BancABC

Botswana Market Watch 15 November 2021

GMT		International and Local Data			
	BO	Nothing on the cards			
10:00	EZ	Trade balance nsa (EUR)	Apr		4,8bn
13:30	US	Empire manufacturing	Nov	20,1	19,8

Factors Overnight	What happened?	Relevance	Importance	Analysis
Japan GDP	Japan's Q3 GDP contracted by an annualised 3.0% vs expectations of a contraction of just 0.8%. Supply shortages are impacting	The world's major producers, including China, will be facing a similar problem	3/5 (economy, market)	Supply constraints will gradually work their way out of the system with time, but in the interim, will affect overall levels of GDP growth
Chinese data	Industrial output and retail sales both beat expectations to the topside, with outcomes of 3.5% y/y and 4.9% y/y, respectively	This is great news and implies that the soft patch in growth will be temporary	3/5 (economy)	Fixed asset investment is also expanding rapidly at more than 6%, and so while supply constraints will hold back growth, the effects will be pass
US labour market	The latest JOLTS data showed that the number of Americans quitting their jobs rose to a record high in Sep, as confidence in the labour market recovers	This implies that the labour market is gradually recovering and will continue doing so	3/5 (markets)	Job openings also remained stubbornly high in a sign that more jobs were being created. In summary, the data continues to improve and will reflect in strengthening headline payrolls data

Factors on the Radar	What happened?	Relevance	Importance	Analysis
BoE rates outlook	A poll conducted by Reuters across 47 respondents shows a slight balance in favour of the BoE being the first CB to hike	Analysts expect rates to rise in Dec. If not in Dec, then early in the new year	4/5 (economy, monetary policy)	The interest rate cycle has turned, and policies will normalise, but they will do so gradually and will not undermine GDP growth even though inflation is buoyant
US-Sino relations	President Biden and Chinese leader Xi Jinping will hold a virtual summit today, with several issues to cover, including trade, human rights and military activities	It may be the start of a renewed dialogue that will ease tension between the two global superpowers	4/5 (geopolitics)	Both countries must limit the damage of trade wars and ease geopolitical tensions. Trade wars are not helpful and geopolitical debates must be had. China will likely raise Taiwan for discussion
Oil prices	Oil prices have been nudging off their best levels on fears that fresh supply may reach the market, suppressing yields	The Biden administration is looking to release strategic reserves	3/5 (market, economy)	The effort is aimed at cooling inflationary pressures and buying more time at lower prices before OPEC + and US oil producers pump more

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2774	1.3943	1.3020	1.3809
BWPUSD	0.0834	0.0910	0.0850	0.0901
GBPBWP	16.0715	14.7313	15.7238	15.0382
BWPEUR	0.0728	0.0795	0.0745	0.0779
JPYBWP			9.7268	10.1343
USDZAR	14.6994	15.9350	15.0439	15.5902
EURUSD	1.0999	1.1916	1.1257	1.1659
GBPUSD	1.2890	1.3966	1.3192	1.3664

Benchmark Yield Curve

6m	1.3730
3y	4.7550
5y	5.9050
22y	8.4550

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-2.2913	16.0979
3m	-7.1858	51.7956
6m	-16.5945	62.2235
12m	-40.1408	16.2148

Equities

BSE Domestic Index	6956.77
BSE Foreign Index	1549.62

Economic Indicators

GDP	36	**Bank Rate**	3.75
CPI	8.4		

- The Auditor General released a report which confirms fears that much of the COVID-19 budget is unaccounted for with inexperienced companies grabbing tenders at inflated prices and failing to deliver. MMEGI reported - *The findings are contained in a 116-page audit report tabled by the Auditor General before Parliament last week, providing the first glimpse into the management of the COVID-19 crisis and the frenzied government response. Auditor General Pulane Letebele's long-awaited* *report, apparently belated because some entities delayed in submitting records, does not deal with alleged procurement abuses in the food basket programme, specific details on the pricing of direct procurement tenders and alleged improper award of COVID-19 related supply contracts. (full article can be viewed here)*

- Moving over to the financial markets a look at precious metals often provides a clear view of the broader macro backdrop that we currently find ourselves in. The word stagflation is taking hold with peak economic recovery coinciding with a strong rise in inflation across many parts of the world. This is causing yield curves to flatten across many markets as investors price for tighter monetary policy and lower growth, all of which assist gold which is seen as a hedge in times of distress and higher inflationary conditions. Given this backdrop it is not surprising to see that gold remains underpinned albeit off its best levels at the start of the week. The yellow metal is currently holding above the $1855.00/tonne mark while Platinum and Palladium have given up just over 1% this morning with the losses attributed to a firmer dollar.
- The price of copper closed 0.8% higher on Friday at $9711.00/tonne but we have seen the red metal ease this morning on the back of a firmer dollar. 3m LME copper is currently marked at $9677.50/tonne, 0.34% lower on the day. Looking at the near term supply dynamics, we have the premium of LME cash copper trading at $130/tonne over its 3 month measure which indicates supplies are still tight, but nowhere near the extreme levels when we saw the premium rally to over $1100/tonne last month.
- On the geopolitical front, it is worth reminding readers that US-Sino relations will come back into the spotlight as President Biden and Chinese leader Xi Jinping hold a virtual conference. Investors will be looking for signs that relations between the two are thawing. Many points of contention will be brought up. Trade wars and geopolitics will likely dominate with China, indicating that it would like to discuss the issue of Taiwan. The U.S. will be focused on human rights and trade wars.
- The response from the USD to U.S. inflation was powerful. It helped boost the USD in the latter part of the week and ended it on a high. The outlook for the USD is less convincing this morning, with the candlestick patterns already reflecting a retreat off those highs. This week investors moving will look for further clarity from the Fed concerning monetary policy and whether the retail sales data holds up better than the confidence numbers have. However, there seems to be a lot of tightening priced into the USD, and there is a good chance that the market corrects weaker through the week ahead.
- Given this backdrop we expect a cautious start to today’s open, we remind readers that the local inflation number may be released this week which is expected to show price pressures remaining entrenched for now.

ZAR and Associated Comments

- The ZAR ended the week consolidating its recovery off last week's lows. At one point, the ZAR was well up on the week and looking to claw back some lost ground. However, a prevailing bias can often unwind ahead of the weekend, only to resume in the next week. Investors prefer not to hold open positions into a weekend when there has been so much news flow to focus on and still more event risk to contend with.
- This week, that event risk will take the form of the latest inflation data and the SARB's rate decision. Inflation rates around the globe have been spiking higher and surprising to the topside. It has triggered a response from central banks that need to be seen to be doing something to contain longer-term inflation expectations lest they become entrenched. Many emerging markets have started to hike rates, and central banks through the African continent are showing signs of doing the same. While SA's inflation has so far remained well contained, there is a high probability that the SARB moves to hike rates pre-emptively.
- The SARB often describes its current policy stance as extremely accommodative. It would prefer to preside over an environment of positive real interest rates, and it knows that even developed market central banks are aiming to normalise their monetary policies. There is, therefore, a window of opportunity for the SARB to shift in that direction so as not to be forced to take much more aggressive action, later on, to catch up should it eventually manifest in higher levels of ZAR volatility.
- For a country like SA that lives with higher levels of currency volatility, there is a need to keep interest rates attractive constantly. The difficulty will be finding the right balance between tightening monetary policy sufficiently to offer the ZAR some protection and not doing too much that it negatively impacts GDP growth. That is why the SARB will move slowly in small 25bp increments. At the margin, that will be mildly ZAR supportive and may well help the ZAR extend its recovery this week. Technically, the bias remains tilted in favour of a deeper slide in the USD-ZAR.

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