Botswana Market Watch 17 September 2020

GMT		International and Local Data			
	BO	GDP y/y	2Q		2.6%
12:30	US	Initial jobless claims	Sep 12		884k
12:30	US	Building permits	Aug	1530k	1495k
12:30	US	Housing Starts	Aug	1450k	1496k
12:30	US	Philadelphia Fed index	Sep	15	17,2

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 emphasising 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
Central banks	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	4/5 (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
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
FOMC	The Fed vowed to keep interest rates where they are until at least 2023 or until inflation is expected to beat the 2% inflation target, in a bid to seek full employment	The Fed will therefore remain ultra-accommodative until well into the economic recovery	3/5 (monetary policy)	Powell's quote that the new promise to esxceed inflation "*should be a very powerful statement in supporting economic activity*" is very telling indeed and will encourage risk taking
BoJ	The board this morning decided to keep monetary policy on hold and offered a slightly more upbeat assessment than that given in July	It appears there will be no new immediate expansion of stimulus in order to combat the crisis	4/5 (economy)	"*Japan's economy remains in a severe state but has started to pick up as business activity gradually resumes,*" was the comment from the BoJ, slightly more upbeat than previous message
Global stocks	Equity markets came under pressure on Thu through Asian trade as the Fed disappointed in not offering any fresh round of stimulus	Investors have become addicted to central bank stimulus and need more to justify valuations	4/5 (economy, markets)	The Fed has indicated that it will remain ultra-accommodative for a long time to come. Even that was not enough for a market looking for even more stimulus over and above that

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.3780	1.5141	1.4045	1.4996
BWPUSD	0.0840	0.0922	0.0856	0.0914
GBPBWP	15.3587	13.9844	15.0264	14.2758
BWPEUR	0.0714	0.0785	0.0731	0.0770
JPYBWP			9.0292	9.4831
USDZAR	15.7483	17.0704	16.1174	16.7010
EURUSD	1.1285	1.2229	1.1549	1.1965
GBPUSD	1.2404	1.3439	1.2695	1.3148

Benchmark Yield Curve

6m	1.3760
3y	3.1050
5y	3.4650
9y	4.7850
22y	5.3150

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-1.8379	0.0000
3m	-5.7671	0.0000
6m	-12.0754	0.0000
12m	-26.9734	0.0000

Equities		Economic Indicators			
BSE Domestic Index	7008.82	GDP		Bank Rate	4.25
BSE Foreign Index	1547.33	CPI	1		

- Lawmakers yesterday approved the government's request to double the domestic borrowing ceiling to BWP30bn which will enable the government to fund budget shortfalls which have been caused by the COVID-19 pandemic and lockdown. The higher borrowing is necessary for the government to fund its economic recovery and transformation plan and will also assist in developing the local capital markets. The new target will raise debt to GDP to some 16% which is still way below the government's 40% limit. Fixed income investors will welcome the development of Botswana's capital markets as their debt will be a welcome addition to any portfolio given Botswana's fiscal prudence. We do not foresee the country having any issues in raising this level of funding given the fact that many investors will be looking for additional yield at a time when most developed markets have yields pretty much on the floor.
- Bloomberg has today as the last day 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 was the FOMC decision on rates overnight. It is an indictment on the state of play that when a central bank tells the market it will not lift rates until at least 2023, that the market finds that news disappointing. Such has become the dependence of the financial markets on huge quantities of stimulus, that the thought of not having any fresh round of monetary stimulation leaves investors disappointed. That is not to say that the Fed will be rolling back its QE efforts any time soon. Only that it felt that the forward guidance it offered would be a powerful enough message to support the economy.
- The Fed also indicated that it would be monitoring the data to decide on appropriate action and recently, the labour market data has been a touch disappointing to those that wanted to see initial claims drop a little more precipitously than they did. For this reason, today's initial jobless claims figures will be important and market moving. Any further indications that the labour market recovery has stalled and the bears will likely dominate today's proceedings on the stock market.
- Moving onto the markets, as stocks have sold off on the disappointment that the Fed did not offer more stimulus, overall levels of risk aversion have escalated. Rotation to safety has returned and the USD has found some support. The market perception that the Fed will be less dovish than originally anticipated has further resulted in some support, and investors will favour buying USD dips, especially if the labour data later in the day disappoints. Finally, talk that the ECB could turn more accommodative has seen the EUR slip and that in itself will have boosted USD demand at the margin.
- We would thus expect some caution for the local markets at the start of the session and suggest that the gains achieved in the local unit yesterday may be given back as a result of the USD being on the front foot this morning.

ZAR and Associated Comments

- Emerging market currencies continued their rally yesterday with the ZAR leading the charge to a six month high of its own. Ahead of the US FOMC rate announcement where no changes to policy rates were largely expected, the ZAR managed to extend its rally to a fourth day after shrugging off some weak retail sales figures which showed a surprise contraction on a monthly basis and a greater year-on-year contraction than the month prior. Ultimately, the local unit closed at the 16.30/$ handle, close to 1% stronger against the US Dollar.
- A continued and highly dovish stance by the US Fed yesterday echoes central banks around the world, suggesting the South African Reserve Bank still has room for another rate cut ahead of today's rate decision. As expected, the US Fed left rates unchanged yesterday and will do so until at least 2023 as it plans to tolerate higher levels of inflation to revive the economy. As shown by the domestic retail sales figures yesterday, demand side effects on inflation will remain subdued for some time as the South African economy struggles with the aftermath of stringent lockdowns, which means South Africa is likely to maintain some of the highest real interest rates in the world. It is clear central banks globally are locked into low policy rates for years to come, thus the SARB may be tempted for a further 25bp rate cut without affecting financial markets and ZAR stability too greatly.
- Furthermore, following worse than expected Q2 GDP data, this will add to the case for another cut. Calls for more SARB easing from within government have been growing as well, which may provide a little additional pressure, although SARB Governor Lesetja Kganyago has reiterated on multiple occasions the SARB is focused on upholding its mandate of keeping inflation steady in the 3-6% range and maintain financial market stability. All in all, if the MPC decides not to cut rates today, they could be leaving the final bullet in the current easing cycle for the November meeting, after further progress on government's recovery plan, October's medium term budget policy statement and when more Q3 data is known.
- On a positive note, President Ramaphosa addressed the nation last night and announced a move to level one of the national lockdown plan from midnight Sunday 20 September. He did however maintain a cautious stance and warned of second waves which are occurring in other countries. Markets should respond positively to this as it will allow for more economic activity and ultimately speed up the recovery. It will however still take time to return to pre-pandemic levels of productivity and spending, especially in light of structural impediments to growth.
- For the day thus far, the USD has staged a broad rebound following the Fed's revised and improved projections for the final quarter of the year, with slightly improved unemployment forecasts and a more upbeat outlook for the economy. Although low rates are here to stay, no further stimulus was announced which has driven some rotation into the greenback. As to the day ahead, markets will turn to the Bank of England's rate decision later this morning, while Japan maintained its policy rate steady overnight. Directional impetus later in the session after the SARB's rate announcement may come from US initial jobless claims for an update on the US labour market's reemployment.

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