

## Botswana Market Watch

## 23 September 2020

| GMT          | International and Local Data |  |               |             |              |
|--------------|------------------------------|--|---------------|-------------|--------------|
|              | <b>BO</b>                    | <b>GDP may be released</b>                           | <b>2Q</b>     |             | <b>2.6%</b>  |
| <b>08:00</b> | <b>EZ</b>                    | <b>Markit/BME manufacturing PMI</b>                  | <b>Sep P</b>  | <b>51,9</b> | <b>51,7</b>  |
| <b>08:30</b> | <b>GB</b>                    | <b>Markit manufacturing PMI</b>                      | <b>Sep P</b>  | <b>54</b>   | <b>55,2</b>  |
| <b>11:00</b> | <b>US</b>                    | <b>MBA mortgage applications</b>                     | <b>Sep 18</b> |             | <b>-2,5%</b> |
| <b>13:45</b> | <b>US</b>                    | <b>Markit PMI manufacturing</b>                      | <b>Sep P</b>  | <b>52,5</b> | <b>53,1</b>  |
| <b>14:00</b> | <b>US</b>                    | <b>Powell Appears before House Panel on Covid-19</b> |               |             |              |

| 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><br>(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><br>(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><br>(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>UN tensions</b>   | Tensions rose further as Trump called on the UN to hold China accountable for the Covid-19 pandemic, while China said Trump as spreading a political virus before adding they want to be carbon neutral by 2060 | It is doubtful that the UN will do anything substantive, but Trump is dialling up the pressure on China and will detract from trade talks | <b>4/5</b><br>(politics) | Tensions between the two super powers continue to deteriorate regardless of the efforts being made in phase 1 of the trade deal. If Trump is re-elected he will continue to press for greater independence and less reliance from China |
| <b>US home sales</b> | Existing home sales approach a new 14yr high as inventory fell 18.6% y/y and median house prices jumped 11.4% y/y   | This is a strong result that will certainly boost the balance sheet of households   | <b>3/5</b><br>(economy)  | Record-low mortgage rates and a pandemic induced flood into the suburbs has helped this sector surge in a remarkable recovery   |
| <b>UK factories</b>  | Disappointingly, British manufacturers reported the sharpest drop in orders for three months with the order book balance dropping to -48 in Sep from -44 in Aug   | Resurgent viral infections, uncertain trading relationships and weak global growth have all weighed on activity                           | <b>4/5</b><br>(economy)  | It would now appear that the initial bounce back was firms dealing with backlogs. However, now they have weak global growth to contend with amid concerns about a further lockdown and weak growth                                      |

### Local FX Opening Rates and Comment

| CUSTOMER BUY |         |         |         | CUSTOMER SELL      |         |                            |     | Benchmark Yield Curve |        | Forward Foreign Exchange |  |
|--------------|---------|---------|---------|--------------------|---------|----------------------------|-----|-----------------------|--------|--------------------------|--|
| CASH         |         | TT      |         | CASH               |         | TT                         |     |                       |        |                          |  |
| BWPZAR       | 1.3969  | 1.5280  | 1.4238  | 1.5133             | 6m      | 1.3750                     |     | BWPUSD                | BWPZAR |                          |  |
| BWPUSD       | 0.0829  | 0.0908  | 0.0845  | 0.0899             | 3y      | 3.1050                     | 1m  | -1.8964               | 0.0000 |                          |  |
| GBPGBP       | 15.3087 | 14.0004 | 14.9775 | 14.2920            | 5y      | 3.4650                     | 3m  | -5.9816               | 0.0000 |                          |  |
| BWPEUR       | 0.0710  | 0.0777  | 0.0727  | 0.0762             | 9y      | 4.7850                     | 6m  | -12.0510              | 0.0000 |                          |  |
| JPYBWP       |         |         | 8.9211  | 9.3203             | 22y     | 5.3150                     | 12m | -27.1733              | 0.0000 |                          |  |
| USDZAR       | 16.1673 | 17.5220 | 16.5462 | 17.1429            |         |                            |     |                       |        |                          |  |
| EURUSD       | 1.1208  | 1.2145  | 1.1471  | 1.1882             |         |                            |     |                       |        |                          |  |
| GBPUSD       | 1.2208  | 1.3227  | 1.2494  | 1.2941             |         |                            |     |                       |        |                          |  |
|              |         |         |         | <b>Equities</b>    |         | <b>Economic Indicators</b> |     |                       |        |                          |  |
|              |         |         |         | BSE Domestic Index | 7002.64 | GDP                        | 2.6 | Bank Rate             | 4.25   |                          |  |
|              |         |         |         | BSE Foreign Index  | 1547.32 | CPI                        | 1   |                       |        |                          |  |

- The news wires both locally and abroad mention a number of mining projects and feasibility studies taking place at the moment which is encouraging as Botswana aims to diversify its hard currency earnings from just diamonds and tourism. Giyani Metals have started a feasibility study field programme for its K.Hill manganese project, while Kavango Metals has stated that it is “gearing up” after announcing a joint venture with Power Metals Resources.
- Botswana remains a strong contender for good infrastructural development over the next 25 years given the stable fiscal and political framework compared to other countries in the region. The country is moving to become a regional hub for manufacturing and aims to be self sufficient in terms of energy production.
- Internationally, the geopolitical backdrop is becoming more tense. US-Sino tensions escalated further as Trump called on the UN to hold China accountable for the Covid-19 pandemic, while China said Trump as spreading a political virus before adding they want to be carbon neutral by 2060. It is doubtful that the UN will do anything substantive, but Trump is dialling up the pressure on China and will detract from trade talks. Tensions between the two super powers continue to deteriorate regardless of the efforts being made in phase 1 of the trade deal. If Trump is re-elected, he will continue to press for greater independence and less reliance from China.
- The Democrat controlled House passed a funding bill on Tue to keep the Fed govt operating through to the 11th Dec, following a deal struck with the Republicans on farmer aid and nutritional assistance for children. This averts a funding crunch towards the end of the month and a government shutdown through the 3rd November elections. This bill keeps spending patterns as they are and adds \$8bn for nutrition assistance, but layers over some accountability on the Commodity Credit Corporation in order to prevent funds from farmers being used to bail out oil companies.
- Moving onto the FX markets, the USD is surging for the third consecutive trading session as concerns around the Covid-19 pandemic intensify. Furthermore, some strong housing data yesterday will have boosted sentiment, while a broader short squeeze is now under way after weeks of speculators persisting with bearish bets on the USD. Add to that the general risk-off tone and the rotation towards the safety of the USD and it may turn out to be a strong week overall for the Greenback. Just the upcoming elections and uncertainty in US-Sino relations hold the potential to hold back the performance of the USD.
- In terms of the local unit our view is unchanged on yesterday. All higher beta currencies are under the gun in the Asian session 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

- Following Monday’s selloff, markets traded cautiously as a risk off tone still permeated across the globe. At least this was the case for emerging FX markets which struggled to cement any gains on the day, while US equity markets managed to snap a recent losing streak. After leading the EM basket during the day, the ZAR closed relatively flat near its open at 16.82/\$.
- The ZAR was subject to volatile intraday trade yesterday as the USD-ZAR bulls and bears called it a draw after local hours ended. The local unit swung earlier losses as the SARB released July’s leading indicator which rose to 99.9, beating expectations of a rise to 95. Of the ten subcomponents, eight showed increases, with the largest coming from residential building plans approved. Although a positive development, the index is still down 4.2% y/y and may remain below for some time as SA’s structural challenges hinder growth prospects in the longer term. The SARB does expect, however, strong gains in Q3 and 2021. Further comments from the central bank’s Deputy Governor signalled that monetary policy is likely to remain accommodative for two more years while it gradually withdraws support. In the context of low inflation and loose monetary policy globally going forward, this has afforded the SARB the room to support the economy in absence of fiscal support.
- The ZAR was set to post gains if it wasn’t for the US Dollar which came to the fore once again after Chicago Fed President Charles Evans mentioned the prospect of raising interest rates sooner than expected. Catching the market off guard in an already risk off mood, he stated the Fed could raise rates before average inflation reaches 2%. Furthermore, he and Fed Chair Jerome Powell called for more fiscal support, implying greater importance for the economy than further quantitative easing. All in all, unexpected hawkish comments from the Fed speaker saw the USD surge ahead at the start of US trade, further pressuring emerging market currencies.
- In early trade thus far, markets have remained cautious after UK PM Boris Johnson ordered new restrictions yesterday on the hospitality industry, probably lasting six months, and urged people to work from home. The market is rightly concerned by news of further restrictions, due to the far reaching economic implications while it also raises fears that other nations will adopt similar strategies. Having said that, hard lockdowns are likely to be an early pandemic tool as governments look to avoid further economic devastation at all costs.
- It is PMI day for the day ahead, with a slate of global manufacturing indicators for September being released. The market will be looking for signs of a steady progression of economic recovery, however consensus expectations are for a topping out of PMIs, pointing to a stalling rebound in the private manufacturing sector. Ahead of the domestic Heritage Day holiday tomorrow, the ZAR will remain subject to global sentiment, while further surprises may come from a host of US Fed speakers later in the afternoon..

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