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Botswana Market Watch 4 December 2020

GMT		International and Local Data	Period	Exp	Previous
	BO	Nothing on the cards			
13:30	US	Change in nonfarm payrolls	Nov	500k	638k
13:30	US	Trade balance	Oct	$-64,8bn	$-63,9bn
13:30	US	Unemployment rate	Nov	6,8%	6,9%
15:00	US	Durable goods orders m/m	Oct F		1,3%
15:00	US	Factory orders	Oct	0,8%	1,1%

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
OPEC	OPEC and allies have agreed to raise production, but only gradually, starting with 500k bpd starting in Jan. This after days of discussions	The oil price launched higher on the news suggesting the market has expected more production	3/5 (market)	This will likely help drive the oil price back above $50bp and alleviate some of the pressure on oil producers, while at the same time allowng them to normalise production levels
US Covid-19 records	The US disappointingly set a new record for new infections which rose by more than 210k and 2,858 deaths in one day, while hospitalisations rise to 100K	Risk has risen sharply that hospitals will be overwhelmed. Fresh lockdowns in LA are being considered	5/5 (economy)	This follows the Thanksgiving long weekend which appears contributed to the spread of the virus. Such high infection rates are bound to weigh on broader market sentiment again
Brexit talks	Still no material movement in positions to speak of, with the authorities suggesting that significant divergences remain that prevent a deal from being struck	Although the core scenario is for a deal to be struck, there are only 4 weeks to go before a no-deal Brexit is implemented	4/5 (economy, politics)	Talks continue, but clearly there are hard positions with no desire to compromise up front, and then being forced to hold that position through the future. A bad deal in the beginning is a worst case scenario for both

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.3183	1.4419	1.3437	1.4280
BWPUSD	0.0870	0.0951	0.0887	0.0941
GBPBWP	15.4359	14.1228	15.1019	14.4170
BWPEUR	0.0716	0.0783	0.0733	0.0768
JPYBWP			9.2453	9.6663
USDZAR	14.5502	15.7748	14.8913	15.4335
EURUSD	1.1658	1.2633	1.1931	1.2360
GBPUSD	1.2908	1.3985	1.3211	1.3682

Benchmark Yield Curve

6m	1.2250
3y	3.8750
5y	4.9250
9y	5.3250
22y	5.8250

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-1.5795	0.0000
3m	-5.7671	0.0000
6m	-12.5531	0.0000
12m	-27.8509	0.0000

Equities

BSE Domestic Index	6870.82
BSE Foreign Index	1547.28

Economic Indicators

GDP	-24	**Bank Rate**	3.75
CPI	2.2		

- The highlight of the trading session yesterday was the Central Bank's decision on interest rates at the last meeting for 2020. As expected, the Bank decided to leave rates on hold at 3.75% after cutting by some 100 bpts throughout the course of 2020. Here are some key points mentioned by the Central Bank Governor Moses Pelaelo as reported on by Bloomberg
  - *Inflation accelerated to 2.2% in October from a record-low 0.9% in June and July. The rate has been below the central bank's target of 3% to 6% for 13 months and is forecast to be back in range by the second quarter of 2021, Pelaelo said.*
  - *New information and developments led the central bank to change an October estimate that had inflation returning within the target band by the third quarter of next year, Tshokologo Kganetsano, head of research and financial stability said. "We have had an increase in public transport fares, fuel prices and postal tariffs, while we have also seen international food prices rising," he said.*
  - *The International Monetary Fund expects the economy to contract 9.6% in 2020 before rebounding to growth of 8.7% next year. The finance ministry last month unveiled a 1.3 billion-pula ($117.8 million) business-assistance plan to help stimulate output.*
- Internationally, focus was on the United States yesterday. The $908bn bi-partisan proposal gained some traction after conservatives expressed support and Senate and House representatives met to discuss. 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 shutdown which they will seek to avoid at all costs.
- In terms of the data due for release today, US nonfarm payrolls beat expectations of a 580k rise in October, but slowed down from the prior month as a number of large-scale retrenchments were made and the lack of fiscal support kept further rehiring at bay. The extent of the virus and initial hard lockdown on the US labour market has not been undone as rehiring to date is still playing catch up with the number of jobs lost in March and April, which was in excess of 21million. The notable slack in the labour market may take time to correct amidst the uncertain economic backdrop, while delays on the US fiscal stimulus front will also increase pressure on labour market rehiring. Despite a consistent drop in the high frequency continuing claims data, the number of long term unemployed will remain elevated through Q4 as the virus' resurgence clouds the macroeconomic outlook.
- For now, no change to the general USD trend that remains overwhelmingly bearish. It is possible that today's labour and trade balance data will not be kind to the USD, especially if they disappoint. Both will however highlight the weak economic backdrop that will keep the authorities more inclined to reflate through monetary and fiscal means. Expansive policy stances will actively detract from the performance of the USD and the trend is likely to remain intact for several more months to come.
- 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

- A positive day ensued for both emerging and developed market currencies against the US dollar yesterday. This followed Wednesday's news that the UK has approved Pfizer Inc.'s COVID-19 vaccine for administration starting next week, spurring risk on trade. The ZAR jumped over 1% yesterday alongside a host of other EM currencies, adding to the local unit's erratic trade this week. Owing to local developments denting sentiment, the ZAR has posted mixed performances this week, closing in positive territory for the week at 15.18/$ for the first time yesterday.
- Meanwhile on the other leg of the USD-ZAR currency pair, the dollar remains in the doldrums as a bipartisan $908 billion stimulus package is seen to be gaining momentum in US Congress. This led to the USD index (DXY) losing roughly 0.5% yesterday, marking a continued decline of the dollar on a trade-weighted basis from its overvalued position. The DXY is on track to post its third weekly decline, currently sitting 1.2% lower from last Friday's close, and will also be the worst since the first week of November which saw the index fall close to 2%.
- As fundamentals continue to be overlooked on the ZAR-leg, the currency pair is likely to be biased to the downside heading into year end. Though, the fiscal risks which plague the currency's stability are arguably still several years out and investors are likely to soak up the relatively high yields on offer in South Africa in the meantime.
- If fiscal risks are not dealt with soon, however, local assets may underperform to some degree and risk premiums will continue to sap currency resilience. State-owned enterprises are one such area which have proved to be a continual drain on South Africa's fiscus in recent years. On that front, government is reportedly seeking $400 million for a stake in state-owned airline SAA, however at that price and without giving up some management control (as has occurred in negotiations with Ethiopian Airlines), it will be difficult to find investors for the loss-making airline given the current environment the industry faces. Therefore, the outlook is for South African tax payers to remain on the hook and, given the state of the dwindling tax base, it is becoming increasingly infeasible to fund ailing SOEs, if ever.
- On the domestic COVID-19 front, President Ramaphosa in an address to the nation last night declared some municipalities as "hotspots" and extended the state of disaster to 15 January. The tightening of restrictions in hotspot areas to curb the spread of new infections includes new curfew hours and limited gatherings. Although far from being as economically damaging as the nationwide lockdown earlier this year, this will see headwinds to localised economic recoveries remain for the private sector.
- The virus' resurgence and additional restrictions announced last night has done little for sentiment against the ZAR thus far in Asian trading. Should risk on trade persist into the last trading session for the week, the local unit may soon be testing the 15.00/$-handle. For the day ahead, the market will have US nonfarm payrolls data to digest. A weaker figure here will motivate

US lawmakers to progress with stimulus negations and will increase perceptions for the Fed to maintain its accommodative monetary policy ahead of its FOMC meeting later this month..

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