Botswana Market Watch 9 November 2021

GMT		International and Local Data			
13:00	BO	Botswana to sell &-Day Certificates			
07:00	GE	Trade balance	Sep		10,70bn
10:00	EZ	ZEW economic sentiment	Nov		21.00
10:00	GE	ZEW economic sentiment	Nov	20,00	22,30
13:30	US	PPI final demand y/y	Oct	8.60%	8.60%
14:00	US	ECB's Knot, Fed's Bullard on UBS Panel			
14:00	US	Powell to Speak at Joint Fed, ECB and BoC Diversity Conference			

Factors Overnight	What happened?	Relevance	Importance	Analysis
USD retreat	In a counter-intuitive move, the USD appears to be on the defensive again this morning as overall levels of risk aversion subside on clearer Fed guidance	Lower levels of risk aversion have assisted riskier markets in rallying against the USD	3/5 (market)	Not only has risk appetite improved, but middle to longer-dated yields across the yield curve have subsided to detract from the attraction of the USD and propel commodities and EM FX higher
Cryptocurrencies	Both Bitcoin and Ethereum have surged to fresh record levels as fast money reportedly boosts their performance, as risk-averse positions in the USD are reversed	It is a function of investors willing to accept more risk to extract yield. EM assets also benefiting	2/5 (market)	Momentum in crypto is stronger than ever as the market cap of cryptocurrencies rises beyond $3.0trln, forcing the authorities to take crypto more seriously and start regulating it
Japan real wages	Inflation concerns are biting across the globe. Sep real wages fell for the first time in 3-months, in a sign that cost-push inflation would crimp disposable income	Rising energy costs, in particular, have played a significant role in detracting from consumption	3/5 (economy)	The spike in inflation will detract from economic growth and lead some countries closer to a stagflationary environment of higher inflation but weaker overall growth

Factors on the Radar	What happened?	Relevance	Importance	Analysis
Chinese property sector	China's state council met with real-estate developers and banks as liquidity concerns continue to rise. The highly indebted property sector appears unsustainable	It would appear that the central planning authorities are looking to intervene to stop contagion	4/5 (economy, markets)	It was a matter of time before the government stepped in to start dampening fears of widespread contagion and avoid another enormous hit to economic growth
US inflation	It will undoubtedly be the main global event of the week as investors look to test the Fed's theory that the spike in inflation will only be temporary	Any inflation spike that rises faster than expected will have consequences for what is priced in	4/5 (economy)	Investors are still seeing the inflation spike as transitory, albeit that it may last longer than first anticipated. If the trajectory follows an expected path, investors will digest the news easily
Covid latest	Countries around the world are finding it difficult to encourage the remaining unvaccinated to get vaccinated. Given the introduction of Covid pills to treat the disease, that will extend	With developed economies past their worst and opening up, it is unlikely that any country will reverse tack	3/5 (economy. politics)	For now, the outlook for economic growth and normalisation has improved considerably, and more progress is being made on the treatment protocols for Covid 19, which means the policy-makers can keep their economy open

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2608	1.3775	1.2851	1.3642
BWPUSD	0.0845	0.0921	0.0861	0.0913
GBPBWP	16.0243	14.6904	15.6776	14.9965
BWPEUR	0.0729	0.0796	0.0746	0.0780
JPYBWP			9.7562	10.1750
USDZAR	14.3270	15.5473	14.6628	15.2109
EURUSD	1.1124	1.2052	1.1384	1.1791
GBPUSD	1.3016	1.4102	1.3321	1.3797

Benchmark Yield Curve

6m	1.5735
3y	4.7550
5y	5.9050
22y	8.4550

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-2.3108	0.0742
3m	-7.2735	0.2251
6m	-18.8370	0.4334
12m	-41.1840	0.8786

Equities		Economic Indicators			
BSE Domestic Index	6938.71	**GDP**	36	**Bank Rate**	3.75
BSE Foreign Index	1549.62	**CPI**	8.4		

- Yesterday we had the President deliver his State of the Nation Address virtually and not surprisingly much of it centred around the COVID-19 pandemic and the economy which was a series of pronunciations on the various facts and figures . The President has been in the firing line of his opponents with many of them calling for him to step down over the weekend. What has exacerbated the unhappiness is the devastation brought by the COVID-19 pandemic and the government's handling of the situation. Many are saying the government failed in its vaccination drive, the President acknowledged that it has been slow, and implemented restrictions that were too severe causing much economic hardship. The fact of the matter is that many governments across the world have seen a severe decline in their support base over the pandemic and we would not be surprised to see a similar narrative develop in Botswana.
- Internationally, A number of Fed speakers will be taking to the podium today and will likely offer their insight and views on the prospects for inflation and U.S. monetary policy. For the most part, their comments will be synchronised and coordinated to keep the message largely unambiguous, although they will likely make the point repeatedly that higher inflation levels will not be tolerated. None are expected to deviate significantly from Fed Chairman Powell's guidance to leave the markets with no fresh directional leaning.
- In other news, potent antiviral pills produced by Merck and Pfizer/BioNTech will further augment the U.S.'s ability to keep Covid-19 well contained. It will likely also have the effect of discouraging more to getting vaccinated or even taking booster shots. However, enough treatments and vaccines are available to allow policymakers to keep the economy open and prevent further lockdowns. U.S. borders opened again, and families were reunited with loved ones ahead of the festive season. Although there may be a consequence of a spike in cases, it seems probable that the worst of Covid is now behind us.
- President Biden will travel across the U.S. to promote his $1.0trln infrastructure bill passed through Congress last week Friday. Biden is using the opportunity to drum up support for his administration and the Democrats, who have another enormous bill of $1.75trln still to pass to tackle climate change and social welfare. It will need to be done without the support of the Republicans, who have no desire to support any spending that holds the potential to lift the tax burden on families and businesses.
- 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.
- So much of the USD's retreat has to do with the return of some certainty. Now that the Fed's path is clear, investors can assess with greater clarity how growth cycles might unfold, and it helps reduce overall levels of risk aversion. A quick look at the VIX (fear gauge) shows that it is trading near the lower levels of its recent trading ranges. Stock markets have rallied to fresh record levels, fiscal outlooks have improved courtesy of the improved tax revenues, and overall central banks collectively sound more upbeat about economic prospects. Add to that, the dip in the middle to longer-term bond yields across the U.S. yield curve detract from the USD's overall attraction, and investors are positioning for an economy that will grow but drag the U.S. trade deficit wider with it. No longer is the USD needed as a safe haven, and higher yields can therefore be attained elsewhere.
- Locally, we have the standard &-Day auction to clear, and more broadly better risk appetite to contend with. This potentially results in the BWP extending its gains against the greenback.

ZAR and Associated Comments

- After reaching a 15-month high on Friday, the USD has retreated and extended that retreat this morning. The move has baffled many in the market that was squarely focused on Fed speak that was well synchronised in favour of steady tapering and improved economic conditions. Some investors are therefore finding it difficult to understand why the USD should then be on the defensive. After all, if monetary policy is set to normalise, interest rates set to rise, and the economy set to go from strength to strength, why should the USD weaken at all?
- So much has to do with the return of some certainty. Now that the Fed's path is clear, investors can assess with greater clarity how growth cycles might unfold, and it helps reduce overall levels of risk aversion. A quick look at the VIX (fear gauge) shows that it is trading near the lower levels of its recent trading ranges. Stock markets have rallied to fresh record levels, fiscal outlooks have improved courtesy of the improved tax revenues, and overall central banks collectively sound more upbeat about economic prospects.
- Add to that, the dip in the middle to longer-term bond yields across the US yield curve detract from the USD's overall attraction, and investors are positioning for an economy that will grow but drag the US trade deficit wider with it. No longer is the USD needed as a safe haven, and higher yields can therefore be attained elsewhere. Emerging markets such as SA and the ZAR have benefited, as have cryptocurrencies, with both Bitcoin and Ethereum rising to fresh record highs.
- A softer USD also means that commodity prices will rise and bolster SA's terms of trade. They had been slipping recently, and the retreat in the USD has bolstered their performance to boost the overall performance of commodity currencies. Therefore, the ZAR is in the sweet spot and will enjoy ongoing support for the time being. Technically speaking, the ZAR could still appreciate further and potentially force more stale USD long positions to liquidate..

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