BancABC

Botswana Market Watch 8 November 2021

GMT		International and Local Data			
	BO	Nothing on the cards			
05:00	JN	Leading index	Sep P	99,80	101,30
09:30	EZ	Sentix investor confidence index	Nov		16,90

Factors Overnight	What happened?	Relevance	Importance	Analysis
US labour data	ADP, jobless claims and Friday's non-farm payrolls data were all stronger than anticipated. They confirmed that the business cycle in the US is on the rise	The data strengthen the argument for the Fed to continue tapering and normalise policy	4/5 (economy, monetary policy)	All indications are that the labour market will continue to tighten and lift wage growth. The combination will strengthen the consumptive sector of the economy that could hurt the USD.
BoE	BoE officials sought to calm markets by reiterating that the decision not to hike rates just yet, does not mean that interest rates won't rise	The BoE is simply going to adopt a more cautious approach to tightening out of fear of undermining GDP	3/5 (economy, monetary policy)	The Bank dismissed criticism that it had lost its nerve and was going soft on inflation. According to board members, there is recognition that interest rates will need to rise.
US Infrastructure bill	President Biden hailed Democrats for passing the $1.0trln infrastructure bill in what has been described as his biggest legislative win of his term in office	Infrastructure in road, rail and broadband will be rolled out, but it will happen over several years	3/5 (economy)	At the margin, this strengthens the resilience of the underlying economy and helps revitalise tired infrastructure that needs to be refreshed and upgraded.

Factors on the Radar	What happened?	Relevance	Importance	Analysis
ECB	ECB policymakers released fresh forecasts for inflation in the EZ, which showed that inflation is likely to fall next year, albeit at a more gradual pace	The Bank is under pressure to normalise policy after inflation rose to a 13-year high and double the target	3/5 (economy, markets)	The ECB continues to describe the inflation surge as transitory and will not seek to hastily remove monetary accommodation when the economic outlook remains a challenging one
Chinese property developers	Rating downgrades and a challenging market has many of the large developers scrambling for liquidity. The fear of defaults remains high	At its core, this remains a function of companies that are too highly leveraged and unsustainable	4/5 (economy, market)	As demand within China took a severe knock due to the pandemic induced lockdowns, so the highly indebted developers have found themselves drowning in debt service costs
Wall St	Wall St continues to scale fresh record highs, and futures point to more of the same. A strong business cycle remains key	The taper will not detract from the business cycle, GDP will remain strong	2/5 (economy, markets)	Equity markets will continue to enjoy the low yield and ample liquidity environment and strengthen still further in the months ahead

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2584	1.3721	1.2826	1.3589
BWPUSD	0.0839	0.0913	0.0855	0.0904
GBPBWP	16.0332	14.7145	15.6863	15.0210
BWPEUR	0.0726	0.0791	0.0743	0.0776
JPYBWP			9.7562	10.1648
USDZAR	14.3979	15.6089	14.7353	15.2713
EURUSD	1.1095	1.2020	1.1355	1.1760
GBPUSD	1.2934	1.4013	1.3237	1.3710

Benchmark Yield Curve

6m	1.5775
3y	4.7550
5y	5.9050
22y	8.4550

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-2.2913	0.1424
3m	-7.2248	0.4366
6m	-16.7115	0.8590
12m	-40.6770	1.7945

Equities / **Economic Indicators**

BSE Domestic Index	6938.71	**GDP**	36	**Bank Rate**	3.75
BSE Foreign Index	1548.83	**CPI**	8.4		

- Following on from the theme we finished off with last week and that is namely the COP26 climate change summit and the commitment by many nations to reduce or eliminate carbon based fuels we have word that Botswana will start working on a coal mine in 2022 despite the international pressure.

- Reuters reported the following on Friday - *Work is due to begin on Botswana's second privately-owned coal mine in the first quarter of next year, the CEO of Maatla Resources told Reuters, despite calls to abandon coal. At the COP26 climate conference in Glasgow, the southern African country signed up to a global commitment to reduce the use of heavily-polluting coal, but opted out of a pledge to stop issuing new licences to mine the fossil fuel. Botswana is edging ahead with developing its coal resources, which are estimated at 200 billion tonnes, as it looks to wean its economy off a dependence on diamonds. Now, Maatla is looking to proceed after a funding deal with Frankfurt-listed HMS Bergbau , which in a $45 million debt and equity deal concluded in April took a 51% stake in it. "The target is to reach financial close by February next year and then immediately start building the mine. First production is expected within 12 to 15 months," Maatla CEO Jacques Badenhorst said in an interview late on Thursday.*
- Internationally news flow has been vigorous with the vast majority of the focus once again reserved for the United States. Over the weekend, Biden eventually announced his $1.0trln infrastructure bill, which passed through the House of Representatives on Friday. Although some moderate Democrats did not vote in favour, some Republicans did ease the bill's passage. This will go down as Biden's biggest legislative win so far. However, it does mean that the spending on climate change and the social safety net will now be tabled separately, which may make it a far more difficult bill to pass if it ever does.
- Data last week also confirmed that the U.S. business cycle is firming. The labour data released were all positive and beat expectations to the topside. They alluded to an economy gaining momentum and a Fed that would be encouraged to continue tapering. The markets have responded positively to the news, with Wall St notching up fresh record levels. It would appear that investors are not perturbed by the flattening yield curve just yet and that monetary policy is still considered accommodative.
- Finally, through the week ahead, the focus will turn back to inflation. It will be the main event of the week, and risks coming in a little higher than anticipated as a combination of high commodity prices, a strengthening labour market, and logistical supply chain costs all exert some upward pressure on prices. A strengthening credit cycle will only serve to bolster underlying inflationary pressures further and keep them elevated for a little longer. This is the threat that the Fed can now argue it is responding to.
- Moving over to the FX markets, the USD ended the week on the defensive. After initially surging on the better than expected non-farm payrolls data on Friday, the USD reversed direction and gave back all it had gained and then some. While on the one hand, the firmer data suggests that the economy will strengthen and the Fed will tighten, on the other, the yield curve flattened. That flattening in the yield curve was less positive for the USD, not to mention that there had been a lot of good news already priced into the USD. The net result is that the USD is likely to find it difficult to appreciate much further from current levels which will be supportive of the local unit as well as the regional FX leader namely the ZAR.

ZAR and Associated Comments

- It was a very strong end to the week just passed, with the ZAR appreciating some 20 cents vs the USD. It was a strange reaction to what were robust non-farm payrolls data out of the US. However, as has taken place many times before, the amount of good news priced in US markets far exceeded the outcome, and the market sold off into the weekend. Practically speaking, the US still faces enormous twin deficits that, if anything, might be exacerbated by the recovery in the labour market and the potential strengthening of the credit cycle that could follow.
- Domestically, not even the news of more load shedding could dampen the ZAR bulls. With much of the market positioned for further ZAR weakness, the pain trade was a phase of ZAR strength. It materialised, and many were forced to liquidate positions unexpectedly. The news flow at face value certainly didn't support the need for the ZAR to appreciate.
- However, there is a key event this week that captured the market's attention. The upcoming Medium Terms Budget Policy Statement is the main event. Fin Min Godongwana will release an update that far exceeds any expectations that followed the budget in Feb. In other words, SA's budget deficit expanded far less than initially anticipated, and the country's debt pile, therefore, expanded at a much slower pace. Fiscal risks associated with SA have declined, and exposure to SA now looks a little more attractive than it did.
- ETM indicators show that the ZAR could still surprise in its resilience. The carry attractiveness index places SA fourth out of twenty-two countries, while the ZAR resilience indices show that SA is a far less risky place to invest and now stands in the top half of the table. The ZAR itself remains around 10% undervalued on a real-effective basis, while the ZAR Sentiment indicator shows that the ZAR will remain resilient for another 3-4 months before grinding weaker.
- The biggest risk to the ZAR this week, beyond a shock from the budget, will be the load shedding situation. It seems that a major incident" in Zambia has negatively impacted the supply of electricity, implying that SA will be struggling through load shedding throughout the week. It is has turned into a permanent feature of living in South Africa.

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