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Botswana Market Watch 18 September 2020

GMT		International and Local Data			
	BO	Botswana Sovereign Debt to be rated by S&P			
12:30	US	Current account balance	2Q	$-167,3bn	$-104,2bn
14:00	US	Michigan consumer confidence	Sep P	74,9	74,1
14:00	US	Leading Indicators	Aug	1,3%	1,4%
14:00	US	Fed's Bullard Discusses the Covid Recovery Challenge			

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
Japanese deflation	Core consumer prices fell at their fastest pace in almost four years in August, as weak growth, a looser labour market and margin compression all weighed	This will be headache for the authorities and may be the catalyst that prompts the BoJ to do more	4/5 (economy)	Core prices in 2020 may well fall 1.0% y/y in the current environment and will force the Suga administration to expedite reforms and the digitalisation of the economy
BoE	The BoE MPC gave feedback from its latest meeting and indicated that the MPC had been briefed on negative rates, but would at the very least keep rates near zero until inflation was to exceed 2%	That negative rates were debated in more detail suggests this is a policy option the BoE is now seriously considering	4/5 (monetary policy)	While the next move could well be a rise in their asset purchase programme, the option of negative rates may be called upon to help stimulate an economy that is on the verge of entering a fresh round of lockdowns as infections rise again
Brexit – US	Presidential candidate Biden warned Britain yesterday that unless the country respects the Northern Ireland's 1998 peace agreement, that there would be no trade deal with the US	Pressure is building on the Johnson administration to re-enter negotiations with a constructive mindset	4/5 (economy, markets)	For his part, Johnson has said that he is looking to protect rather than dismantle the peace agreement, but pressure is building for him to back down from the Internal Markets Bill and re-engage. The EU still believes a deal is possible.

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.3632	1.4883	1.3895	1.4740
BWPUSD	0.0843	0.0919	0.0859	0.0911
GBPBWP	15.3501	14.0721	15.0180	14.3652
BWPEUR	0.0711	0.0776	0.0728	0.0761
JPYBWP			9.0390	9.4322
USDZAR	15.5258	16.8364	15.8897	16.4721
EURUSD	1.1376	1.2327	1.1643	1.2060
GBPUSD	1.2439	1.3479	1.2730	1.3188

Benchmark Yield Curve

6m	1.3730
3y	3.1050
5y	3.4650
9y	4.7850
22y	5.3150

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-1.8330	0.0000
3m	-5.7818	0.0000
6m	-12.0315	0.0000
12m	-27.0319	0.0000

Equities / **Economic Indicators**

BSE Domestic Index	7008.82	GDP		Bank Rate	4.25
BSE Foreign Index	1547.32	CPI	1		

- Investors in Botswana will be on edge today with S&P Global Ratings scheduled to provide an update on the country's sovereign debt rating. Recall that on March 28 S&P downgraded Botswana's long-term foreign and local currency sovereign credit ratings to BBB+ from A- and affirmed the country's short-term ratings at A-2. S&P assessed the outlook to be stable.
- S&P said that a prolonged depressed diamond market would negatively affect the already weakening fiscal and external balance sheets of the country. S&P expects that Botswana would record a current account deficit of more than 8% of GDP this year. In its March credit rating statement, the agency said that Botswana would likely record twin deficits in the next few years, which could gradually cut into its traditionally strong fiscal and external buffers over the medium term.
- S&P Global Ratings forecast in March that Botswana's economy would grow a modest 2.6% in 2020 if the coronavirus pandemic somewhat stabilizes by mid-2020, down from 3.6% in 2019. Given the prolonged impact of the COVID-19 pandemic, S&P is expected to downwardly revise its 2020 growth forecast, which will undoubtedly have adverse ramifications for the country's fiscal trajectory.
- Heading into this evening's credit rating, we assess the risks to be tilted to the downside. Recall that government revenues have been obliterated by the pandemic against the backdrop of a spike in emergency spending which will lead to a significantly wider budget deficit and steeper fiscal trajectory. As such, we see room for S&P to lower Botswana's outlook from stable to negative.
- Internationally, yesterday's US labour data showed that there was mixed improvement in the labour market. On the one hand, the initial jobless claims barely fell. On the other, the continued claims fell 916k to 12.628mn. In other words there is improvement in rehiring that appears to be offsetting those losing their jobs, but clearly, there are still many people losing their jobs and the overall improvement will take some time. Expectations are that the unemployment rate will only drop back down to pre-covid levels many years down the line. The process of achieving full employment will be a long drawn out process that will require quite a bit of stimulation.
- The first of the data releases today will be the Michigan consumer confidence index that was revised slightly higher in the final August reading, surpassing expectations for sentiment to remain unchanged. However, consumer confidence does still remain severely depressed and well below pre-pandemic levels, with the current levels comparable to those seen in early 2013. This reflects the high degree of uncertainty still faced by individuals and economic participants and the outlook is certainly not being helped by the lack of agreement between political parties for further US stimulus aid. If there is a drive to push forward a smaller stimulus package ahead of the November elections, consumers may rejoice in this. If this fails for another time, the ongoing political tensions and stalling rebounds in certain sectors will continue to weigh on consumers' outlooks.
- Finally, the US leading index has sharply recovered since March and April lows, as it posted strong m/m gains from May onward. This was to be expected following lockdown restrictions and the vast stimulus injected into the economy. However, economic uncertainty remains in the foreground and it is expected that the recovery will occur at a slower pace going forward, as was shown in July's print. Additionally, risks to the US economy remain in the form of geopolitical tensions with China, while domestic demand continues to be suppressed with consumer confidence well below pre-pandemic norms. If the recovery continues to lag behind other nations, this may provide the motivation for an additional stimulus package to be agreed upon in order to support the economy. In the absence of which, the outlook is for the rebound to slow in pace from what has been seen since April.
- The Pula remains underpinned at the moment and the weaker USD overnight may well translate into further gains for the local unit at the start. We do however suggest that investors and corporates alike adopt a cautious stance as we have the ratings announcement and a deluge of US data due later today which has the potential to unseat the current status quo.

ZAR and Associated Comments

- The local unit was treading water ahead of the SARB rate announcement as market participants were torn whether the central bank would implement a further 25bp rate cut. With the SARB choosing to hold off on a rate cut, it took the market some time to digest this and the guidance for future interest rates. The decision to keep the repo rate steady was not unanimous, with two of the five MPC members still opting for a 25bp cut. The SARB did not rule out additional rate cuts as well and Governor Lesetja Kganyago noted that the outcome of the next meeting would be data dependent, thus leaving room for one more potential cut in the current easing cycle if the pace of economic recovery lags in the coming months. However, the ZAR found strength shortly after and led emerging markets as it swung losses into a 0.5% gain to end local hours at 16.22/$.
- The SARB also noted that risks to inflation and economic outlook are balanced. It expects inflation to pick up slightly to 4% for 2021, which puts South Africa's real rates in the red as the QPM model suggests the repo rate will stay at its current level of 3.5% for at least another year until Q3 2021. This could erode the ZAR's resilience in the medium term, but inflation is expected to be well contained and exchange rate pressures are likely to rather stem from heightened fiscal risks. The further easing of lockdown restrictions to come will support the recovery in economic growth, likely more so than an additional 25bp rate cut which would only help at the margin. Furthermore this would be after 300bp worth of cuts seen this year, which have yet to filter through with economic activity shuttered for most of the year so far. That said, growth forecasts were revised further into the red with the latest being an 8.2% contraction for 2020 compared to a previous estimate of 7.3%. This remains on the conservative side however, compared to recent estimates from the Organisation for Economic Cooperation and Development which forecasted SA to contract by 11.5%.
- In early trade today thus far, sentiment has swung once again with most emerging market currencies in the green. This followed US employment data which showed fewer new claims for unemployment benefits last week, but the figure remains stubbornly high, causing the USD to come under pressure. Locally, South African Airways' business rescue practitioners have called for a

meeting with the airline's creditors today after government failed to meet the funding deadline yesterday. With government finances tremendously stretched at present, the funding would likely only come from private investment, while the Department of Public Enterprises stated yesterday they were still assessing proposals from several strategic equity partners. This space will be closely monitored by investors to assess whether the government is willing to commit to hard hitting reforms if no private funding can be secured.

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