

Botswana Market Watch

22 September 2020

GMT	International and Local Data				
14:00	BO	GDP may be released	2Q		2.6%
14:00	EZ	Consumer confidence	Sep A	-14,7%	-14,7%
14:00	US	Richmond Fed manufacturing index	Sep	12	18
14:00	US	Fed's Evans Discusses the U.S. Economy and Monetary Policy			
14:30	US	Powell Appears Before House Financial Services Panel			

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
US politics	Ahead of the elections the presidential race would always become heated. Trump is seeking to appoint a new Supreme Court justice before the elections, faces possible tax fraud charges while tensions with China grow	As tensions rise and greater polarisation takes place, so higher levels of uncertainty will permeate confidence and what is priced into markets	4/5 (politics)	The race between the two presidential candidates has tightened up considerably and while Biden appears to have secured a lot more campaign funding, Trump is still able to command the media headlines as he continues to elicit strong reactions to his leadership
Q2 US Household wealth	According to the Fed, its unprecedented intervention to help offset the effects of the lockdown have translated into a recovery in balance sheets	Maintaining buoyant or rising balance sheets is core to the creation of a new credit cycle	3/5 (economy, monetary policy)	That the Fed has been able to reflate balance sheets this quickly will be seen as a victory and full justification for the actions that were taken. Asset price inflation is considered constructive.
EZ bond yields	EZ bond yields slipped to a six-week low on the steady resurgence of Covid-19 infections, as weaker growth and a difficult economic recovery are priced in	Offers clear perspective on the strength of the business cycle and the need for loose monetary policy	4/5 (economy)	As equity markets come in for further correction and investors question the trajectory of recovery, the safety of bonds amid active central banks will seem attractive. It does however imply a sluggish bounce back in growth

Local FX Opening Rates and Comment

	CUSTOMER BUY		CUSTOMER SELL		Benchmark Yield Curve		Forward Foreign Exchange			
	CASH	CASH	TT	TT				BWPUSD	BWPZAR	
BWPZAR	1.3820	1.5180	1.4086	1.5034	6m	1.3760				
BWPUSD	0.0824	0.0901	0.0840	0.0892	3y	3.1050	1m	-1.9598	0.0000	
GBPZAR	15.5357	14.1581	15.1996	14.4530	5y	3.4650	3m	-5.7915	0.0000	
BWPEUR	0.0700	0.0769	0.0716	0.0754	9y	4.7850	6m	-12.0266	0.0000	
JPYBWP			8.8130	9.2389	22y	5.3150	12m	-26.9636	0.0000	
USDZAR	16.1076	17.4687	16.4851	17.0907						
EURUSD	1.1294	1.2237	1.1559	1.1972						
GBPUSD	1.2303	1.3330	1.2592	1.3041						
					Equities		Economic Indicators			
					BSE Domestic Index	7002.64	GDP	2.6	Bank Rate	4.25
					BSE Foreign Index	1547.32	CPI	1		

- There has been a breakthrough in the 350 elephant deaths which took place between May and June in the Okavango Delta. The Guardian reported - *“Our latest tests have detected cyanobacterial neurotoxins to be the cause of deaths. These are bacteria found in water,” Mmadi Reuben, principal veterinary officer at the Botswana department of wildlife and national parks, said in a news conference on Monday. “However we have many questions still to be answered such as why the elephants only and why that area only. We have a number of hypotheses we are investigating.” Local sources suggest 70% of elephants died near water holes containing algal blooms, which can produce toxic microscopic organisms called cyanobacteria. Toxins were initially ruled out because no other species died – except for one horse – but scientists now think elephants could be particularly susceptible because they spend a lot of time bathing and drinking large quantities of water.*
- Local economic and financial news flow is on the thin side, the same cannot be said for the international stage.
- Still no data for investors to trade on and still a quieter start to the Asian session with Japan enjoying a holiday. But while there may be little in the way of data, there are plenty of developments for investors to consider including the unfolding political battle between Trump and Biden, the evolving tensions with China and the threat of more restrictive lockdown measures as the level of infections steadily increases. Risk-off is permeating markets at the moment and there is no shortage of good reasons why investors should be concerned. The politics have turned polarising, there is still no certainty as to when the next tranche of fiscal aid will be decided on and there are wildly differing views on what the economic recovery will look like.
- ByteDance, the owner of TikTok has some tough decisions to make. Trump has demanded that ByteDance/China has no influence over the company's control, but China has urged ByteDance not to give in to US demands. The company also said that it does not plan to transfer any algorithms and technologies along with the sale to Oracle. Oracle's statement on the potential deal however suggests otherwise and while ByteDance itself would still be majority Chinese owned, TikTok Global would not. The demand by the US for the deal is related to national security concerns that the Trump administration has. China believes the deal to be reasonable in terms of price, but unfair that such actions be imposed.
- Interesting to note how betting odds have again moved in Biden's favour more recently. A combination of a resurgent virus and the passing of Ruth Bader Ginsburg and how Trump is seeking to nominate a new Justice ahead of the elections appears to be detracting from his chances of re-election. The distinction is that these are betting odds, not a constructed poll and reflects a slightly different approach to assessing the situation. Any efforts by Trump to push ahead with nominating a replacement will be met with criticism and a likely court battle, which he might prefer to avoid.
- Finally, the impasse in Washington on the next round of fiscal stimulus rolls on, with no definitive breakthrough evident. It is far from clear whether a deal can be reached ahead of the elections, with the politics turning acrimonious. Equally, there are some, like St Louis Federal Reserve President Bullard that believe that the Federal government has already delivered enough fiscal aid to help the economy stage a recovery. The longer the impasse lasts, the less the imperative to get a deal done.
- Moving onto the FX markets, Resurgence in Covid-19 infections and risk-off sentiment is once again dominating market sentiment and bringing into focus the risks to economic growth through the foreseeable future. The trade weighted USD has found a catalyst to rally and it has gained ground against most currencies, especially the UK and the EZ where infection rates appear to be rising rapidly and may trigger a fresh round of lockdown restrictions that would detract from economic growth. Furthermore, given the market positioning against the USD, any further rallies in the USD may trigger a larger short-squeeze that holds the potential to propel the USD even higher.
- All higher beta currencies are weaker on the day and thus expect a measured start for the Pula with investors and traders alike assessing the risks. 0.0850 remains strong support for now however we would not be surprised to see this level tested in the interbank market.

ZAR and Associated Comments

- The ZAR was in fact the worst performing emerging market currency on the day. The local unit was down over 3% during intra-day trade as it passed through its 200-day moving average with little resistance, but failed to sustain a move above its 50-day average. The ZAR is often the bellwether of emerging market sentiment as was the case yesterday. However, the currency's notable lack of resilience during times of stress can also be attributed to the rising and extreme fiscal risks associated with the country. Prudent monetary policy in the past has afforded the ZAR relative stability, however with vast global economic uncertainty, the ZAR remains at the mercy of broad market sentiment with few domestic drivers gaining favour at present.
- For the day thus far, the ZAR has been steady in trading below yesterday's close of 16.81/\$. Further moves during the Asian session have been muted with another Japanese holiday lessening trading volumes. Thus, an indication for the day ahead may come during the European open, as no further developments have occurred to dampen market jitteriness. Whether yesterday was a minor correction will depend on what measures European authorities undertake to control the spread of the virus and yesterday's reaction points to further market volatility in that case.
- On the domestic data card, the SARB will publish July's leading indicator. Being dated, the data will show the worst is behind us as the economy had been partially reopened, however the lack of reformative policy by government suggests the index will remain below pre-pandemic levels for some time still. Externally, Euro-zone consumer confidence data headlines the global data card, while the market will be focused on US Federal Reserve committee members for further updates on the US economy and monetary policy..

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