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Botswana Market Watch 22 December 2020

GMT		International and Local Data	Period	Exp	Previous
	BO	Nothing on the cards			
13:30	US	GDP q/q annualised	3Q T	33,1%	33,1%
13:30	US	Personal consumption	3Q T		40,6%
15:00	US	Consumer confidence	Dec	97,5	96,1
15:00	US	Existing home sales	Nov	6,7mn	6,85mn

Regional Developments	What happened?	Relevance	Importance	Analysis
Africa COVID-19 resurgence	The total number of coronavirus cases in Africa breached the 2.5mn mark as a second wave of infections erupts on the continent. According to Reuters data, countries such as the DRC, Nigeria, Mauritania, Ghana and Ivory Coast have witnessed a sharp rise in cases and are reporting near-record levels of infections	The spike in regional infections comes against the backdrop of a resurgence in infections in other parts of the world and a fast-spreading new strain in the UK. Fears are rising that this could stall the global recovery	5/5 (economy)	Given the fiscal constraints in Africa, most countries are reliant on the World Health Organization's COVAX programme, which aims to deliver at least 2bn vaccine doses by the end of 2021. However, according to several forecasters, it could take up to 3-4 years for African countries to receive vaccines. As such, the medium outlook for Africa remains gloomy
Commodity rally	International commodity prices are rallying as coronavirus vaccination rollouts boost optimism that demand would improve markedly next year. Weakness in the USD also providing support for commodity futures	The Bloomberg Commodity Index reaches to its highest level since 2014 with the rollout of COVID-19 vaccinations and the transition to a new US president well underway	4/5 (economy, commodity)	Copper, which is often used as a proxy for the health of the global economy, is surging, while oil is rebounding from the devastating effects of the virus containment measures. Meanwhile, extreme weather conditions and robust Chinese demand are driving up international crop prices
Capital flows	Emerging market capital flows continued to recover last week supported by improved global risk appetite and heightened dollar liquidity. The Bloomberg Emerging Market Capital Flow Proxy rose to its highest level since the start of the pandemic in March	The recovery in appetite for higher beta assets bodes well for African assets as investors go in search for yield. The recovery in sentiment has provided a tailwind for bonds in particular	4/5 (markets)	With the uncertainty pertaining to the US elections now out the way against the backdrop of positive COVID-19 vaccine signs, we expect risk sentiment to remain elevated. That said, the resurgence in infections in Europe and the US are dampening the recovery in demand for higher beta assets

Global Developments	What happened?	Relevance	Importance	Analysis
US Relief Bill	Congress has eventually voted and approved a $892bn Covid-19 relief package and has sent it to President Trump to sign to offer relief after months of negotiations	This will bring much support to households that have yet to recover their full earning stream	4/5 (economy)	The package includes a $600 payment to most Americans as current support is set to expire on Sunday. This will ease the pressure for household for a little longer while vaccines are deployed.
EZ consumer confidence	Consumer confidence recovered a little further in Dec to -13.9 from a reading of -17.6 in Nov. This was slightly better than anticipated	The recovery came despite the resurgent virus suggesting a recovery is gradually gaining traction	3/5 (economy)	Although good news, the Jan number might slip back given the cancelling of Christmas mobility and the stricter lockdown regulations that were announced later in the month
UK retail sales	Ahead of the most recent restrictions, Britain was on a stronger recovery path and sales through Dec's measurement period with the balance rising to -3 from -25 in Nov	Encouraging that there is still scope for such a strong recover. However, it will most likely not be sustained	3/5 (economy)	The deterioration in the outlook for Jan was even more dramatic than the recovery noted through Dec with a reading of -33 anticipated. This is to be expected given the imposition of tier 4 restrictions across many parts of the UK

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2967	1.4228	1.3217	1.4091
BWPUSD	0.0886	0.0968	0.0903	0.0959
GBPBWP	15.1054	13.7888	14.7786	14.0760
BWPEUR	0.0725	0.0794	0.0742	0.0778
JPYBWP			9.3731	9.8189
USDZAR	14.0482	15.2500	14.3774	14.9201
EURUSD	1.1740	1.2719	1.2015	1.2444
GBPUSD	1.2865	1.3942	1.3166	1.3641

Benchmark Yield Curve

6m	1.2450
3y	3.8750
5y	5.0250
9y	5.2750
22y	5.9250

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-1.9110	0.0000
3m	-5.7720	0.0000
6m	-12.7189	0.0000
12m	-28.2848	0.0000

Equities / **Economic Indicators**

BSE Domestic Index	6888.69	GDP	-24	Bank Rate	3.75
BSE Foreign Index	1547.28	CPI	2.2		

- Local news flow has dried up however internationally all eyes are on the United Kingdom and the new strain of COVID-19 which is currently causing most of the world to shun both goods and people emanating out of the region. Tourism operators across the region will be keeping a close eye on developments here as the United Kingdom remains one of the top sources of tourism for Botswana. It is unlikely that there will be much movement between the two countries over the coming months.
- This morning, the WHO's statement that the new variant is not out of control and that the fatality rate is no different has calmed markets. The vaccines remain effective as they deal with the core of the virus, which remains unchanged. That being said, the WHO did indicate that actions should be taken to curb the spread of the virus. Those actions have already materialised and are factored into market prices. There may be more left to price in, but for the most part, the initial shock will now subside, and movements from here on out will likely be less extreme than the movement we saw on asset prices yesterday.
- It ultimately changes very little. The vaccines still need to be released and rolled out through countries. To this end, more good news was received yesterday with the European Commission clearing the Pfizer-BioNTech vaccine for distribution. The mass roll-out is expected to begin on Sunday this week with some 300mn does ordered by the EU. Front-line workers and the vulnerable will be the first to receive their vaccines, while we await the distribution and clearance of more vaccines for mass inoculation. They will be coming on stream in the coming months to mark the beginning of the end of this pandemic.
- However, as we head into the end of the year, thinner market liquidity conditions will ensure that volatility levels could remain elevated and the markets might well respond in a disproportionately way to any surprise news that is released, both good or bad.
- Given this backdrop we would suggest that corporates exhibit caution as we enter the final weeks of 2020. We remain strategically bullish on the Pula however there may be periods of volatility over the coming days as the macro backdrop adjusts to the various drivers which include the rise in COVID-19 infections and the US stimulus package.

ZAR and Associated Comments

- Risk off trading conditions prevailed yesterday, exacerbated by holiday-thinned trade and a shortened trading week, as new COVID-19 variants emerging prompted travel bans against the UK and South Africa. With investors looking to take risk off the table in the remaining few weeks of the year, low liquidity will make for a volatile end to 2020, especially for the ZAR.
- This was highlighted yesterday as the ZAR kicked off the session slightly worse than Friday's close of 14.5400/$ and sold off to around the 14.90/$-handle, some 2.5% weaker in intraday trade. The local unit was not alone as investors flocked into the US dollar, with the British Pound weakening 1.23% yesterday as the UK battles its second wave, while the oil-exposed Russian Ruble fared the worst in the emerging market currency space as it weakened close to 2% on sliding crude prices.
- However, many investors saw the dollar's rebound yesterday as an opportunity to buy in to overall USD-bearishness expected to persist into 2021. As a result, volatility failed to subside during US trade and the USD was whipsawed against a basket of currencies, ending the day marginally stronger. This allowed the ZAR to claw back hard-fought ground as the unit moved in lockstep with the US dollar index (DXY). Ultimately, the local currency closed slightly weaker at the 14.56/$-handle, however yesterday's moves underscore the type of volatility one can expect in such a loose global monetary environment.
- Domestically, South Africa's end to 2020 may not be as festive as many had hoped with a number of private hospital operators warning of severe capacity constraints. There is still a slim chance we will see the hard lockdown of earlier this year, but SA's second wave will keep the market sentiment cautious of domestic risky assets. As such, the ZAR remains pressured as it has traded more than half a percent weaker today thus far. For the day ahead, November's budget balance is scheduled for the domestic data card which is unlikely to hold anything in the way of positive news with the fiscus still prone to further funding shortages in light of the long-term damage to many industries caused by COVID-19 containment measures. Externally, the market may look to consumer confidence data out of Germany and the US later today, however with sentiment remaining cautious during Asia-Pacific trade, today's moves will largely be dependent on liquidity and may be hampered by low risk appetite.

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