked up sharply this morning after the global economic bellwether closed in the red yesterday. The red metal is currently marked 1.57% higher in the Asian session at the time of writing with a weaker USD and certainty around the direction of the Fed's monetary policy trajectory supporting the price action. We are currently trading just north of $9600.00/tonne as we head into the start of the local open.
- The undoubted highlight from an international perspective overnight was the Fed's decision on monetary policy. The Fed announced yesterday that it would begin tapering its asset purchases this month, reducing its purchases by $15bn a month. Treasuries purchases will be reduced by $10bn a month, while mortgage-backed securities purchases will drop by $5bn a month. This split was widely expected. However, the Fed did note that the asset purchase programme will remain flexible and that the pace of its reduction could vary depending on the economic outlook. The current outlook, however, means that the programme will end by the middle of next year, allowing for possible interest rate hikes to take place towards the end of 2022, although the Fed may look to separate its outlook for higher rates from the timing of the cessation of its QE programme. The initial market reaction was a slight weakening of the dollar while front-end US treasury yields pared some of their intraday gains as the announcements were largely priced in.
- Looking at the FX markets we expect that there is now an opportunity for the BWP to improve against the greenback as the major risk event is behind us. We also have the ZAR on the front foot which will support the local unit.

## ZAR and Associated Comments

- In financial markets, one always needs to look at the news or an event against the backdrop of what has been priced in. At face value, an event may occur which appears to favour a stronger USD-ZAR, only for the opposite to occur. It does not mean the logic or interpretation of the event was wrong, merely that the market had anticipated the event so much that it may have overpriced its reaction. Counterintuitively, the opposite occurs. This describes to some degree what happened overnight and the market reaction to the FOMC decision to begin tapering and QE by June next year.
- The USD-ZAR corrected lower sharply after the announcement and lost a full 20 cents on the news. This despite confirmation that the Fed would remove stimulus from its policy and progress to a point where it could consider hiking rates. For the USD-ZAR, it was just as much about how much had been priced in, as it was the passing of another risk event. Couple that to the reduction in political uncertainty with the elections behind us and the USD-ZAR's recent surge looks overdone. Technically, the pair now looks set to end the week on the defensive, with only the latest non-farm payrolls data to navigate tomorrow.
- However, even if non-farm payrolls data due tomorrow beat expectations to the topside, they are unlikely to impact markets significantly, given that their relevance is linked to the Fed's decision making. Therefore, the market-moving importance of the payrolls data has diminished. The ZAR now holds the potential to end the week on a firmer footing, load shedding threats notwithstanding.
- Focus through the day ahead will remain with central banks and monetary policy. The BoE will announce its decision on rates to offer further perspective, on top of the Fed's decision last night. Some labour data in the form of the US weekly jobless claims will also hold some interest but is unlikely to impact the USD-ZAR much unless it generates a major surprise. This is not anticipated.
- Domestically, the focus is rapidly shifting towards the MTBPS next week. This is a major risk event, but given the recent government finance statistics, SA's tax position has improved considerably, and the risk of disappointment has shrunk. If anything, the outlook has improved and will at the margin support the ZAR.

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