Botswana Market Watch 24 December 2020

GMT		International and Local Data	Period	Exp	Previous
	BO	Nothing on the cards			
		Early close on most markets for Christmas			

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 data	Data released yesterday were a mixed bag. Although jobless claims fell 89K yo 803k, consumer spending and personal income fell, while new home sales also dove 11% in Nov	It is clear as we get into the end of the year that the economy is losing some traction as infections spike	**3/5** (economy)	There is likely to be a sharp slowdown in growth through Q4. Statistically this was going to be the case q/q given the strong growth recorded in Q3. However, the slowdown is likely to be more fundamental than that
US vaccinations	In a sign of just how challenging it will be to achieve herd immunity, the US has vaccinated just 1mn people out of a goal of 20mn by December	All signs are that vaccination distribution will ramp up as logistics become more efficient	**3/5** (economy)	There is still a week to go before the end of the year and the gap will narrow, but it is clear that this is a large logistical undertaken that will take time to perfect. Distribution will improve with time, but may be slower than expected
EZ bond yields	News that a Brexit deal might still be achieved has resulted in bond yields rising off their recent lows. Any rise will however be contained by soft inflation and the ECB's QE efforts	Bond yields will be allowed to rise, but not too much as it could raise funding pressures for governments	**2/5** (economy)	Europe's economic recovery is under threat by the resurgence in the virus. A Brexit deal would be welcome news and remove at least one major headwind that could be avoided. A stronger growth environment is being priced in

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2940	1.4121	1.3189	1.3985
BWPUSD	0.0887	0.0967	0.0904	0.0958
GBPBWP	15.2511	13.9830	14.9211	14.2743
BWPEUR	0.0727	0.0792	0.0744	0.0777
JPYBWP			9.4025	9.7985
USDZAR	14.0039	15.1835	14.3321	14.8550
EURUSD	1.1717	1.2694	1.1991	1.2420
GBPUSD	1.3004	1.4092	1.3309	1.3787

Benchmark Yield Curve

6m	1.2445
3y	3.8750
5y	5.0250
9y	5.2750
22y	5.9250

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-1.8818	0.0000
3m	-5.8646	0.0000
6m	-12.9431	0.0000
12m	-28.7674	0.0000

Equities

BSE Domestic Index	6887.82
BSE Foreign Index	1547.28

Economic Indicators

GDP	-6.00%	**Bank Rate**	3.75
CPI	2.20%		

- News vendors in the United Kingdom have been pointing to South Africa as the source of a new more infectious strain of the COVID-19 virus. Given the proximity of Botswana to South Africa it is not surprising that stricter measures have come into force over the Christmas period to contain any potential spread of the virus President Mokgweetsi Masisi speaking on national television last night announced a 11-day curfew. "*I wish to inform you that the government has taken a decision to impose a curfew from 7 p.m. to 4 a.m. local time, from Dec. 24, 2020 to Jan. 3, 2021, in order to protect this nation from the impending catastrophe,*" *he said. This means that there shall be no movement of people and security forces will enforce a curfew, said Masisi, adding that all non-working people will be required to stay at home, except those who go out to buy groceries and seek medical attention.*
- Records show that Botswana has registered a total of 13622 coronavirus cases with 11147 recoveries and 38 deaths.
- Major and developing market currencies notched higher against the USD yesterday despite President Trump following through on his veto threat to block the current relief bill in favour of higher unemployment payments to households and individuals, amongst other changes. Furthermore, stateside initial jobless claims fell last week but remain elevated, while consumer income and spending fell more than forecast in November, underscoring the need for more stimulus to boost the economy's slowing recovery.
- With the dollar remaining subdued, investors expect the bill to be passed in some form or larger payments may be left up to next year's administration assuming Congress can override the veto. However, overshadowing this and pressuring the dollar to a larger degree are Brexit proceedings where lawmakers are reportedly close to finalising a deal, but no official word has been given as yet.
- In FX markets as a result, the USD fell as much as 0.5% before paring losses, driven mainly by strength in the Pound which ended close to 1% up against the greenback. The ZAR managed to capitalise on broad USD weakness, gaining 0.46% to close around 14.60/$, and bested only by the Russian Ruble and Chilean Peso in the emerging market sample on the day.
- 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

- Although year-end uncertainties such as the possibility of a no-deal Brexit, US stimulus package delays and new coronavirus strains have hampered global market sentiment, a relatively steady ZAR highlights the resilience the currency is currently enjoying, given the sell-off to around the 14.90/$-handle earlier this week and subsequent recovery. Despite choppy trade due to low liquidity and participation at this time of year, South Africa's relatively higher real yields remain attractive to foreign investors, keeping the currency bid currently, which has spurred the ZAR on to a quarterly gain to date against the US dollar in the region of 15%. Additionally, what does remain certain for many investors is underlying dollar weakness expected to persist into 2021 in spite of more delays to a supplementary US fiscal stimulus package.
- For the day thus far, the Pound has extended gains as it appears a trade deal with the EU is imminent according to media reports. In the emerging market space, moves have been somewhat muted, indicative of thin trade which will likely be the order of the day with early market closes for the European and US sessions. The latest on the domestic COVID-19 front, the UK has moved to suspend travel and arrivals from South Africa after South Africa's new COVID-19 strain was detected in Britain. However, given the muted reaction thus far to travel bans and ongoing dollar weakness, the ZAR will likely remain within or close to its current 14.50-14.70/$ range in holiday-thinned trade.

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

Report produced by ETM Analytics for BancABC Botswana.