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Botswana Market Watch 2 December 2020

GMT		International and Local Data			
	BO	Nothing due for release			
10:00	EZ	PPI y/y	Oct	-2,3%	-2,4%
10:00	EZ	Unemployment rate	Oct	8,4%	8,3%
12:00	US	MBA mortgage applications	Nov 27		3,9%
13:15	US	ADP employment change	Nov	430k	365k

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
Aussie Q3 GDP	Although the annual growth is still negative at -3.8%, Q3 GDP accelerated to 3.3% q/q vs market expectations of 2.6% with the RBA governor anticipating a "solidly positive" Q4	Consumer spending, supported by very loose monetary policy offered the economy some strong support through Q3	3/5 (economy)	Household spending expanded by 7.9%, assisted by ultra-loose monetary policy and supportive fiscal policy aongside that. The degree of contraction for the year as a whole will shrink even further should Q4 impress.
US manufacturing	The ISM manufacturing index may have fallen 1.8 points in Nov, but remains comfortably above the breakeven 50 index reading, while construction spending rose 1.3% in Oct	absenteeism at factories was to blame and that was a function of the resurgent virus which discourages workers	4/5 (economy)	Although still firmly in expansion territory, investors will be fearing the slowdown in activity and if it represents the start of the negative impact the resurgent virus will have on overall economic activity
EZ deflation	EZ prices fell by more than anticipated in November, mainly the result of the sharp moderation in energy costs a flash estimate from Eurostat showed on Tue	This marks the fourth consecutive month of y/y deflation and will be something the ECB highlights as a growing concern	4/5 (economy)	Deflation in such an indebted environment is indeed troubling as it inflates the real value of that debt, to render the region even more vulnerable as the servicing of that debt becomes difficult despite low rates

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.3241	1.4433	1.3496	1.4294
BWPUSD	0.0868	0.0946	0.0885	0.0937
GBPBWP	15.4400	14.1719	15.1060	14.4672
BWPEUR	0.0718	0.0783	0.0735	0.0768
JPYBWP			9.2650	9.6561
USDZAR	14.6473	15.8775	14.9906	15.5340
EURUSD	1.1596	1.2563	1.1868	1.2291
GBPUSD	1.2882	1.3958	1.3184	1.3656

Benchmark Yield Curve

6m	1.3840
3y	2.9850
5y	3.9050
9y	4.7150
22y	5.2650

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-2.0573	0.0000
3m	-5.8890	0.0000
6m	-12.5580	0.0000
12m	-28.4993	0.0000

Equities

BSE Domestic Index	6866.94
BSE Foreign Index	1547.28

Economic Indicators

GDP	-24	Bank Rate	3.75
CPI	2.2		

- This morning we have received news that the ASX listed Sandfire Resources will be moving forward with the $259m development of the T3 Motheo copper/silver project following a feasibility study on a base case of 3.2mn tonnes a year operation. Mining Weekly reported the following - *Sandfire MD and CEO* ***Karl Simich*** *says the decision to proceed with the investment in a new, long-life copper production hub in Botswana marked a pivotal moment in the company's transformation into a global, diversified and sustainable mining company. "Today we have given the green light to the development of a new, long-life copper operation based on the T3 openpit, which we envisage will become the core of our Motheo Production Hub – a new copper production hub in the central portion of the world-class Kalahari copperbelt, where we have a dominant 26 645 km^2 ground-holding in Botswana and Namibia. "This is, in effect, the dawn of a new global copper province – as evidenced by the scale of the new underground mining operation currently being constructed immediately to the north-east of our project by Cupric Canyon Capital at its Khoemacau project,*" *he comments.*
- Mining and infrastructure programmes will be the bedrock from which Botswana pivots to a new more diversified economy. It currently has the fiscal resilience as well as economic dynamism which many international investors are seeking given that many of its neighbours have severe fiscal constraints.
- International news flow was focused on the US.
- Some attention will shift away from the politics and back to the data as the release of the Fed's latest iteration of the Beige Book gives a clearer overall perspective on broad-based economic activity. The data will likely show an improvement; however, it predates the latest surge in infections and the impact this will have on dampening overall economic activity. Against this backdrop, Fed Chairman Powell's comments will be considered, although his views by now are well known. The Fed will persist with its ultra-accommodative stance through most of 2021 and will keep interest rates low and asset purchases for as long as it takes to help the economy recover.
- Amongst his comments, Fed Chairman Powell has made it clear that the economy requires more assistance and to this end, US Senators have announced a bi-partisan $908bn stimulus deal to further contribute to the support for the economy. The deal has thus far been rejected by Senate majority leader McConnell who favours the passing of a spending and pandemic relief bill all in one, as opposed to passing this bill and returning to negotiations to avert a a government shutdown that looms large post the 11th Dec cut-off date, by when funds run out.
- The first of the three labour market indicators will be released today in the form of the latest private sector ADP data. Notwithstanding the resurgence in COVID-19 infections and absence of additional fiscal stimulus, expectations are that the US companies added half a million jobs to the US economy in November, up from 365k in the previous months. Although consensus expectations suggest that the recovery in the labour market likely gained momentum in November, we expect that certain sectors such as service providers, including travel, hotel and restaurant industries, remained under pressure. There are, therefore, downside risks to this release, especially considering some of the recent initial jobless claims' releases. Going forward, with political uncertainty in the US easing, the probability of a new stimulus package is becoming more likely. If passed by Congress, this should provide a substantial boost to the economy, and as a result, the labour market, in the months ahead.
- Yesterday the USD performed poorly. It traded to a two-and-a-half year low and showed clear signs of weakening further. Amongst the many developments being watched, the resumption of negotiations for a stimulus package coupled with the process to avert another government shutdown are all working against the USD that remains hampered by some major imbalances. Investors clearly remain sceptical of the progress that could be made ahead of the 11th Dec deadline to avert a shutdown and are positioning for another example of brinkmanship between the Democrats and the Republicans.
- The BWP-USD is presently anchored above 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 given the backdrop of a weaker USD both from a tactical and strategic perspective.

ZAR and Associated Comments

- Risk assets received a boost as the market continues to see impending USD weakness with likely fresh fiscal stimulus and expectations for more monetary easing from the Fed at its next meeting. Emerging market currencies posted notable gains yesterday with the ZAR amongst those gaining in excess of a 1% against the USD on the day. The local unit ultimately closed around the 15.25/$-handle as it reversed Monday's losses.
- In terms of local data, the Absa manufacturing PMI fell far more than anticipated in November to 52.6 from 60.9 in the prior month. This missed consensus expectations of a less pronounced fall to 60 and, although still in expansionary territory above the 50-mark, the fall suggests that the recovery is losing steam despite November being the first full month the manufacturing sector was operating under level one restrictions. Contrarily, Naamsa vehicle sales came in stronger than expected, recording a 12% contraction y/y in November, beating survey expectations of a 20.8% contraction and the prior month of 25.4%. It should be noted, however, that vehicle sales have contracted on an annual basis for the past 11 months, highlighting persistently weak levels of domestic demand amid depressed consumer and business confidence.
- As many sectors begin approaching pre-pandemic kevels, we should see some moderation in these metrics going forward. In addition, second waves of infections globally may contribute to weaker levels of demand and production. All in all, capital investment and spending on big ticket items may take longer to recover from here on out, while manufacturers' outlooks will likely moderate too dragging down the PMI figure, especially in absence of essential structural reforms to aid the business environment.

- While growth enhancing reforms are key to the country's economic recovery, allowing government revenue to pick up once again, stabilising government debt levels remains a vital focus for National Treasury at present. The ability of government to consolidate public spending is crucial in that regard, a stepping stone for further political will to do so being the current ongoing civil servant wage dispute. Yesterday, government asked labour unions for a postponement of the court case to February 2021, reportedly for the parties to seek a settlement. With labour unions declining this, the hearing is scheduled for today. If government is forced to abide by previously agreed wage increases, the outcome of the dispute will confirm concerns in recent sovereign credit rating downgrades and sacrifice further currency resilience by extension.
- For the day ahead, the domestic data card takes a break until the economy-wide Standard Bank PMI tomorrow while headlining the international data card is US employment data for November. On the US fiscal stimulus front, resumed talks between Treasury Secretary Mnuchin and House of Representative speaker Pelosi began yesterday, providing further headwinds for the USD for the day ahead..
- 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..

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

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