BancABC

Botswana Market Watch

11 November 2021

GMT		International and Local Data			
	BO	Nothing on the cards			
07:00	GB	GDP y/y	3Q P	6.80%	23.60%
07:00	GB	Industrial production y/y	Sep	3.10%	3.70%
07:00	GB	Manufacturing production y/y	Sep	3.10%	4,1%
07:00	GB	Visible trade balance (GBP)	Sep		-14927mn
07:00	GB	Total trade balance (GBP)	Sep		-3716mn
09:00	EC	ECB Publishes Economic Bulletin			

Factors Overnight	What happened?	Relevance	Importance	Analysis
US CPI	US consumer prices rose 0.9% m/m in Oct, leading to a 6.2% y/y growth, which is the highest in over 30 years. Core US inflation rose to 4.6% y/y due to a 0.6% m/m increase in October	Strong inflation gives rise to stagflationary fears and may prompt the Fed to move quicker on lifting rates	4/5 (economy, market)	The rise in risk aversion prompted by the spike in inflation was evidenced in the sell-off in equity markets. Commodity prices have also sold off as the USD surged, with investors turning to the USD as a safe-haven
Japan wholesale inflation	Wholesale inflation in Japan rose more than expected, with Oct's JPY-based import prices up 38.0% y/y. The corporate goods price index has risen 8.0% y/y in Oct, well above expectations	Firms cautious about passing on price increases will be forced to do so or face running at a loss to absorb costs	3/5 (economy)	The impact of such supply chain driven inflation will be to detract from GDP growth. For Japan, inflation will deal the economy a heavy blow, as households will not be prepared to have disposable income crimped so quickly
UK house prices	RICS data shows that a net balance of 70% reported a rise in prices as low rates keep the housing market hot and house price inflation high	This will be a potential concern for the authorities that know it could be a source of instability	3/5 (economy)	A dearth of sellers, renewed demand for housing outside of the city and a dearth of sellers, all in a low rate environment, means that house prices continue to rise to uncomfortably high levels

Factors on the Radar	What happened?	Relevance	Importance	Analysis
Global inflation	Inflation is surprising to the upside in many developed market economies around the world and placing central banks in an awkward position	Although the inflation shock is supply-side driven, policy tightening may be brought forward	4/5 (economy, markets)	This holds the potential to impact emerging markets negatively as they are forced to run higher rates to ensure they retain some attraction relative to their DM counterparts
Oil inventories and strategic reserves	The US is looking at ways to reduce the inflation shock of rising fuel and energy prices and has released some strategic reserves into the market	The release helped steady oil prices, although it may take a concerted effort to see oil prices fall	4/5 (markets)	Other countries such as Japan may join the US in releasing oil into the market to try and cap the price rise. However, ultimately it will need OPEC to raise production
COP 26 – US and China	US and China unveiled a deal to ramp up cooperation to tackle climate change. The two superpowers are the worlds largest emitters of $CO2$	The deal to co-operate will help raise the ambitions of both countries to reduce carbon emissions	3/5 (economy)	There is a long way to go before any climate goals are reached, and reaching these ambitious targets could potentially detract from growth initially. They will spur on a new focus on energy sources

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2950	1.4138	1.3200	1.4002
BWPUSD	0.0838	0.0913	0.0854	0.0904
GBPBWP	15.9682	14.6381	15.6227	14.9430
BWPEUR	0.0731	0.0797	0.0748	0.0781
JPYBWP			9.7759	10.1954
USDZAR	14.8341	16.0838	15.1818	15.7358
EURUSD	1.1015	1.1934	1.1273	1.1676
GBPUSD	1.2867	1.3940	1.3168	1.3639

Benchmark Yield Curve

6m	1.3780
3y	4.7550
5y	5.9050
22y	8.4550

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-2.3693	-0.1774
3m	-7.3710	-0.5440
6m	-18.8175	-1.0762
12m	-40.3943	-2.1585

Equities

BSE Domestic Index	6955.71
BSE Foreign Index	1549.62

Economic Indicators

GDP	36	**Bank Rate**	3.75
CPI	8.4		

- At the risk of sounding like a broken record the global theme at the moment remains firmly on inflation. Japanese PPI released this morning posted a 40 year high with factory gate prices jumping to 8.0% versus 6.4% in September. The usual suspects are at play namely higher energy costs, supply chain bottlenecks and higher commodity prices.
- This comes after the much-anticipated US CPI reading yesterday. Fears of a strong US inflation print proved correct. US consumer prices rose 0.9% m/m in Oct, leading to a 6.2% y/y growth, which is the highest in over 30 years. Core US inflation rose to 4.6% y/y due to a 0.6% m/m increase in October to take the core measure comfortably over double the targeted inflation measure. All this comes against a backdrop where US weekly jobless claims fell a further 4k to 267k as the labour market continues to stage a solid recovery.
- The combination triggered a surge in the USD, which eventually punched through the upper limit of its recent range and opens the door for further short-term appreciation. Higher inflation in the US gives rise to concerns about stagflation. It will erode spare disposable income as higher wages may not offset the rise in costs of goods and services, and the Fed may be forced to consider being more aggressive in their policy normalisation.
- The Asian session has seen the FX markets stabilize but we are far from out of the woods. The BWP is likely to open cautiously with 0.0850 favoured before 0.0900 under current macro conditions, at least in the short term.
- One asset that has been interesting of late has been gold. The fear of US inflation and a Fed that needs to act certainly drives yields higher and the dollar stronger and this has, on a tactical basis in the past been rather bad for gold given the fact that it has no yield and is priced in dollars.
- Yesterday was different. It would seem that the broader market has now returned to basics and focused on gold's characteristics of being a hedge against inflation. The yellow metal broke above the $1833.00/oz resistance level leading to stop loss buying, the good news for the gold bulls is that its holding onto those gains in the Asian session.
- On the local news front, Mining Weekly reported the following - *Shumba Energy secured the first equity commitments to develop an $80 million solar project in Botswana as part of the coal company's plan to shift to renewable energy. The company's green energy unit, Shumba Renewables, received commitments of $950,000 from international investors, Shumba Energy's MD Mashale Phumaphi said in an interview Tuesday, without disclosing the names. Full funding for the 100-megawatt solar project that will be the nation's largest and situated in north-eastern Botswana is expected by the second quarter of next year, Phumaphi said.*

ZAR and Associated Comments

- Stock markets have again found themselves on the defensive, commodity prices have retreated sharply and emerging market currencies, especially those linked to commodities, have come under intense selling pressure. Once again, the ZAR has lived up to its status as one of the more volatile EM currencies and looks set to retest its lows vs the USD just below 15.5000. The move comes at a tricky time for investors, with the MTBPS due to be read in parliament today.
- Investors might be somewhat reluctant to turn overly bearish on the ZAR when the MTBPS may contain some vastly improved fiscal numbers that imply that SA's risk premium is not what it was at the start of the year. Both overall debt and budget deficit numbers will be revised much lower, and the risk of any fiscal calamity has therefore been pushed out another few years. The SA authorities now enjoy a bigger window of opportunity to implement reforms, and the extent to which Finance Minister Godongwana gives the impression of commitment to those reforms will determine the response of the ZAR. A strong reform agenda and the ZAR stands to appreciate. Disappointing efforts or commitments to reforms failing SOEs and the sectors in which they exist could see the ZAR succumb to the USD surge.
- It is, however undoubtedly true, that current levels offer something for exporters to cheer. For the mines, in particular, it will help offset any retreat in commodity prices and the trade account will therefore remain reasonably well supported in ZAR terms. It is not yet time to turn overtly ZAR bearish from a fundamental perspective. Now it is over to the Finance Minister to make sure it stays that way.

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