

Botswana Market Watch

9 December 2020

GMT		International and Local Data	Period	Exp	Previous
	BO	Nothing on the cards			
12:00	US	MBA mortgage applications	Dec 4		-0,6%
15:00	CA	Canada central bank rate decision	Dec 9	0,25%	0,25%
15:00	US	Wholesale inventories m/m	Oct F	0,9%	0,9%
15:00	US	Wholesale sales m/m	Oct		0,1%

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 over-subscribed	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
Chinese inflation	Nov's PPI data revealed a drop of 1.5% y/y and 0.5% m/m, the fastest since the pandemic began, while CPI fell 0.5% and came in unexpectedly soft. First CPI drop since 2009	Although there are signs that price pressures are rising again, they remain in deflationary territory for now	3/5 (economy)	Given the strength of economic activity, price pressures are expected to pick up steadily through the months ahead. The expectation is that the PBoC will look through the current deflationary episode to more normalised times ahead
US stimulus bill	The Trump administration proposed a \$916bn coronavirus relief package on Tuesday. Prior to this, congressional democrats had turned down a reduced plan	This new proposal is slightly larger than the bi-partisan Covid-19 relief framework and might work	3/5 (economy, fiscal policy)	The party lines are still holding for the most part and the democrats will want to do more in time. But for now, this bi-partisan plan might work and pave the way for govt funding discussions.
German investor morale	German investor sentiment rose more than expected through Dec on hopes that the deployment of the vaccine would boost Europe's economy. The improved sentiment also follows better industrial sector data	With investors looking through the current pandemic, it means that they may again be keen to invest in the future which is good for growth	4/5 (economy)	No question that the government's unprecedented stimulus efforts have also played a material role in bolstering sentiment and setting a platform from which investors sentiment can rise. This data bodes well for future investment and a stronger growth environment

Local FX Opening Rates and Comment

	CUSTOMER BUY		CUSTOMER SELL		Benchmark Yield Curve		Forward Foreign Exchange			
	CASH	CASH	TT	TT						
							BWPUSD	BWPZAR		
BWPZAR	1.2984	1.4228	1.3234	1.4091	6m	1.2450				
BWPUUSD	0.0871	0.0954	0.0887	0.0945	3y	3.8750	1m	-1.8525	0.0000	
GBPGBP	15.3397	14.0043	15.0078	14.2960	5y	5.0250	3m	-5.1675	0.0000	
BWPEUR	0.0718	0.0786	0.0735	0.0771	9y	5.2750	6m	-12.6263	0.0000	
JPYBWP			9.2748	9.7171	22y	5.9250	12m	-28.1970	0.0000	
USDZAR	14.3154	15.5160	14.6509	15.1803						
EURUSD	1.1641	1.2614	1.1914	1.2341						
GBPUSD	1.2842	1.3913	1.3143	1.3612						
					Equities		Economic Indicators			
					BSE Domestic Index	6876.57	GDP	-24	Bank Rate	3.75
					BSE Foreign Index	1547.28	CPI	2.2		

- Given Botswana's expansion into the copper sector it is worth unpacking developments in the sector from time to time
- Copper remains on track for a stellar 2020. The global bellwether for economic growth is currently underpinned by hopes of a COVID-19 vaccine creating the potential for a strong rebound globally in 2021. Adding weight to the upside bias is news that some progress has been made on the US stimulus plan front with the Trump administration proposing a \$916bn relief package yesterday.
- Keeping with the economic recovery narrative, we see China remaining the outperformer although imports of commodities into the country may slow in coming months following a strong period of restocking. It is worth noting that the Yangshan copper premium has fallen to its lowest level since Nov 30 at \$59.60/tonne which suggests a drop in demand for imported copper into China.
- Locally the opening of the borders and how travellers engage with the reality of COVID-19 restrictions and best practice over the festive period remains front and centre. There are concerns that we could see a resurgence of the virus as people become more mobile and travel throughout the end of year period. Policymakers will be vigilant as it is unlikely that a COVID-19 vaccine is widely available before the middle of 2021.
- The United States as always provides plenty of fodder for the news vendors. The Supreme Court yesterday rejected the court challenge to overturn Biden's win in Pennsylvania. The court petition brought by Rep Mike Kelly who argued that virtually all the mail-in ballots were unlawful and that the outcome should be overcome was denied. This shut down one of Trump's last hopes for a different result. As the legal challenges continue to be thrown out, so Trump's chances of re-election fade leaving him only with the option to convince Congress to void the electoral college which is highly unlikely. Beyond the 14th Dec cut-off when the Electoral College vote is finalised, the 5th January becomes the next major date when Congress meets to certify the college vote.
- The USD does not reflect any directional momentum. Although the bias is still bearish, it appears to have stalled mid-week as it awaits fresh impetus. As levels of risk appetite gradually recover alongside the deployment of Covid vaccines, the USD will likely find itself more susceptible to bouts of selling and its overvaluation at the moment will not be helping. Should equity markets continue to rise to fresh record levels, the USD will likely lose more ground in the coming weeks and months, especially with economic policies still encouraging the widening of America's twin deficits.
- In terms of the day ahead there is no local data to trade off so investors will focus on international developments once again. Casting an eye towards the local unit we favour buying on any dips towards the 0.0900 level

ZAR and Associated Comments

- South Africa's ZAR topped the emerging market basket of currencies yesterday, spurred on by a positively surprising GDP release from Statistics SA for the third quarter. The local unit's outperformance was against a broadly stronger US dollar on a trade-weighted basis, which has endured a marginal rebound off more than a 2 1/2 year low in recent sessions. Ultimately, the ZAR ended the day 0.8% stronger against the USD as it closed at the 15.00/\$-handle after trading a touch below in afternoon trade.
- Third quarter GDP results yesterday showed the South African economy grew 66.1% on a quarter-on-quarter annualised basis, which represents the growth that would be experienced if the recovery in Q3 persisted for four quarters. Non-annualised, GDP grew by 13.5% q/q after it contracted 16.6% in Q2. Nevertheless, the figure surpassed survey expectations (54.4% q/q annualised according to Bloomberg polls) by a substantial margin, giving the ZAR bulls the necessary impetus to drive the currency for the remainder of the day.
- Despite the positive economic performance in Q3, the recent imposition of virus containment measures once again in certain areas of the country brings into question the sustainability of the recovery. As such, further GDP releases will likely not have the same market moving impact, as South Africa's structural constraints come back to the fore as the economy continues to recover from the Q2 slump. A 17.1% yearly contraction was ultimately recorded at the height of South Africa's lockdown in Q2, however output remains 6% down from the same period last year. Should virus infections continue to climb and we see further restrictions imposed in the country's bigger cities, the recovery can be expected to stall from here on out. Going forward, the more permanent effects of the lockdown, being suppressed consumption amidst high unemployment and a weak business environment, will begin to be felt and South Africa may take years to get back to pre-pandemic levels of production even with the requisite structural reforms.
- In the more immediate term, emerging markets will continue to find favour in the current global monetary environment, with developed nations flush with liquidity. In the day thus far, positive risk appetite stemming from vaccine development has seen Asian shares rise to record highs, while news overnight of progress on the US stimulus front following a \$900 billion proposal from the Trump administration has equally boosted market sentiment. In the case of the ZAR, yesterday's moves have spilled over into the Asian session as the local unit extended its break below 15.00/\$. For the day ahead, more data from Statistics SA is scheduled with November's inflation data, while later on in the local session the market will have the latest SACCI business confidence indicator as well as October's retail sales figures to digest.

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Report produced by ETM Analytics for BancABC Botswana.

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