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Botswana Market Watch 11 September 2020

GMT		International and Local Data			
	BO	GDP y/y	2Q		2.6%
	BO	CPI y/y	Aug		-0.9%
	BO	Moody's credit rating update			
06:00	GE	CPI y/y	Aug F	0,00%	0,00%
12:30	US	CPI y/y	Aug	1,2%	1,00%
18:00	US	Monthly budget statement	Aug		$-63bn

Regional Developments	What happened?	Relevance	Importance	Analysis
SSA COVID-19 vaccine	The World Health Organization is planning to secure an initial 230mn doses of COVID-19 vaccines for Africa while emphasizing that any vaccines in development should also be tested on the continent	The programme area manager of the WHO, Richard Mihigo said that the global vaccine plan, COVAX, aims to help buy and fairly distribute and deliver 2bn doses by the end of 2021	4/5 (fiscal)	The initial batch is expected to cover 20% of the SSA population. Priority will be given to front line workers and then expanding to cover vulnerable groups. A widespread rollout of a vaccine is expected to help boost economic activity as social distancing measures can be eased
SSA PMI	SSA PMI rebounds into expansionary territory for the first time in 6-months in August. The SSA economy-wide PMI reading rose to 50.4 from 49.0 in the previous month. This suggests that a recovery is underway	A breakdown of the data showed that the most notable improvements were in Uganda and Nigeria while PMIs in Zambia and Moz fell	4/5 (economy)	The rebound in SSA PMI comes against the backdrop of a recovery in global economic activity, easing of virus containment measures and ultra-loose monetary policy. While regional economic activity is picking up, activity remains anchored well below pre-crisis levels
African FX	African currencies were a mixed bag in August despite the continued broad dollar weakness and the improvement in global risk appetite	Of the 19 currencies tracked by Bloomberg, 8 were buoyed in positive territory, 1 was flat, and the remaining 10 ended the month in the red	4/5 (markets)	The Congolese franc (CDF) led the gains in the region, appreciating by around 1.13% since the start of August. The Zambian kwacha (ZMW) and Angolan kwanza (AOA) were the laggards, losing more than 6.00% and 4.00%

Global Developments	What happened?	Relevance	Importance	Analysis
ECB	Yesterday, the ECB opted to leave policy unchanged and did not offer any signs of more stimulus, disappointing investors. The EUR will be watched carefully	Lagarde adopted a modestly upbeat assessment of the economy, but warned of headwinds	4/5 (economy, monetary policy)	The market had anticipated more from the ECB and the EUR therefore gained marginally on the news that the ECB would not add to its stimulus. The market still anticipates more by Dec
US labour market	Following yesterday's weekly jobless claims data investors have expressed concern that the improvement they had anticipated had stalled	Suggests that the economic recovery will be extremely sluggish and fraught with fits and starts	4/5 (economy)	Particularly disappointing was the rise in contuing claims by 93K. The labour market remains fragile. The rehiring hoped for is not taking place and the lack of more fiscal relief will hurt
Japan capex	Firms are planning to reduce capex by as much as 6.8% for this year, with spending cuts likely to be bigger than those planned just three months ago	This comes in response to the sharp drop in sales and profitability and highlights challenges	4/5 (economy)	This was to be expected and implies that the incoming leadership will have to contend with a lag to an economic recovery that will extend well into the future and may require intervention

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.3996	1.5346	1.4266	1.5199
BWPUSD	0.0831	0.0909	0.0847	0.0900
GBPBWP	15.3982	14.0483	15.0651	14.3409
BWPEUR	0.0703	0.0770	0.0719	0.0755
JPYBWP			9.0292	9.4628
USDZAR	16.1619	17.5180	16.5407	17.1390
EURUSD	1.1362	1.2310	1.1628	1.2044
GBPUSD	1.2306	1.3335	1.2595	1.3046

Benchmark Yield Curve

6m	1.3750
3y	3.0750
5y	3.4350
9y	4.7550
22y	5.2850

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-1.7989	0.0000
3m	-5.6063	0.0000
6m	-11.2418	0.0000
12m	-25.4426	0.0000

Equities

BSE Domestic Index	7011.33
BSE Foreign Index	1547.33

Economic Indicators

GDP		Bank Rate	4.25
CPI	0.9		

- The domestic data card is chockfull today with the potential release of the Q2 GDP, August CPI and a Moody's credit ratings update. The Q1 GDP data could be regarded irrelevant given it covered almost none of the COVID-19 impact on the domestic market, which experienced lock-down from late March-early April. The Q2 data could be more telling and expectations are that the economy could shed double digits over the period.
- Headline inflation in Botswana remains notably below the lower band of the central banks 3-6% target and downside risks are present due to low consumption and spending amid the backdrop of COVID-19 containment measures that severely throttled economic activity globally and domestically. That said, Governor Moses Palaelo has noted that the bank expects the inflation rate to return to its 3-6% target band in the 3rd quarter of 2021 with upside risks to inflation, including international commodity prices rising above current projections and price pressures from supply channel constraints as COVID-19 disrupts trade processes.
- Meanwhile, Moody's is set to deliver a credit rating update after market close. Moody's holds Botswana at a significantly higher credit stature than its regional peers of A2 with a negative outlook. Recall that due to the devastating impact that the COVID-19 pandemic has had on Botswana's economic and fiscal position, Moody's decided to lower Botsana's sovereign credit rating outlook to negative from stable in May this year. Moody's attributed the downward outlook revision to increasing risks of lower growth, higher budget deficits and likely resultant increase in government borrowing.
- The global ratings agency said that the adverse effects of COVID-19 pandemic combined with the current challenges the government faces in terms of fiscal consolidation could mean further deterioration of fiscal metrics to a level not consistent with the A2 sovereign credit rating. While the COVID-19 pandemic has weighed heavily on Botswana's public finances, Moody's said that the country's track record of fiscal prudence, adherence to the rule of law, robust institutions and effective policymaking, as well as the current level of the Pula Fund, continue to provide key fiscal and external buffers.
- Moody's said in its July credit rating decision that the ratings could be revised downwards on account of challenges encountered in halting the fiscal deterioration of fiscal strength. Moreover, a material weakening of the fiscal metrics, as a result of either an increase in financial support to state-owned enterprises, large gross borrowing requirements or a further deterioration of the external position, beyond current forecasts, would increase the likelihood of a downgrade. In terms of this evenings outcome, we expect Moody's to adopt a wait and see approach.
- A risk-off tone pervades the market ahead of the weekend, with downside pressure on the S&P 500 significant over the last week and carrying over globally. Given the host of uncertainties emerging about the US foreign policy and global growth outlook, this stands to reason. Traditionally, this tends to support the gold price. Yet after a strong rally yesterday, in which the metal traded up to $1966/oz., it has come under some selling pressure. It is trading at $1940/oz., still up on the week but reflective of some liquidations at the higher price levels. Haven metal demand is likely to remain underpinned into US elections, and as such many will prefer buying the dips.
- A weak growth outlook, on the other hand, is still priced into silver. Despite trading all the way up to $26/oz in response to Fed easing is still only trading at a 72/1 silver/gold ratio, its lowest since 2017. Weak growth, however, seems likely to keep this ratio lower for now but also represents a lower price point for those still hoping to get relatively attractive buy-in levels on a medium-term view.
- Internationally the focus for today will be on US CPI data. The August US inflation numbers are expected to show that price pressures remain muted in the US economy, with expectations for a marginal acceleration from the 1.00% y/y seen in July. Whether or not this can be sustained going forward remains to be seen, however, given that the most significant contributions to recent releases have been mostly due to recoveries from the drops seen during the worst of the lockdowns. There remains excess spare capacity within the economy, and this will most likely keep inflation pressures muted in the months to come. The Fed is clearly aware of this, which is why it has now shifted towards a more flexible policy approach to help it achieve its inflation goal in the longer-term. Any downside surprises in this month's CPI releases will cement the view that reaching the target average will be a long and drawn-out process.
- Heading into the weekend and there does not appear to be any significant directional momentum for investors to trade on. The bounce back in the trade weighted USD yesterday was partly a function of a strong rotation away from the GBP that was heavily influenced by the Brexit brinkmanship currently unfolding. Not even a strong EUR was able to prevent the USD recovery and it therefore enters the weekend on a slightly firmer footing. It may be that a resumption in tech stock volatility also encourage investors back to the safety of the USD and USTs. Some risk-off trading and a cautious bias ahead of the Moody's review could therefore see the BWP come under some pressure today.

ZAR and Associated Comments

- It has been a volatile week for the ZAR which has swung between gains and losses in light of domestic data showing the impact the COVID-19 pandemic and lockdown has had on the economy. As for yesterday, the local unit ended roughly 1.4% weaker against the USD, on the back of a stellar day prior.
- With the USD mixed against emerging market currencies on aggregate, the ZAR succumbed to selling pressure following a slew of local data. The current account balance for Q2 swung into a deficit of R103.6 billion from a surplus of R63.4 billion recorded in Q1. Although both imports and exports collapsed as the coronavirus pandemic severely dented global trade, South Africa's trade surplus more than halved as exports fell to a greater extent than imports in Q2. As a result, the impact on the current account was substantial and the deficit now sits at 2.4% of GDP, compared to a surplus of 1.2% in Q1.
- This will certainly weigh on the ZAR's potential recovery throughout the remainder of the year, however with external economies opening up, the trade surplus should remain intact and prevent the current account deficit from widening. For a sustained recovery of the ZAR, investors would need to see a substantial pick up in productivity for Q3. More specifically the pace thereof would need to improve in order to stave off the long term economic effects and bring output speedily back to pre-pandemic levels. Therefore, although mining and manufacturing production data released yesterday showed signs of improvement for the first month of Q3, the contraction continued on a y/y basis for both industries. Additionally, gold production fell during a month where gold prices rallied which speaks to the poor performance of the sector, while for the manufacturing sector, the rebound slowed from the month prior.

- Further denting sentiment, ratings agency Moody's said on Thursday that the recent downturn in Q2 GDP will exacerbate the government's woes and will likely send debt levels soaring. The loss of productivity will have a direct impact on the government's revenue stream and only time will tell how long the tax suppression will last once it is known how permanent the economic damage has been. With government borrowing becoming too expensive, an economic reboot plan is greatly needed and this should motivate the government to follow through with its promised recovery plan, which has drawn criticism recently due to delays. On that note, President Ramaphosa said this week that proposals would be finalised within three weeks, but also put the onus on the private sector to fund a large part of the recovery.
- Externally, the ECB expectedly left its main policy rate unchanged and also opted to leave its bond purchasing program as is. As a result, the Euro secured gains against the USD during the day, but have not held overnight as the greenback looks to regain its footing as we head into the weekend.

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