Botswana Market Watch 3 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
COP 26 - Climate change	Pledges ranging from halting deforestation, methane reduction, green deals and zero emissions targets have all featured prominently on Day 2	While these pledges are laudable, the financial consequences are not fully understood	3/5 (politics, fiscal policy)	As the globe shifts towards green energy sources, existing electricity production will need to be phased out and huge investments made into renewable energy. This will raise debt burdens
Chinese services sector	The Caixin/Markit Services PMI expanded faster in Oct as the index rose to 53.8 from 53.4 in Sep. This contrasts with the official stats	There is still some resilience to the Chinese services sector, although the outlook is unclear	4/5 (economy)	The overall business cycle in China has turned soft. A highly indebted economy that can no longer rely on a debt-fuelled expansion that is not needed still has further to adjust
EZ Manufacturing PMI	IHS Markit's final manufacturing PMI confirmed that the index dipped to an eight-month low in Oct to 58.3, a little softer than the initial flash estimate	Supply chain disruptions and logistics costs detracted through high input costs	4/5 (economy)	The index dipped due to input factors of production and the inflation component, but final demand remains strong. The data therefore still points to recovery, albeit one that is constrained

Factors on the Radar	What happened?	Relevance	Importance	Analysis
US labour data	Private-sector payrolls data will be released today, with weekly jobless claims on Thursday, followed by payrolls data on Friday. The combination is key to future Fed monetary policy	The combination is always market-moving, especially if the data comes in strong to support tapering	3/5 (economy, markets)	The bulk of this data will be released after the FOMC announces its decision and offers guidance on the taper, which means it will be less significant than usual. It will, however, drive markets if much stronger than expected
FOMC	The FOMC's decision today will arguably be the most important since the first meeting of the pandemic. This time, it will focus on withdrawing stimulus	All the focus will revolve around the taper and the speed of stimulus withdrawal	5/5 (economy, monetary policy)	The market anticipates that some $15bn per month will be tapered, split between $10bn in sovereign debt and a further $5bn in private sector bonds. A taper tantrum this time is unlikely
BoE	BoE decision on Thu 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	1.2727	1.4010	1.2972	1.3875
BWPUSD	0.0826	0.0908	0.0842	0.0899
GBPBWP	16.4828	14.9872	16.1262	15.2995
BWPEUR	0.0712	0.0784	0.0729	0.0769
JPYBWP			9.6187	10.1140
USDZAR	14.7982	16.0479	15.1450	15.7007
EURUSD	1.1119	1.2047	1.1379	1.1787
GBPUSD	1.3084	1.4175	1.3390	1.3869

Benchmark Yield Curve

6m	1.5730
3y	4.7550
5y	6.0550
22y	8.4550

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-2.8568	#VALUE!
3m	-8.8774	#VALUE!
6m	-18.7493	#VALUE!
12m	-40.9890	#VALUE!

Equities

BSE Domestic Index	6944.28
BSE Foreign Index	1548.83

Economic Indicators

GDP	36	Bank Rate	3.75
CPI	8.4		

- Local news flow is on the thin side however we do have a number of factors on the radar which will keep investors glued to the screens for today.
- Risk appetite has certainty remained robust even in the face of the Fed taper. Equities hit a new high overnight in the United States while the likes of gold took a backseat to riskier asset classes. Armed with the benefit of hindsight, where the taper tantrum proved to be a wrong interpretation of what was to come, investors seem less fearful this time, knowing full well that the Fed will not allow the economic recovery to falter at this stage of the recovery.
- That said, gold will still find favour for those seeking a refuge from the inflationary pressures which remain embedded in the global macro narrative for now.
- Keeping with inflation, most countries are reeling from the increases in fuel and energy costs as a result of a sustained higher oil price. Given this backdrop we often draw readers attention to developments in the oil markets to provide perspective and insight.
- Oil markets have remained under a bit of pressure leading up to tomorrow's OPEC+ meeting, with a stronger dollar and comments from US officials urging for more supply weighing on prices. The front-month Brent contract has slid back towards $83.85 per barrel, while the WTI benchmark is trading near $82.90. We could see prices remain fairly volatile over the next two days, with traders becoming skittish. OPEC+ sticking to their current output plans is what is currently baked in and will be the most likely outcome, but a surprise announcement cannot be ruled out, even if it is just that greater increases may be discussed at the next meeting.
- This brings us to the all-important event of the day namely the FOMC decision this evening. It is widely expected that the Fed will begin to lift its foot off the stimulus pedal by winding down its bond-buying program, which is currently running at $120bn a month. Commentary from Fed officials has been mixed in recent weeks, with some officials speaking with a hawkish tone, while others have shown signs that they are willing to give inflation a longer leash given that the economic recovery remains fragile. Ahead of the meeting, it is important to note that if the Fed does begin tapering, it is merely easing the amount of stimulus injected into the economy. Monetary policy will remain accommodative in the months ahead, with the first-rate hikes only seen at the end of next year or early 2023. That said, we expect the broader bear flattening bias to persist across global bond curves as inflation continues to run hot.
- Looking at the FX markets we expect a cautious and tempered start to the local open. The ZAR remains above the R15.40 level as it deals with its own idiosyncratic issues while the dollar index remains above 94.00 as the FOMC looms large. For now expect the BWP to consolidate more broadly with 0.0900 still providing resistance.

ZAR and Associated Comments

- ZAR depreciation persisted through the past six working days, depreciating eight days out of the previous nine. There are various reasons for this, ranging from the recovery in domestic demand and the retreat in SA's terms of trade that detracted from the trade surplus, to the resumption of load shedding. Furthermore, some key risk events such as the elections, the medium-term budget and the SARB's next MPC meeting were hurdles to overcome.
- However, while the retreat in SA's terms-of-trade from multi-year highs is certainly an important factor, they remain very buoyant, with commodity prices still well elevated. Furthermore, while load shedding is huge counter-productive and detracts from risk appetite towards SA, SA just signed a new green funding deal to assist in electricity production reforms and the shift towards greener energy away from coal. Additionally, according to the latest local election outcomes, the ANC has lost even more support, implying that the political landscape has finally changed away from a single party-dominated state that will hopefully usher in a new phase of accountability. Finally, the latest government finance stats show that SA has done far better than expected concerning tax collections, and the Medium Term Budget will attest to that next week.
- Therefore, it is not an entirely bearish scenario for the ZAR. It is questionable whether the depreciation seen recently is entirely warranted. Instead, the latest bout of depreciation could be nothing more than an adjustment to price in risks related to central banking developments that will unfold abroad as the Fed and BoE decisions come into focus through the two trading sessions, starting with the FOMC statement this afternoon. How these influential central banks behave will influence the way many emerging market central banks respond. Most emerging markets will need to re-establish healthy yield spreads above their developed market trading partners to ensure their currencies retain healthy two-way flow. That will always lead to periods of volatility.
- So while the domestic All-Economy Standard Bank PMI will be released today and hold some interest, it will be overlooked in favour of the US labour and service sector data this afternoon, followed by the all-important FOMC decision and guidance. Position-taking will be kept contained ahead of such an important event.

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