BancABC

Botswana Market Watch

10 November 2021

GMT		International and Local Data			
	BO	Nothing on the cards			
13:30	US	CPI y/y	Oct	5.80%	5.40%
13:30	US	Initial jobless claims	Nov 6		269k
13:30	US	Real ave weekly earnings y/y	Oct		-0.80%
15:00	US	Wholesale inventories m/m	Sep F	1.10%	1.10%
15:00	US	Wholesale sales m/m	Sep		-1.10%
19:00	US	Monthly budget statement	Oct		$-61,50bn

Factors Overnight	What happened?	Relevance	Importance	Analysis
Chinese CPI	October's PPI has accelerated to 13.5% y/y vs 10.7% in Sep, while CPI rose to 1.5% y/y, both above market expectations and trending higher. PPI highest in 26 years	PPI will further crimp industrial profitability and weigh on the disposable income of households	4/5 (economy)	Between power curbs, mini Covid outbreaks and now rising inflation, the Chinese economy is struggling through a difficult period. Inflation pass through to CPI will further detract from growth
Japan manufacturers	Japanese manufacturers' business confidence fell to a 7-month low in Nov, mainly on account of ongoing supply shortages. Services sentiment up.	Supply-side factors remain an enormous drag on the economy, although lifting curbs help	3/5 (economy)	Carmakers, in particular, are still battling with chip shortages and soaring steel prices that are raising the cost of doing business and simultaneously crimping demand
German ZEW index	Economic sentiment in Germany rose to 31.7 in Nov from 22.3 in Oct, much stronger than market expectations of a fall to 20.0	In Q1 of 2022, respondents expect a rise in GDP and a fall in inflation	3/5 (economy)	Supply-side bottlenecks have weighed heavily on sentiment, but financial market respondents had turned more upbeat about the next six months

Factors on the Radar	What happened?	Relevance	Importance	Analysis
UK growth outlook	The NIESR has warned that Britain risks stagflation followed by sticky inflation in the coming years due to supply-chain bottlenecks related to Brexit	Britain has the added headwind of adjusting to Brexit once full activity resumes	4/5 (economy)	The UK economy is living through a tough adjustment period made more difficult by the pandemic and the supply-side constraints that make it hard to discern Brexit effects from not
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, markets)	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
ECB - inflation	ECB policymaker Klaas Knot has indicated his view that inflation should fall below 2% by the end of 2022, but that upside risks persist. ECB to remain cautious	Knot did not feel that conditions for rate hikes would be met in 2022 but that other tools were available	4/5 (economy)	ECB policymakers are acknowledging that the effects on inflation of higher supply-side constraints could last longer than anticipated. It is unclear whether this will manifest in higher wage growth

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2708	1.3904	1.2952	1.3770
BWPUSD	0.0844	0.0921	0.0860	0.0913
GBPBWP	16.0401	14.6882	15.6931	14.9942
BWPEUR	0.0729	0.0796	0.0746	0.0780
JPYBWP			9.7464	10.1750
USDZAR	14.4570	15.6930	14.7959	15.3535
EURUSD	1.1121	1.2050	1.1381	1.1790
GBPUSD	1.3014	1.4099	1.3319	1.3794

Benchmark Yield Curve

6m	1.5760
3y	4.7550
5y	5.9050
22y	8.4550

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-2.3888	0.0522
3m	-7.4198	0.1582
6m	-16.8285	0.3046
12m	-41.2230	0.6175

Equities

BSE Domestic Index	6944.72
BSE Foreign Index	1549.62

Economic Indicators

GDP	36	**Bank Rate**	3.75
CPI	8.4		

- The local news wires have settled with many still focusing on the State of the Nation address earlier in the week. No data is due for release until the next round of inflation statistics which Bloomberg has pencilled in for release between the 17th and the 24th of October.
- Inflationary pressures remain entrenched at present. We do not see a significant pull back in the number until we at the very least see the price of oil stabilising and the price of staples consolidate. Given that inflation is currently marked at 8.4% what is always the question is what yield investors will demand to hold Botswana debt given that no investor wants a negative real return.
- Policymakers are of the view that inflation is transitory, however the timeframe here is critical, is inflation something that we need to deal with over the next 6, 12 or 24 months? This timeframe is the reference lens through which most investors are currently pricing government debt globally, and emerging market risk almost always requires a positive real rate to entice investors.
- Moving over to the international stage, most of the focus at the moment is on economic data, but it is worth noting that President Biden will hold a virtual meeting with Chinese leader Xi Jinping, possibly as early as next week. In principle, the two agreed to hold a virtual meeting before the end of the year, and the underlying hope is that this dialogue starts to ease tensions between the two nations. Without direct relations between the two leaders, the risk is that the tensions escalate towards conflict between the two superpowers, something no one wants.
- Ahead of the U.S. inflation data later today, the USD appears to have stabilised. The risk is that inflation surprises to the topside and prompts speculation that the Fed may bring forward any timing of a rate hike. Following on from the sharp jump in producer prices in China to a 26 year high, and inflation is a definite concern for investors. It will likely detract from household disposable income and will be growth negative. Equity markets have come under pressure, and overall risk aversion levels are a little higher this morning. EM currencies are on the defensive, and the USD will likely hold its station until the data is released. We thus expect a more cautious start to the local session today.

ZAR and Associated Comments

- After an impressive performance last week and Monday, Tuesday brought with it a reversal of fortunes for the ZAR. The market was quick to unwind overpriced expectations for Fed normalisation and is now turning back to the upcoming CPI data out of the US. The risk is that the data reflects a higher inflation print than anticipated, and the market looks to bring forward the timing of a rate hike. Once again, the market appears to be pricing in an expectation ahead of time. Market talk suggests that a print above 0.8% m/m could help the USD break out the topside of its current range.
- This comes as China's inflation data comes out to the topside, and investors more broadly are fretting about the negative impact that such a strong global inflation episode will have on growth. Stock markets are a sea of red this morning, and overall levels of risk aversion have jumped higher. Not to the point of distress, but enough to nudge emerging markets onto the back foot and re-establish a bit of USD supremacy.
- The rally in the USD has helped nudge commodity prices lower, which is a double whammy for the ZAR, and since yesterday it has had a much tougher time. But US CPI will be released this afternoon, and the market response will determine the ultimate direction. By the end of the day, it will be another important risk event that has passed, with the MTBPS looming on Thursday.
- At least some of the ZAR's retreat is also related to position squaring ahead of the medium-term budget. Although it is likely to be a relatively upbeat budget update compared to Feb, it holds significant risk. The current Eskom woes highlight South Africa's challenges in a nutshell. Maladministration, cadre deployment, lack of service delivery and maintenance have caught up, and with Eskom's energy availability factor dipping below 50% in the past week, it has turned into a full-blown crisis that will remain intact for many years to come. Loadshedding has almost always influenced the performance of the ZAR, if not through direct depreciation, then through limiting appreciation. For now, all eyes turn to US CPI and the MTBPS tomorrow.

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