

# Botswana Market Watch

# 16 September 2020

GMT		International and Local Data			
	<b>BO</b>	<b>GDP y/y</b>	<b>2Q</b>		<b>2.6%</b>
<b>11:00</b>	<b>US</b>	MBA mortgage applications	Sep 11		2,9%
<b>12:30</b>	<b>US</b>	Advance retail sales m/m	Aug	1.00%	1,2%
<b>12:30</b>	<b>US</b>	Retail sales ex. auto and gas	Aug	1.00%	1,5%
<b>14:00</b>	<b>US</b>	Business inventories m/m	Jul	0,2%	-1,1%
<b>18:00</b>	<b>US</b>	FOMC rate decision	Sep 16	0,25%	0,25%

Regional Developments	What happened?	Relevance	Importance	Analysis
<b>SSA COVID-19 vaccine</b>	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 Higo said that the global vaccine plan, COVAX, aims to help buy and fairly distribute and deliver 2bn doses by the end of 2021	<b>4/5</b> (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
<b>Central banks</b>	Room for additional policy easing in Africa has diminished following the aggressive policy response to the COVID-19 pandemic. Regions CBs cut rates by more than 150bps on average	The steep rate cuts have resulted in a significant decline in real interest rates in Africa, which has weighed on the resilience of regional FX	<b>4/5</b> (monetary policy)	With fiscal policy largely constrained, the burden of support mostly fell on monetary policy to cushion the blow of the pandemic. On top of the interest rate cuts, CBS reduced capital requirements and introduced new facilities to inject liquidity
<b>African FX</b>	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	<b>4/5</b> (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
<b>WTO US ruling</b>	The WTO on Tue found that the US breached global trading rules by imposing tariffs in the way that they did, urging both parties to resolve their trade dispute	The US for its part has labelled the WTO inadequate to deal with China's tech abuses	<b>3/5</b> (economy, politics)	This has obviously angered the Trump administration that immediately went on the attack. Not much will come from this with the US expected to appeal, and the appeal likely to achieve nothing.
<b>Chinese vaccine</b>	China is reportedly inoculating tens of thousands of people with an experimental vaccine even before the final results of its tests are known. China has yet to reveal the results of the vaccines	Although this runs against Western protocols it will be attracting much attention for signs of efficacy	<b>4/5</b> (economy)	These are all meaningful steps towards achieving mass immunity from this and other coronaviruses to come and although unorthodox, is also a sign that efforts are being fast-tracked in order to help economic activity normalise
<b>Japanese trade</b>	Japan's August exports posted a double-digit contraction for the 6th month running, falling 14.8% y/y vs the forecasted 16.1% contraction. Imports fell by 20.8% resulting in a ¥248.3bn surplus	With Japan so globally integrated into trade linkages, this data offers clarity on final demand and challenges ahead	<b>4/5</b> (economy)	Weak global demand, coupled with domestic structural factors highlight the challenges facing Japan's incoming administration. As the surplus shrinks so it will also detract from overall GDP growth.

## Local FX Opening Rates and Comment

CUSTOMER BUY					CUSTOMER SELL						
CASH		CASH		TT		TT		Benchmark Yield Curve		Forward Foreign Exchange	
BWPZAR	1.3683	1.5038	1.3947	1.4894	6m	1.3770			BWPUSD	BWPZAR	
BWPUSD	0.0834	0.0916	0.0850	0.0907	3y	3.1050		1m	-1.8574	0.0000	
GBPGBP	15.4409	14.0568	15.1068	14.3497	5y	3.4650		3m	-5.6063	0.0000	
BWPEUR	0.0704	0.0774	0.0720	0.0759	9y	4.7850		6m	-11.2808	0.0000	
JPYBWP			8.9899	9.4424	22y	5.3150		12m	-25.6425	0.0000	
USDZAR	15.7452	17.0691	16.1143	16.6998							
EURUSD	1.1373	1.2324	1.1640	1.2057							
GBPUSD	1.2384	1.3418	1.2674	1.3128							
					<b>Equities</b>		<b>Economic Indicators</b>				
					BSE Domestic Index	7008.82	GDP		Bank Rate	4.25	
					BSE Foreign Index	1547.33	CPI	0.9			

- The inflation data for August rose slightly versus the July figures according to the Statistics Agency. The August reading came in at 1% year on year versus 0.9% in July. Town and city prices printed +1% year on year and +0.2% month on month. The rise in inflation will not see the Central Bank reacting negatively given the high real interest rates Botswana currently enjoys.
- Keeping with local data, we are still waiting for the release of the Q2 GDP figures, the market is prepared for a shocker and thus its impact on the financial markets is likely to be limited.
- Internationally, the focal point is undoubtedly the FOMC later today. The Fed is expected to keep rates unchanged at its meeting this week, signalling that it is willing to keep monetary policy accommodative as the economy recovers from the COVID-19 outbreak. Keeping the Fed from acting has been the lack of progress on the fiscal stimulus front. Any progress made here would suggest that the Fed may not need to provide any further monetary stimulus. Focus will, however, be on Fed Chairman Powell as investors will be looking to see if he provides any further details on the Fed's new policy framework, which allows it to let inflation run above target for a period of time before rate hikes are introduced.
- Moving onto the FX markets, the trade weighted USD remains mostly range bound. Directional momentum is lacking and investors will no doubt wait for guidance from today's FOMC meeting before taking on any significant directional position. Furthermore, key data in the form of the latest retail sales figures will also be released today. Techs are also highlighting more range bound trade and so most investors will likely sit on their hands until some material guidance is offered on which longer term strategic direction can be gleaned
- Given this backdrop we should see the local unit behaving in a similar manner with investors sidelined ahead of the potential release of GDP, but more broadly the direction setting international smorgasbord of data and central bank announcements.

## ZAR and Associated Comments

- The US Dollar dip continued during local hours yesterday with sentiment bolstered following reports on COVID-19 vaccine progress, while strong Chinese industrial data reinforced gains in riskier assets. This provided the USD-ZAR pair the necessary impetus to break through its 200-day moving average which has been a notable support level this month and subsequently the 16.50/\$-handle. Leading emerging market currency gains, the ZAR ultimately ended local trade at 16.45/\$, 1.34% stronger against the USD.
- Domestically, the National Economic Development and Labour Council finalised an economic recovery plan and presented to cabinet in a meeting chaired by President Ramaphosa yesterday. The economic recovery proposal focuses largely on infrastructure development programs, with emphasis on job creation in the process in order to uplift the economy. Also agreed upon was a pact to turn around debt-stricken Eskom. The pact involves reducing the debt burden of the ailing state power utility, while the green light was given to renegotiate onerous contracts with suppliers and for private businesses to be able to produce their own power. Unstable power supply has remained an inherent structural impediment to economic growth in recent years and these developments would prove valuable in the wake of the COVID-19 pandemic. Further details on reducing Eskom's debt were limited, and with government finances heavily restricted at present, it remains to be seen from where funds will be materialised. This does constitute a step in the right direction however, and should the commitment follow through with action, this will boost sentiment and private investment.
- For the day ahead, domestic retail sales figures for July will provide a glimpse into the recovery to be expected in Q3 for the retail sector and will allow investors to gauge the potential effects subdued household consumption has had on price levels and thus inflation in the wake of strict lockdown conditions..

## Contacts

Mogamisi Nkate	+267 3674335	email: <a href="mailto:mnkate@bancabc.com">mnkate@bancabc.com</a>
Phillip Masalila	+267 3674621	email: <a href="mailto:pmasalila@bancabc.com">pmasalila@bancabc.com</a>
Kefentse Kebaetse	+267 3674336	email: <a href="mailto:kkebaetse@bancabc.com">kkebaetse@bancabc.com</a>
Maungo Sebonego	+267 3674338	email: <a href="mailto:msebonego@bancabc.com">msebonego@bancabc.com</a>

**Report produced by ETM Analytics for BancABC Botswana.**

## Disclaimer

The information provided herein has been prepared solely for informational purposes and is not an offer to buy or sell or a solicitation of an offer to buy or sell the securities or instruments mentioned or to participate in any particular trading strategy. These materials have been based upon information generally available to the public from sources believed to be reliable. No representation is given with respect to their accuracy or completeness, and they may change without notice. BancABC on its own behalf and on behalf of its affiliates disclaims any and all liability relating to these materials, including, without limitation, any express or implied representations or warranties for statements or errors contained in, or omissions from, these materials.