

Botswana Market Watch

23 December 2020

GMT		International and Local Data	Period	Exp	Previous
	BO	Nothing on the cards			
13:30	US	Durable goods orders m/m	Nov P	0,6%	1,3%
13:30	US	Initial jobless claims	Dec 19		885k
13:30	US	PCE core y/y	Nov	1,4%	1,4%
14:00	US	House price index m/m	Oct	0,5%	1,7%
15:00	US	Michigan consumer confidence	Dec F	80,9	81,4
15:00	US	New home sales	Nov	990k	999k

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 money market funds	A report released by the Treasury Department yesterday suggested that reforms were needed to money market fund regulations after big outflows were reported at the onset of the pandemic	The report no doubt seeks to mitigate the risk of inducing another credit crunch as was experienced in 2009 post the GFC	3/5 (economy)	Specifically, the Treasury would like to reduce the potential for structural vulnerabilities which hold the potential to exacerbate a difficult situation in funding markets as would typically occur through an unexpected economic shock
UK border	France will reopen its border to Britain, thereby ending the UK's isolation from the rest of Europe. Travelers will have to test negative before they can return.	There will be a knock-on implication for growth through Q4 as the processing of cargo will be delayed	3/5 (economy)	This is in response to news of a highly transmissible variant being discovered in the UK, that appears to be spreading far more rapidly than the initial virus. The disruptions remain highly restrictive
US infections	US citizens have been warned not to travel for Christmas as it notches up more than 1mn infections in six days and new infections continue at a rate of close to 200k per day	Hospitals, especially in California are inundated and spare capacity continues to drop to dangerously low levels	4/5 (economy)	Fortunately, deaths have not risen as rapidly and treatment protocols have improved to mitigate the worst case scenario. Nonetheless, this surge in infections will hammer an economy already struggling to gain traction

Local FX Opening Rates and Comment

	CUSTOMER BUY	CUSTOMER SELL	CUSTOMER BUY	CUSTOMER SELL	Benchmark Yield Curve		Forward Foreign Exchange			
	CASH	CASH	TT	TT						
BWPZAR	1.2967	1.4165	1.3217	1.4029	6m	1.2460		BWPUSD	BWPZAR	
BWPUSD	0.0885	0.0965	0.0902	0.0956	3y	3.8750	1m	-1.8233	0.0000	
GBP/BWP	15.1172	13.8600	14.7902	14.1488	5y	5.0250	3m	-5.2260	0.0000	
BWPEUR	0.0726	0.0791	0.0743	0.0776	9y	5.2750	6m	-12.9724	0.0000	
JPY/BWP			9.3731	9.7680	22y	5.9250	12m	-28.8161	0.0000	
USDZAR	14.0641	15.2634	14.3937	14.9331						
EURUSD	1.1700	1.2677	1.1975	1.2402						
GBPUSD	1.2862	1.3938	1.3164	1.3637						
					Equities		Economic Indicators			
					BSE Domestic Index	6886.67	GDP	-6%	Bank Rate	3.75
					BSE Foreign Index	1547.28	CPI	2.20%		

- The highlight of the trading session was the release of the 3Q GDP reading. The economy contracted by some 6% compared to the same period last year but this was substantially better than the contraction of 24% in the previous quarter. Mining, the largest earner for the fiscus contracted by 15.2% year on year versus -60.5% in Q2 while Gross Fixed Capital Formation contracted by some 9.5% in the measurement period. The broader take home is that the economy started opening in the 3rd quarter of a hard lockdown which all but stopped economic activity in Q2. Site sales for diamonds, the largest foreign currency earner have rebounded in the second half of 2020 however De Beers has warned that the diamond market is not out of the woods.
- Looking ahead, the government is making strides at diversifying the economy, granted this is a process, but Botswana's fiscal position is still stronger than most of its SADC peers and its credit rating reflects this.
- Moving over to international markets we focus first on metals. Base metal counters have focused on the potential for another economic contraction as a result of a more infectious strain of COVID-19 rearing its head in the United Kingdom. Actions by policymakers have been swift but there will be an undoubted impact on the EU/UK as travel and trade has come to a standstill over the past couple of days. Granted France has agreed to allow freight etc, but the damage to sentiment has been done.
- 3m LME Copper continued to fall shedding some 0.2% to \$7729/tonne by 05:00 am local time, while 3m LME Nickel fell to a level last seen on Dec 8 at \$16295 tonne, down some 1.9% on the session.
- Ahead of the last full trading day of the week, the USD has come off yesterday's session highs overnight, while Asia/Pacific trade has been buoyant with Asian equities set to snap a string of losses this week. On the US stimulus front, President Trump has threatened to not sign the \$892 billion relief bill already passed by the House of Representatives and the Senate, as he calls for an increase in the amount of stimulus checks to individuals. With a muted reaction in FX markets, this suggests the market still expects some form of relief package to be passed in the near term.
- The local unit remains almost unchanged in holiday thinned trade. We expect the BWP-USD to hold through the 0.0900 mark and would be buying on any dips on both a tactical and strategic basis.

ZAR and Associated Comments

- The ZAR closed weaker for a second day, down 0.7% from the previous day's close, as heightened risk aversion stemming from new COVID-19 variants and fresh travel bans kept the US dollar buoyed against most major currencies. An index gauge of US consumer confidence released yesterday fell to a four-month low in December, leading investors to consider the implications which lie ahead as global leaders look to tighten restrictions on trade and travel from countries battling with new virus variants.
- The ZAR did, however, show tentative signs of appreciation in intraday trade yesterday, suggesting there remains a bullish impetus in the short term. Though, further upside for the local currency may have to wait until after the festive period where heavier trade will alleviate often exacerbated moves due to heightened volatility at this time, as well as low liquidity. With investors looking to take risky positions off the table, a rebounding USD ultimately constrained the ZAR and moves passed the 14.55/\$-handle could not be sustained, leading the unit to close near its intraday high around 14.66/\$.
- Locally, the Department of Health said in a statement yesterday that it had made the payment to access vaccines from the Covax program. The down payment comes in at \$19.2 million, representing 15% of total cost of purchasing the vaccines. With vaccines seen as key to the end of the pandemic and associated lockdown measures, securing vaccine access plays a major part in a speedier economic recovery and improving market sentiment towards domestic assets. This is one hurdle out of the way, however a costly one and one which South Africa has limited ability in affording as the past decade of budget mismanagement and malfeasance rears its head as the country's fiscal shortcomings become evident.

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