

Botswana Market Watch

3 December 2020

GMT		International and Local Data	Period	Exp	Previous
	BO	Benchmark Interest Rate	Dec 3	3.75%	3.75%
10:00	EZ	Retail sales y/y	Oct	2,6%	2,2%
13:30	US	Initial jobless claims	Nov 28	767,5k	778k
14:45	US	Markit composite PMI	Nov F		57,9
14:45	US	Markit services PMI	Nov F	57,6	57,7
15:00	US	ISM non-manufacturing composite PMI	Nov	56	56,6

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
Fed Beige Book	Business activity in several regions around the country have slowed through Nov as Covid-19 cases surged. The Fed's 12 regional banks described activity as either modest or moderate	This survey will hold significance when the Fed meets mid-month and will encourage the FOMC to persist with accommodation	3/5 (economy)	Against the backdrop of a resurgent virus, increased hospitalisations, and more stringent lockdown measures, the economic recovery will be a sluggish one and will justify the Fed's ultra-accommodative stance
Vaccine	The UK became the first country in the world to approve a tested vaccine, giving Pfizer-BioNTech the green light to distribute their vaccine widely	This will mark the beginning of the end of the pandemic. Vaccine to roll out next week	5/5 (economy)	Although the UK regulator has approved the vaccine in record time, the EU regulator has urged a longer approval process. The breakthrough has been well received globally
Chinese services	Growth in China's services sector through Nov soared at the fastest pace in over a decade, with the Cixian/Markit PMI rising to 57.8, up from Oct's 56.8	Business confidence had risen to the highest levels in 9 ½ years, while export business expanded	4/5 (economy)	Both the manufacturing and the services sectors are now expanding rapidly and activity levels have surpassed pre-covid levels. Employment too is increasingly solidly

Local FX Opening Rates and Comment

	CUSTOMER BUY		CUSTOMER SELL		Benchmark Yield Curve		Forward Foreign Exchange			
	CASH	CASH	TT	TT				BWPUSD	BWPZAR	
BWPZAR	1.3235	1.4477	1.3490	1.4338	6m	1.3860				
BWPUSD	0.0864	0.0945	0.0881	0.0936	3y	3.8750	1m	-1.8135	0.0000	
GBPWP	15.4671	14.1473	15.1325	14.4421	5y	4.9250	3m	-5.1675	0.0000	
BWPEUR	0.0713	0.0779	0.0730	0.0764	9y	5.3250	6m	-10.5593	0.0000	
JPYBWP			9.2355	9.6561	22y	5.8250	12m	-21.7913	0.0000	
USDZAR	14.7055	15.9440	15.0501	15.5991						
EURUSD	1.1632	1.2603	1.1905	1.2330						
GBPUSD	1.2846	1.3920	1.3147	1.3619						
					Equities		Economic Indicators			
					BSE Domestic Index	6868.79	GDP	-24	Bank Rate	3.75
					BSE Foreign Index	1547.28	CPI	2.2		

- Today we have the Central Bank pronouncing its verdict on interest rates. The current benchmark rate is sitting at 3.75% and we do not expect the Bank to make an adjustment to the rate at this time, preferring to adopt a wait and see approach into the end of 2020. The Bank has been aggressive in cutting rates this year, slashing the benchmark rate by some 100 bpts this year. Granted this has not been as aggressive as some other countries in the region but it is significant nevertheless. The last cut took place at the October meeting and was 50 bpts in magnitude.
- The country remains exceptionally prudent on the fiscal front running positive real interest rates and having low debt levels. This provides the policymakers with sufficient capacity to make further adjustments in due course should there be any other external shocks, something that many of Botswana's regional peers will not be able to tolerate with their fiscal metrics.
- International focus is spread between the United States and the EU/UK at the moment. The Brexit trade deal is very much front and centre in terms of the European backdrop as they move closer to the deadline. The general feeling is that they will achieve a trade deal in the required time, it is hard to imagine that this has been going on for 5 years already.
- A bi-partisan deal in the United States remained elusive for now, although there were signs that the \$908bn bi-partisan proposal could be gaining some traction. The \$908bn can be used as a foundation for a deal and if passed will de-risk markets. That negotiations are once again taking place should be seen as good news, especially ahead of the Dec deadline for a government shut-down which they will seek to avoid at all costs.
- In other important news, The UK became the first country in the world to approve a tested vaccine, giving Pfizer-BioNTech the green light to distribute their vaccine widely. This will mark the beginning of the end of the pandemic. The vaccine is set to roll out next week and will dial up the pressure on countries such as the US to have a similarly quick approval process to allow for mass immunisation. Although the UK regulator has approved the vaccine in record time, the EU regulator has urged a longer approval process. Investors await to see whether the US follows the UK's example or chooses to give its process more time to be certain of the side-effects of the vaccine. Nonetheless, the breakthrough has been well received globally. Financial markets have rallied and the USD will continue to lose ground as overall levels of risk appetite improve.
- For now, the USD remains under tremendous pressure. There appears to be no let-up despite the fact that investors have become more one-sided in their view of where the USD needs to go. There are good reasons to anticipate a weaker USD through 2021. Very powerful monetary and fiscal policy efforts, combined with an overvalued USD all keep the argument in favour of a weaker USD firmly intact. Selling the USD upticks for now remains the order of the day and that will likely persist for a while longer.
- 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 despite any short term weakness as the USD remains in our opinion overvalued and on track for further losses.

ZAR and Associated Comments

- It was another day in the red for the local currency yesterday as this week is set to be one of erratic trade for the ZAR, the latest headwind being reports that government may impose fresh restrictions to curb rising infections in virus "hotspots". As such, the ZAR underperformed the rest of the emerging market currency sample amidst the continuation of a global risk asset rally, the catalyst yesterday being an approval by the UK for Pfizer Inc. to begin administering its COVID-19 vaccine next week.
- Ultimately, it seemed local developments dented sentiment towards the ZAR on the day as it sunk 0.5% against the USD which continues to push lows last seen more than 2 1/2 years ago. Rising infections domestically brings the risk of more economically damaging restrictions, while sentiment was already tetchy ahead of the Labour Appeal Court hearing between government and labour unions over the public sector wage dispute. Yesterday, however, revealed no outcome on the matter as yet as the Court reserved judgement for a later date. With public sector wages having grown to take up a substantial part of the government budget over the past 10 years, wage negotiations going forward will have massive implications on National Treasury's efforts to contain rising government debt levels in the years ahead.
- In the more immediate future for the ZAR, however, barring adverse local developments on the COVID-19 front, the market appears to be awaiting for a fresh catalyst to drive positive trade with the local unit sitting firmly in the 15.20-15.50/\$ range since mid-November. The latest portfolio flows data from the Institute of International Finance showed investors poured a record \$76.5 billion into EM portfolios in November. With the ZAR partaking in EM asset gains, evident in its 5% rise over the USD in November, there is still further upside for the local unit in the event risk appetite continues to drive flows to emerging markets. Having said that, the end of the year could potentially see some derisking of portfolios, thus gains to the same extent may be somewhat more limited for the ZAR towards the end of 2020.
- Given the above, currency movements for the USD-ZAR pair will likely come from Stateside developments. There are early signs of a fresh fiscal stimulus package in the tune of \$900 billion gaining traction in the US, while the US Fed in its latest Beige Book release yesterday signalled there is no hurry to begin tapering its massive asset purchase program, spelling further downside for the USD. For the day ahead, afternoon direction may come from the latest US initial jobless claims print for last week. Ahead of that, the domestic data card holds the Standard Bank PMI this morning, which will provide an update on the economy's private sector activity in November after it moved into expansionary territory for the first time in 19 months in October. ..

Contacts

Mogamisi Nkate	+267 3674335	email: mnkate@bancabc.com
Phillip Masalila	+267 3674621	email: pmasalila@bancabc.com

Kefentse Kebaetse +267 3674336
Maungo Sebonego +267 3674338

email: kkebaetse@bancabc.com
email: msebonego@bancabc.com

Report produced by ETM Analytics for BancABC Botswana.

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