Botswana Market Watch

8 December 2020

GMT		International and Local Data	Period	Exp	Previous
	BO	Nothing on the cards			
10:00	EZ	GDP sa y/y	3Q F	-4,3%	-4,4%
10:00	EZ	ZEW economic sentiment	Dec		32,8
10:00	GE	ZEW economic sentiment	Dec	40,5	39

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
US elections	A further two bids by the Trump campaign to decertify Biden's victories in Michigan and Georgia were rejected. By today, disputes related to the election results need to have been dealt with	Further paves the way for Biden to be certified the winner, although there are still more legal challenges to come	4/5 (economy)	It is unclear whether this will be the end of the road for the Trump campaign or whether they will continue to seek relief through the courts. At this point there appears to be support for Trump's efforts to challenge the outcome
Japan stimulus	PM Suga unveiled a fresh $708bn stimulus package this morning, with the govt to craft a ¥20trln budget to fund the stimulus, to add to Japan's existing debt pile	Japan desperately needs deep rooted fiscal and economic reforms, but for now is prioritising dealing with the pandemic	3/5 (economy)	The government's bond issuance is expected to top ¥100trln for the current fiscal year. Thus far the market has taken it in its stride as they rely on the BoJ's QE power to help absorb any of the distortive effects
Brexit	Latest reports reveal that British and EU negotiators have failed to move the discussions forward and if anything are in a worse off position. There is talk that the leaders will now meet to discuss	Leaders will be the next to meet to try and break the impasse, but risk of a no deal Brexit are rising every day	4/5 (economy)	The three main issues of Fisheries, dispute resolution and a level playing firled remain unresolved. It is not clear they can be resolved without clear efforts to compromise. Neiother side appears ready to do so

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.3198	1.4415	1.3452	1.4277
BWPUSD	0.0872	0.0951	0.0888	0.0941
GBPBWP	15.3011	14.0271	14.9701	14.3194
BWPEUR	0.0719	0.0784	0.0736	0.0769
JPYBWP			9.2846	9.6764
USDZAR	14.5357	15.7714	14.8764	15.4302
EURUSD	1.1629	1.2600	1.1902	1.2327
GBPUSD	1.2821	1.3893	1.3121	1.3593

Benchmark Yield Curve

6m	1.2440
3y	3.8750
5y	5.0250
9y	5.2750
22y	5.9250

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-2.1304	0.0000
3m	-5.8013	0.0000
6m	-12.6409	0.0000
12m	-28.0946	0.0000

Equities

BSE Domestic Index	6869.63
BSE Foreign Index	1547.28

Economic Indicators

GDP	-24	Bank Rate	3.75
CPI	2.2		

- Local newsflow is on the thin side and we expect it to become even thinner as we head into the December festive period. This is however not true of the international landscape. There is a mass of news flow at the moment from US-Sino tensions, to squabbles over how and when the US stimulus package will be unveiled, the on-going election saga and a rise in COVID-19 infection rates.
- A sharp rise in coronavirus cases has led to a wave of renewed lockdowns, including the reintroduction of virus containment measures in the US state of California as well as Germany and South Korea. Hospitals in California are being overwhelmed and much of the state could face heavy new restrictions, while New York is considering a ban on all indoor restaurant dining. The fear is that the resurgence in infections will continue to accelerate without some form of response. California is in the thick of it at the moment and so it is not surprising that restaurants have been closed for normal use, although will still be allowed to offer takeout and delivery services. These fresh lockdown restrictions come as a second blow to the economy and will raise the probability of a double-dip recession through Q4 and Q1 if the lockdowns are extended for any protracted period of time. As if to highlight the point, the CDC confirmed that Covid related deaths have now risen beyond the 280k mark and could rise beyond 300k before the end of the year.
- Concerning the Trump campaign's efforts to overturn the election results, it is notable that Georgia has recertified Biden as the winner. This, followed a hand recount that was triggered by Trump. The totals differed marginally, but not to the degree that would change the outcome of the election. Once again, the assertions that the elections were tainted by fraud and vote rigging have been proven to be unsubstantiated. All disputes needed to be resolved by Tuesday at which point, the electoral college votes are certified and the winner declared. It remains unclear whether there is any other legal challenge that the Trump campaign will embark on.
- Overnight, the USD appears to have recovered off its lows and stabilised somewhat. Not to the point where it fosters confidence in the longer-term bull run, but rather that a relief rally is possible while investors price in the risk of some downbeat data through Q4 that will encourage a rotation to safety favouring the USD. That will likely be a temporary development, and one should not lose sight of the longer-term trend that remains overwhelmingly against the USD. It remains expensive, the twin deficits remain enormous and economic policies will actively debase the USD's value.
- In terms of the day ahead there is no local data to trade off so investors will focus on international developments once again. We favour buying on any dips towards the 0.0900 level

ZAR and Associated Comments

- FX markets endured mixed trade yesterday as investors grapple with rising virus cases Stateside, further restrictions being announced and the likelihood of a COVID-19 US stimulus deal before an end-of-week deadline. The US dollar gained early on yesterday against a basket of currencies, notably the British Pound as Brexit trade talks continue to lack substantial progress. This was short-lived, however, and the greenback promptly pared gains at the start of US trading.
- After trading defensively for most of the morning, the ZAR managed to secure a 0.5% gain against the dollar as the ZAR bulls took the currency to an intraday high around the 15.10/$-handle. The local unit was bested only by Russia's RUB in the EM space, as US-China tensions provided a headwind for Asian currencies on the day. Additionally, weakness in the Pound following poorer Brexit news saw the GBP-ZAR pair drop lower, just shy of 20.10/£ before trimming losses. Further downside for the GBP, in the event the UK and EU fail to reach agreements by the end of the week, could open the door for the 20.00-handle in the coming sessions as sentiment remains positive for the ZAR.
- In terms of local developments, SARB data yesterday showed gross reserves edged marginally higher while net reserves unexpectedly fell to $51.26 billion from $51.36 billion. The recent decline in the price of gold poses further downside risk to the valuation of reserves, however with a largely bearish trend for the USD underway, this will likely offset any changes in reserve valuations in the near term. Data with greater market moving potential, however, is due today with domestic third quarter GDP scheduled for this morning. Expectations are for a 54.4% q/q expansion from a 51% contraction experienced in the prior quarter. Low base effects will contribute to Q3's GDP growth and thus the headline figure is still expected to show a 7.5% contraction on an annual basis.
- Should there be a surprise to the upside in the GDP release, this could drive some notable gains in FX as well as stock markets. However, investors will also be looking ahead to whether the recovery can be sustainable. As such, the market will gauge what base the economy was put on into Q4 and year-end, which is expected to be markedly slower than last year in terms of activity from recent economic indicators.
- For the day thus far, emerging market currencies have traded on the defensive during the Asian session. US stimulus negotiations will likely drive overarching risk appetite for the day ahead with recent news that lawmakers are struggling to reach an agreement on government spending and COVID-19 relief bills. As a result the USD is bucking its recent downtrend, however this may ultimately prove temporary..

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