

Botswana Market Watch

21 September 2020

GMT	International and Local Data				
	BO	GDP may be released	2Q		2.6%
12:30	US	Chicago Fed activity index	Aug	1,18	1,18
14:00	US	Fed Board Holds Open Meeting on Community Reinvestment Act			
16:00	US	Fed's Brainard Discusses Community Reinvestment Act			

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 Mhigo 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
Britain - Covid	Health minister Hancock described Britain as being at a tipping point, warning of a second national lockdown if people do not follow government rules	A resurgence in Covid-19 cases has officials on high alert, although full lockdown is unlikely.	4/5 (economy)	While infections are rising, the death rate is well down and so this does not pose the threat to lives that the initial spread of the virus did. Furthermore, PM Johnson will be reluctant to do so.
China - rates	China kept its benchmark lending rate for corporate and household loans unchanged for the fifth straight month at its Sep fixing this morning	China's economy is deemed to be resilient at this time and does not require further stimulation	3/5 (monetary policy)	The 1yr loan was kept at 3.85%, while the 5yr LPR stayed at 4.65%. The economy is showing signs of picking up, and is only being materially constrained by weak growth in its trading partners.
CFTC - Gold	Speculators including hedge funds and other money managers raised their speculative bets on gold by a further 10,622 contracts, alongside a rise in copper and silver positions	This is just as much a function of perceptions of the USD as it is about hedging against troubled times	4/5 (markets)	The rise in infections and the threat of another round of restrictions/lockdowns has investors positioning for bad news. Equally, investors are also concerned about the overvaluation of the USD and the need for a deeper correction

Local FX Opening Rates and Comment

	CUSTOMER BUY		CUSTOMER SELL		Benchmark Yield Curve		Forward Foreign Exchange			
	CASH	CASH	TT	TT						
BWPZAR	1.3687	1.5002	1.3950	1.4858	6m	1.3770		BWPUSD	BWPZAR	
BWPUSD	0.0841	0.0921	0.0857	0.0913	3y	3.1050	1m	-1.8330	0.0000	
GBPWP	15.3851	14.0403	15.0523	14.3328	5y	3.4650	3m	-5.7866	0.0000	
BWPEUR	0.0708	0.0777	0.0725	0.0762	9y	4.7850	6m	-12.0315	0.0000	
JPYBWP			8.9801	9.4017	22y	5.3150	12m	-26.9685	0.0000	
USDZAR	15.6239	16.9327	15.9901	16.5663						
EURUSD	1.1393	1.2345	1.1660	1.2078						
GBPUSD	1.2440	1.3477	1.2731	1.3186						
					Equities		Economic Indicators			
					BSE Domestic Index	7008.82	GDP	2.6	Bank Rate	4.25
					BSE Foreign Index	1547.32	CPI	1		

- The highlight at the end of the week was the ratings decision by S&P for Botswana. The long-term foreign currency debt rating was affirmed at BBB+ while the outlook was changed from stable to negative. This was largely expected with the agency making it clear 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 a statement, *The S&P global rating agency indicated that the outlook could be revised to stable if Botswana is able to restore its fiscal balance to more manageable levels through sustained fiscal prudence, an upturn in the global diamond market and, consequently, prevent further decline of external buffers. However, the country's ratings could be lowered if the fiscal trajectory remained weak, beyond the initial impact of the pandemic due to the continuation of a depressed diamond market and global conditions.*
- In terms of local data, we are still waiting on the release of the Q2 GDP numbers. Markets are expecting a poor number and as such unless it is an absolute shocker, we expect the market reaction to be measured.
- Moving over to the United States, this will be a quieter week in so far as data is concerned, but even the markets will enjoy an early reprieve first thing, with Japan on holiday on Monday. Arguably the most important release of the week will be the Markit PMI manufacturing data, as investors look for further signs of recovery following the brutal collapse in economic activity. Of course, the weekly jobless claims will always be viewed with some interest as it offers an up-to-date perspective on the recovery in the labour market, but here the data has been a little sluggish, confirming that the economy is struggling to gain full traction.
- Unfortunately, but predictably, politics remain front-and-centre ahead of the elections in November. It is becoming an increasingly noisy and politically polarising time as Biden heads into the final stretch with a huge cash advantage over Trump. Trump has already started to raise the prospect that the vote counting will be fraught with problems on account of the mail-in voting, no doubt as a defensive strategy that he might pursue in the courts should he lose. The very latest source of acrimony arose out of Trump moving to nominate a candidate to fill the seat of the late Justice Ruth Bader Ginsburg. The Democrats would like Trump to wait until after the elections, while Trump would like to fill the vacancy before. The Democrats have even threatened to pack the courts in a bid to stifle the attempt, arguing that filling the SCOTUS position during a lame-duck session, after the American people have voted is simply undemocratic. Trump would like to show that he gets things done.
- The politics are not isolated just to internal developments, but continue with China as well. The saga with TikTok which Trump identified as a National Security threats rumbles on. China labels it a "hideous agenda of robbery and economic bullying" but Trump sees it as part of his mission to rid the US economy of its reliance on China. Notwithstanding the progress made under phase 1 of the trade deal, relations between the US and China continue to sour and at present there are no signs that this is about to thaw.
- 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.
- The start of the week has seen a weaker USD filter through the broader markets which has seen precious and base metals buoyed. Higher beta currencies have also received a boost and the expectation is that we see this trickling through to the Pula this morning.

ZAR and Associated Comments

- It looked as though the US Dollar was set to continue its losing streak at the back end of last week after some downbeat employment data pointed to a stubborn recovery in the US labour market. However, Friday saw a break in demand for riskier assets and choppy trade resulted in mixed emerging market (EM) currency results. For the ZAR, the currency snapped its five day rally as it fell 0.65% against the greenback and retreated back above the 16.30/\$-handle. Despite this, the local unit gained 2.5% against the USD over last week and emerged as a clear outperformer amongst the EM basket.
- The ZAR may still be poised for a further rally into the last few months of the year, boosted by the ensuing decline of the USD. However longer term, the currency will be held back by the government's ballooning budget deficit and rising default risk as the fiscus comes under increasing pressure. On that point, government assured SAA's business rescue practitioners on Friday that the airline would receive the requisite funding for the restructuring plan. According to the Department of Public Enterprises, government is finalising the R10.5bn worth of funding and will be formally announced in an Adjustments Appropriation Bill to parliament. The funds will be reprioritised, meaning other budgets will need to be cut and this constitutes another bailout for the loss-making state-owned enterprise, while talks with potential private investors are reportedly ongoing. All in all, this will be viewed in a negative light by the market as a further bailout will likely represent an irrecoverable cost to South Africa's fiscus as it has in the past, especially at a time when government can ill-afford misappropriation of funds which could be used elsewhere to aid the struggling economy.
- For the week ahead domestically, the economy will enjoy lighter pandemic restrictions after the move to level one of the COVID-19 response plan overnight. Government also announced on Friday that intercontinental travel will be allowed from October 1, with high risk countries being placed on a restricted list. This bodes well for economic activity to resume; however time will tell how much of the lockdown's damage was permanent.
- Externally, a Japanese market holiday will see trading volumes lessened, while minimal data releases will see the ZAR succumb to global risk appetite. In terms of data releases, there is nothing substantial in the way of market moving prints at the start of a shortened domestic trading week, Thursday being Heritage Day. One will have to wait until tomorrow for the domestic leading indicator release and later in the week for a host of global PMI data. For the day thus far, the USD has lost ground in early trade

and, resultantly, emerging market currencies are trading in the green as they continue to be supported by loose monetary policy in developed nations.

Contacts

Mogamisi Nkate	+267 3674335	email: mnkate@bancabc.com
Phillip Masalila	+267 3674621	email: pmasalila@bancabc.com
Kefentse Kebaetse	+267 3674336	email: kkebaetse@bancabc.com
Maungo Sebonego	+267 3674338	email: msebonego@bancabc.com

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