

Botswana Market Watch

14 September 2020

GMT	International and Local Data				
	BO	GDP y/y	2Q	2.6%	
	BO	CPI y/y	Aug	0.9%	
09:00	EZ	Industrial production (wda) y/y	Jul	-8,8%	-12,3%

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
Japanese manufacturing	Sep's Reuters Tankan recovered to -29 in Sep from -33 in Aug, while the service sector improved to -18 from -23 in Aug as recovery gets under way	Although both numbers remain deep in negative territory, they are improving	3/5 (politics)	The manufacturing reading remained negative for the 14 th consecutive month, confirming that structural problems existed long before Covid. Covid simply exacerbated the size of the problem
Chinese house prices	China's economy remains one of the few that has shown solid signs of recovery. New home prices rose 0.6% m/m and are up 4.8% y/y as 59 out of 70 cities reporting improvements	Household balance sheets are well supported and this, combined with low rates will help bolster the credit cycle	3/5 (economy)	Although global growth remains a massive drag on China's economic performance, it is the country that was first to emerge from the lockdown crisis and has been first to show signs of normalisation. The recovery continues.
UK GDP	July's reading reflected expansion of 6.6%. This after Q2 data showed the economy contracted 20%. So the recovery is under way, although sluggish	The economy remains 12% smaller than it was pre-covid. The recovery will still take years to unwind	4/5 (economy)	The recovery is a function of pubs and restaurants reopening, but the recovery could be sluggish as job losses gradually mount and uncertainty over Brexit compounds and already difficult climate

Local FX Opening Rates and Comment

CUSTOMER BUY				CUSTOMER SELL				CUSTOMER BUY				CUSTOMER SELL				
CASH		CASH		TT		TT		Benchmark Yield Curve				Forward Foreign Exchange				
BWPZAR	1.3868	1.5134	1.4135	1.4989	6m	1.3740	1m	-1.7989	BWPUSD	0.0000	BWPZAR	0.0000				
BWPUSD	0.0830	0.0906	0.0846	0.0897	3y	3.1050	3m	-5.6063		0.0000						
GBPWP	15.4173	14.1311	15.0837	14.4255	5y	3.4650	6m	-11.2369		0.0000						
BWPEUR	0.0701	0.0764	0.0717	0.0750	9y	4.7850	12m	-25.4475		0.0000						
JPYBWP			9.0095	9.4017	22y	5.3150										
USDZAR	16.0320	17.3760	16.4078	17.0001												
EURUSD	1.1372	1.2324	1.1639	1.2057												
GBPUSD	1.2308	1.3336	1.2597	1.3047												
								Equities				Economic Indicators				
								BSE Domestic Index		7009.3	GDP		Bank Rate		4.25	
								BSE Foreign Index		1547.33	CPI		0.9			

- As we enter the start of the new week, we await the release of the Q2 GDP and CPI reading for August. The GDP numbers are expected to be a shocker while inflation will remain subdued. There will potentially be some supply chain pressures which creep in but the collapse in domestic demand will keep a lid on the broader inflation trend.
- Internationally, it will be another important week ahead with some key data and the Fed's FOMC meeting scheduled for release. The pick of the data will come in the form of the latest round of the retail sales figures for August as investors look for signs that the economic recovery is still unfolding, albeit at a more sluggish pace than most had hoped for. This data will be seen together with the Michigan consumer confidence data and of course the weekly jobless claims numbers that will offer perspective on the state of the labour market and how much further it has to recover.
- Some good news on the virus front comes in the form of a second vaccine from Pfizer that appears to be making good progress with some key data from the trials to be released at the end of Oct, with the possibility that the vaccine could be rolled out before the end of the year. Between the AstraZeneca and Pfizer vaccines, this should be enough to encourage investors to look through the current pandemic and rather position their portfolios for the recovery. The shape of the recovery will be the most important development.
- It is also worth noting that the number of new infections as a trend continues to moderate. Looking at data produced by Johns Hopkins, it is clear that the worst of the second wave is now well behind us and if daily deaths can also moderate further as a trend, then the authorities will feel even more comfortable opening up the economy further and unshackling the recovery to take place.
- Moving over to the FX markets, the USD continues to trade in a tight range if one assesses the daily chart of the trade weighted USD index. Had it not been for the sell-off in the GBP recently that has helped support the USD, it might have found itself under even greater pressure. But ahead of the FOMC outcome, the USD finds itself unable to make any meaningful headway. It will likely continue to trade in a range as investors position for a Fed that will commit to doing whatever is needed to support the economy through its recovery. The feeling is that this should be bearish for the USD. However, by now, there will have been a lot of this news already priced into the market and it is unclear whether more selling will materialise this week. The latest CFTC data showed that speculative net short positions on the USD have been pared for the second consecutive week
- The BWP traded in a tight range on Friday holding north of the 0.0860 support level as investors awaited the release of the local data. The data was not released and thus the market faced an element of limbo which is likely to extend into today's open, as we wait for the data which will give further insight into what the likely response from policymakers from government and the central bank will be.

ZAR and Associated Comments

- The US Dollar attempted to bounce back Friday amidst renewed stock market volatility following the continued tech stock rout unfolding on Wall Street. While this drove investors back into the USD, seeking safety in US Treasuries heading into the weekend, the ZAR nevertheless ended the week positively on the back of dismal economic data. The local unit ended Friday almost 1% up against the greenback and topped a mixed emerging market pack. The ZAR held steady around the 16.75/\$-handle for most of the day following its morning appreciation.
- Despite this, it is evident the ZAR has lacked any sustained impetus to break out of its current range between 16.60 and 17.00, which it has held throughout September so far. With economic data having confirmed the huge contraction experienced during Q2 and the nationwide lockdown, this implies the ZAR may struggle to find further support until evidence that a Q3 rebound is underway. In the absence of this, the local currency will likely continue to track global risk sentiment as it has done so in recent months.
- The recent aversion to break its current range could be explained by tentative trade ahead of the SARB's next MPC meeting taking place this week. Interestingly, in the lead up to Thursday's rate decision, Finance Minister Tito Mboweni released an opinion piece for the Johannesburg City Press yesterday where he has warned of "dangerously overstretched" government finances. Mboweni also noted the recent GDP print showed a larger contraction than what both National Treasury (NT) and the SARB had anticipated. This points to a larger potential contraction for the year, where estimates are currently sitting at 7% and 7.3% for NT and the SARB, respectively. Although, the SARB has traditionally been conservative in its easing and seemed to adopt a wait-and-see approach at its last meeting, this does still raise the potential for another 25bp rate cut in this week's upcoming meeting and would likely risk some ZAR stability in the process
- It is a relatively quiet week for the domestic calendar until Wednesday with July's retail sales figures and the SARB's rate announcement on Thursday. The retail sales print will offer a glimpse of any uptick in activity, pointing to a much-needed recovery in demand, but is likely to remain subdued in the face of ongoing economic uncertainty. It is a big week for central banks globally too, with the UK, Japan and US also deciding on rates, however no changes to policy is expected. As a result of the continued easy monetary policy environment, the Dollar is likely to continue its weaker trajectory ahead of the FOMC rate announcement, while for the day ahead risk appetite is buoyed after pharmaceutical company AstraZeneca has resumed its late stage coronavirus vaccine trial.

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