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Botswana Market Watch 1 December 2020

GMT		International and Local Data			
	BO	Nothing due for release			
08:55	GE	Markit/BME manufacturing PMI	Nov F	57,9	57,9
09:00	EZ	Markit/BME manufacturing PMI	Nov F	53,6	53,6
14:45	US	Markit PMI manufacturing	Nov F	56,7	56,7
15:00	US	ISM manufacturing PMI	Nov	57,8	59,3

Regional Developments	What happened?	Relevance	Importance	Analysis
SSA debt markets	Several African nations, including Ghana and Kenya, are planning to tap international debt markets as investor sentiment towards the region improves. Ivory Coast's recent Eurobond issuance 5 times oversubscribed	Fitch said that weaker-rated SSA nations may face higher funding costs than before the pandemic, which could discourage their return to markets	4/5 (fiscal)	Namibia, Nigeria and South Africa will likely roll over maturing bonds in 2021 when they fall due. Ivory Coast, Ghana and Kenya are also expected to return to the markets in 2021, with a possibility that other issuers, such as Benin, could join them according to Fitch
African governance worsens	The Ibrahim Index of African Governance, which rates 54 African nations on security, human rights, economic stability, just laws, free elections, corruption, infrastructure, poverty, health and education, showed that Africa's governance performance has worsened	The 2019 African average score for overall governance fell by -0.2 points when compared to the previous year, registering the first year-on-year decline since 2010	3/5 (economy, governance)	The report highlighted that while Africa has been spared infections on a scale seen in many other regions, the virus has nonetheless highlighted gaps in African healthcare systems. Moreover, it has contributed to a declining democratic environment, increasing food insecurity, as well as instability and violence
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
RBA	As anticipated, the RBA kept its rate unchanged at 0.1%, with the CB adding that it is not expecting to raise the rate for at least three years. RBA prepared to do more asset purchases if necessary	This is a very clear and unequivocally strong guidance from the RBA that they will use monetary policy to reflate	3/5 (economy)	Notwitstanding the view that the economic recovery is under way, the RBA still felt it important to offer ongoing support for the economy over a prolonged period of time, especially as the labour market remains soft
Japan manufacturing	Jibun Bank manu PMI rose to 49.0 in Nov from 48.7in Oct. Although still contracting for the 19th consecutive month, there was still some improvement	Stabilisation remains elusive for now. Fiscal and monetary stimulus must continue	4/5 (economy)	Orders and production remain under pressure and that is the biggest drag on normalisation of activity. Output and new orders continued to fall for the 23rd consecutive month
UK housing	UK mortgages reached a 13 year high in Oct according to data from the BoE, confirming that there has been no slowdown in the number of mortgage applications	This remains a function of the tax breaks in transfer duties that have boosted demand	4/5 (economy)	Beyond the housing market, borrowing for consumptive purposes remains constrained as households remain more conservative in their assessment of the economic outlook

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.3295	1.4519	1.3551	1.4380
BWPUSD	0.0863	0.0941	0.0880	0.0932
GBPBWP	15.4600	14.1751	15.1255	14.4704
BWPEUR	0.0722	0.0787	0.0739	0.0772
JPYBWP			9.2257	9.6154
USDZAR	14.7889	16.0435	15.1355	15.6964
EURUSD	1.1478	1.2438	1.1747	1.2169
GBPUSD	1.2828	1.3899	1.3129	1.3598

Benchmark Yield Curve

6m	1.3845
3y	2.9850
5y	3.9050
9y	4.7150
22y	5.2650

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-2.0670	0.0000
3m	-5.1285	0.0000
6m	-12.2948	0.0000
12m	-27.3780	0.0000

Equities

BSE Domestic Index	6864.91
BSE Foreign Index	1547.28

Economic Indicators

GDP	-24	Bank Rate	3.75
CPI	2.2		

- With Botswana's borders opening fully we expect the economy to continue repairing itself post the hard lockdown which saw the quarter two GDP figure contract by some 24%.
- We still maintain that Botswana is going to be the investment destination of choice in the region as it builds out its infrastructure. There is the expectation of new investment programmes on the horizon, which are aimed at attracting foreign investment. One such programme would allow mining companies the ability to write off costs of unprofitable ventures. The Chamber of Mines has already alluded that the government will be taking steps to protect investors.
- Tourism is likely to take longer to recover as travel concerns remain and a COVID-19 vaccine is not yet widely available. Some analysts are pencilling in 2024 as the time when we will see pre-COVID-19 tourism contributions to the economy.
- Moving over to global financial markets we see risk on a major factor over November. Sentiment across US markets remained generally more upbeat, notching up a spectacular 11.8% gain on the Dow Jones, 10.8% on the S&P 500 and another 11.8% on the Nasdaq composite during the month. It has been an historically strong month and one that continues to reflect the effect of distortion brought about by an enormous amount of monetary and fiscal stimulation that has been injected into the US economy over a very short space of time. The combination of the election event passing with a result that many felt could stabilise the political climate and some positive Covid-19 news concerning vaccines has bolstered overall market sentiment.
- In terms of metals, while gold languished in November the opposite was true for copper which continued to post new highs on the macro outlook for China remained strong and the rest of the world looked to rebound from an economic perspective in 2021 driven by the COVID-19 vaccine.
- These gains are set to continue as the stars align. Investors are expecting copper to reach new highs in 2021 with low inventories, a deficit market and strong macro support factors all joining forces to underpin the bullish narrative.
- Moving over to the FX markets, as investors consider the real prospect of even more monetary easing, the USD remains vulnerable to further selling. The general bias has been weaker for the USD and it is likely to remain that way for the foreseeable future. Not only is the Fed remaining ultra-accommodative, but the fiscal authorities are expected to open up the taps within the next month to further raise the budget deficit and strengthen the argument against any long USD position. For the time being, the USD is set to remain under pressure.
- The BWP-USD is presently oscillating around the 0.0900 mark as we enter the start of the EU session. We remain steadfast in our view of buying on any dips approaching 0.0890 in the interbank market.

ZAR and Associated Comments

- The US Dollar received a slight boost as November came to an end yesterday with month end rebalancing driving demand for the greenback during the day. The USD closed higher against most major currencies, while emerging market currencies were similarly out of favour at the start of the week. The ZAR finished the day at the bottom of the EM sample, -1.30% weaker, as the local unit retreated back towards the 15.50/$-handle. The ZAR ultimately closed just shy of the 15.45/$ mark, however up some 5% against the USD over the course of November.
- Domestic data yesterday painted a mixed picture, doing little to revive sentiment towards the local currency seen through most of November. M3 money supply growth surprised to the upside in October, rising 9.83% y/y, while private sector credit extension (PSCE) increased 3.24% y/y. There may be scope for inflation to rise in the future, but despite the increase in PSCE, it remains heavily depressed compared to pre-pandemic levels. Thus, it appears limited new money is entering the system from the private sector, with the surge in money supply this year mostly due to increased government borrowing. If private sector spending picks up, however, there are still upside risks to inflation and the SARB may be required to step in sooner than expected.
- The SARB, however, seems to be erring on the dovish side with a speech published yesterday by Deputy Governor Cassim indicating that another rate cut in the current cycle is not outside the realm of possibilities as he reiterated the repo rate is not yet at the lower bound of its policy framework. The SARB also maintained that asset purchases at start of year were not quantitative easing due to the intention of easing market dysfunction and not for stimulating the economy. Viewed in this light, the SARB has left room in the tank for more conventional policy easing should it be deemed necessary.
- Further data yesterday was the country's trade balance which, through the current account, continues to support the ZAR's appreciation since April's sell off. October's trade balance came in well above expectations, rising to R36.13 billion. Given SA's weak consumptive dynamics at present, the trade surplus is likely to remain intact going forward through higher exports. Government budget statistics, however, continue to weigh on sentiment as the budget deficit continued for the eighth straight month in October. The year-to-date deficit doubles that of 2019's, reflecting the accelerated deterioration in SA's fiscal metrics and depressed state of tax revenue. With government needing to increase borrowing to cover the shortfall, this will see interest payments take up an increasingly large part of spending, further sapping SA's economic growth potential.
- The heavy domestic data week continues in the day ahead with Naamsa vehicle sales and the Absa manufacturing PMI print. In early trade this morning, sentiment was given a boost during the Asian session with positive China PMI data, while the USD has come under renewed pressure as investors count on more Fed easing this month. A slew of global PMI data is scheduled for release today, notably in the US and Eurozone, while the market will turn to talks from central bank leaders this afternoon. The US Fed's Powell will appear before congress today and will be closely watched for any hints as to next moves by the Fed with its policy setting meeting scheduled for the middle of December..

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