BancABC

Botswana Market Watch 16 November 2021

GMT		International and Local Data			
13:00	BO	Botswana to sell 7-day Certificates			
10:00	EZ	GDP sa y/y	3Q P	3,7%	14.2%
13:30	US	Import price index y/y	Oct		9,2%
13:30	US	Advance retail sales m/m	Oct	1,1%	0,7%
13:30	US	Retail sales ex. auto and gas	Oct	0,5%	0,7%
14:15	US	Industrial production m/m	Oct	0,8%	-1.29%
14:15	US	Manufacturing production m/m	Oct	0,8%	-0,7%

Factors Overnight	What happened?	Relevance	Importance	Analysis
US-Sino relations	US President Biden and Chinese leader Xi Jinping held their virtual meeting yesterday, and news reports suggest that it was constructive, candid and friendly	It is a step towards defusing relations between the two superpowers and will bolster sentiment	3/5 (geopolitics)	While Xi Jinping spoke fondly of Biden as an old friend, Biden responded by saying that both countries had a responsibility not to "veer into conflict." Both sides promised more communication
US infrastructure bill	In a ceremony on Monday, President Biden signed his $1.0trln infrastructure bill into law. Biden will be hoping to resurrect his flagging support	The bill aims to stimulate through upgrading roads and broadband infrastructure	3/5 (economy)	At the margin, this will contribute positively to GDP growth, although it is far from clear that the benefits from the spending will be enough to offset the budget deficit impact
European stocks	Stoxx 600, DAX and CAC 40 all rose to fresh record highs, following comments from ECB's Lagarde, who indicated that the inflation spike would fade	The impression created was that the ECB would not respond mechanically to a rise in prices	3/5 (markets)	Lagarde did qualify her statement by adding that the inflation spike would last longer than first anticipated. However, it is clear that the ECB will remain accommodative of GDP growth

Factors on the Radar	What happened?	Relevance	Importance	Analysis
EU-Russia conflict	France has informed Russia that NATO would be prepared to defend the sovereignty of Ukraine as tensions rise. The EU has stepped up sanctions against Belarus	The EU is seeking to stop a migrant crisis after it accused Belarus of pushing migrants to the border in retaliation	4/5 (geopolitics)	Relations between Russia, Belarus, Ukraine and the EU are strained, with the US also expressing concern at the build-up of troops on Ukraine's border. Both sides are playing the blame game and flexing military muscle
BoE on inflation	Governor Bailey described November's interest rate decision as a very close call, adding that he was very uneasy about inflation remaining above target	It is quite likely that the BoE will look to normalise monetary policy at the next meeting	4/5 (monetary policy)	Bailey has also expressed concern that some participants in the market were doubting the BoE's commitment to containing inflation through a tightening of monetary policy
RBA on rates	RBA governor Lowe reiterated that the latest data and forecasts do not warrant a rate hike in 2022, adding that rates could rise before 2024 if inflation rises	The RBA plans on remaining ultra-accommodative for many years as it downplays inflation	3/5 (economy, monetary policy)	RBA also believes that global inflation will fade over the next 18 months, and gives the impression it will not respond to factors that monetary policy cannot influence or a temporary inflation spike

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2708	1.3820	1.2952	1.3687
BWPUSD	0.0836	0.0909	0.0852	0.0900
GBPBWP	16.0335	14.7471	15.6866	15.0544
BWPEUR	0.0734	0.0799	0.0752	0.0783
JPYBWP			9.7661	10.1547
USDZAR	14.5900	15.8112	14.9319	15.4692
EURUSD	1.0925	1.1838	1.1181	1.1582
GBPUSD	1.2889	1.3965	1.3191	1.3663

Benchmark Yield Curve

6m	1.3720
3y	4.7550
5y	5.9050
22y	8.4550

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-2.2815	16.1161
3m	-7.1760	49.1648
6m	-18.7200	26.1735
12m	-40.3943	2.2357

Equities

BSE Domestic Index	6956.77
BSE Foreign Index	1549.62

Economic Indicators

GDP	36	Bank Rate	3.75
CPI	8.8		

- The inflation reading for October was released yesterday and printed at 8.8% year on year, the second highest reading this year after the 8.9% recorded in July. Apart from the usual suspects of higher energy and transportation costs, we also experienced higher prices of alcoholic beverages and tobacco, food, particularly oils and fats, as well as clothing and footwear according to Statistics Botswana. Pressure on households has become extreme with the price of oils and fats having risen by some 26% over the past year while there has been some respite with vegetables rising by only 1%.
- The Bank of Botswana remains committed to the inflation pressures dissipating and the inflation rate returning to the 3 to 6 percent target range by the second quarter of next year. Globally inflation is on the rise and this comes at a time when the economic recovery is peaking in many countries, this has led to the dreaded word "stagflation" entering the conversation around many morning strategy meetings. Central Bank's around the world are well aware of these conditions but, are almost powerless as these conditions are a direct by-product of the hard lockdowns across the world which have caused supply chain bottlenecks and rampant demand as economies reopened.
- News flow from the U.S. has been generally positive. The NY Empire State index yesterday beat expectations by a large margin and boosted recovery expectations. The JOLTS data released on Friday did the same, while President Biden signed his infrastructure bill into law yesterday to offer further fiscal stimulation to the U.S. economy. Although it will only assist at the margin, it will be growth supportive. Finally, discussions between President Biden and Chinese leader Xi Jinping appear to have progressed constructively, with both sides focused on more dialogue and on defusing any tensions. Today, the focus will shift to the retail sales data and industrial production for more insight into the economic recovery.
- After outperforming consensus expectations in September, the market expects the topside momentum in the U.S. retail sector to be sustained into Q4 as the labour market continues to tighten and the latest wave of the COVID-19 pandemic subsided. However, high levels of inflation remain a concern, while the post-lockdown impact of pent-up savings is also fading. Looking ahead, these factors remain risks to the outlook, while removal of monetary accommodation by the Fed may offset some of the broader economic upswing reflected in the credit cycle.
- Equally, if not more important, will be prospects for the productive sectors. Arguably more so than some other sectors in the economy, the recovery in the U.S.'s industrial sector remains particularly fragile despite the reopening of the economy. Industrial production contracted for a second straight month in September. This was partly due to the lingering effects of Hurricane Ida. Adding to the headwinds for the sector is the ongoing shortage of semiconductors, which continues to constrain the production of vehicles and electronics. This comes against the backdrop of subdued business and consumer sentiment. All of the above points to more months of challenging operating conditions. While the recovery in the industrial sector remains fragile, we expect the broader economy to grow at a solid pace over the next 12 months.
- Yesterday the USD traded to its strongest levels since July 2020. The much stronger than expected manufacturing data out of N.Y. did the trick as investors positioned for the Fed normalising monetary policy faster than its developed market peers. Although risk aversion remains subdued, the USD is still enjoying a relative trade benefit that could extend a little while longer given the reluctance of other developed market central banks to embark on their policy normalisation process. As inflationary type data out of the U.S. strengthens, the USD may initially enjoy further support, but that could be temporary. If inflation cools next year and the need to lift rates abates, the USD will find itself very fully priced and susceptible to bouts of correction. All of that said, the BWP followed its regional compatriot namely the ZAR and finished the session stronger against the dollar.

ZAR and Associated Comments

- Yesterday was a bullish day for the ZAR, although it gave up half of its gains by the trading day. A robust, late afternoon performance by the USD put paid to any hopes of a close below 15.2000, even though the underlying momentum before that showed that it was not just possible but likely. Assisting the USD was a much stronger NY Empire State manufacturing index which reflected a very robust performance to build on the perception that the US economy was in the midst of a solid economic recovery.
- This morning, the ZAR appears to have clawed back much of what it lost yesterday afternoon. The impressive part is that it has done so despite the USD consolidating its gains on a trade-weighted basis. In other words, this can now be characterised as ZAR strength rather than any USD weakness. Ahead of the SARB's MPC announcement on Thursday, it would appear that investors are positioning for a central bank that will embark on policy normalisation. In just the past week, market consensus expectations have shifted from leaving rates unchanged to one of a 25bp rate hike.
- A rate hike would be a conservative and prudent position by the SARB aimed at pre-empting the normalisation of developed market monetary policies abroad and monetary tightening by other emerging markets. It will guard against the SARB raising rates more aggressively in the future if it is forced to play catch up in a bid to retain some yield attraction. Furthermore, it will send a message to the market that the SARB remains an inflation-fighting central bank with clear independence from the government's mandates.
- Beyond expectations of a rate hike, some corporate action may also be playing a role in that Heineken has made an R40.1bn offer to purchase Distell. Beyond the confidence in SA's longevity, there may also be some substantial inflows related to the deal. At today's rates, this would equate to approximately $2.6bn worth of USDs that would need to be sold for ZAR. Heineken is also looking to utilise Distell as its gateway into the African market, which will positively contribute to the trade balance. It is likely a good deal for the company and the country, and the positive sentiment is almost certainly playing a role in supporting the ZAR's performance.

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