

Botswana Market Watch

10 December 2020

GMT		International and Local Data	Period	Exp	Previous
	BO	Nothing on the cards			
12:45	EZ	ECB rate announcement	Dec 10	0.00%	0.00%
13:30	US	CPI y/y	Nov	1,1%	1,2%
13:30	US	Initial jobless claims	Dec 5		712k
13:30	US	Real ave weekly earnings y/y	Nov		4,4%

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
Equity markets	Stocks have retreated off their highs and chosen to take a breather with a combination of an ugly Brexit and the delay in US stimulus talks the main driver of the sell-off	Given the rally these markets have experienced in recent months, a bout of profit taking was always possible	3/5 (economy, markets)	At the margin, this will impact on broader risk appetite and potentially translate into some profit taking across different markets. However, given the amount of fiscal and monetary stimulus applied, the trends will roll on.
US election outcome	President Trump in his personal capacity and another 17 states on Wed threw their support behind a lawsuit by Texas seeking to overturn the election results in four states	Although deemed a long-shot, it is one more legal hurdle that will need to be overcome for Biden's win to be ratified	2/5 (politics)	The lawsuit aims to target the four states, namely Georgia, Michigan, Pennsylvania and Wisconsin where mail-in ballots turned the election results around and which were overwhelmingly in Biden's favour.
US Shutdown	The house has passed a one-week stopgap spending bill that will help avert a shutdown that was due to take place on Friday this week and which will have added to the negotiation frustrations under way	Lawmakers want to include the virus stimulus package into the bill. Mnuchin has proposed a \$916bn offer, hoping to break the deadlock	4/5 (economy, politics)	The one-week extension will allow the finer details of the virus aid package to be ironed out, while avoiding the pressure and distraction that a full government shutdown would exert on the economy. The incentive for a bi-partisan deal is higher than ever

Local FX Opening Rates and Comment

	CUSTOMER BUY	CUSTOMER SELL	CUSTOMER BUY	CUSTOMER SELL	Benchmark Yield Curve		Forward Foreign Exchange			
	CASH	CASH	TT	TT				BWPUSD	BWPZAR	
BWPZAR	1.3063	1.4324	1.3314	1.4186	6m	1.2440				
BWPUSD	0.0876	0.0957	0.0892	0.0948	3y	3.8750	1m	-1.8428	0.0000	
GBPGBP	15.2488	13.9221	14.9189	14.2122	5y	5.0250	3m	-5.8744	0.0000	
BWPEUR	0.0724	0.0792	0.0741	0.0777	9y	5.2750	6m	-12.6945	0.0000	
JPYBWP			9.3534	9.7985	22y	5.9250	12m	-28.1873	0.0000	
USDZAR	14.3228	15.5360	14.6585	15.1999						
EURUSD	1.1613	1.2585	1.1885	1.2313						
GBPUSD	1.2836	1.3907	1.3137	1.3606						
					Equities		Economic Indicators			
					BSE Domestic Index	6879.18	GDP	-24	Bank Rate	3.75
					BSE Foreign Index	1547.28	CPI	2.2		

- The South Africa-Botswana political relationship has been thrust into the spotlight again over the past two days. Botswana's Director of Public Prosecutions Stephene Tiroyakgosi yesterday vowed that Botswana's justice system would continue its investigation into the South African Business women Bridgette Motsepe-Radebe who is accused of money laundering. [Please click here for the City Press article](#), another article on the subject can be viewed by [clicking here](#)
- In other local news, Si6 Metals has started its Botswana endeavours. Drilling is expected to kick off on the Maibele North nickel-copper project where a geo survey identified a deep electromagnetic target. The company's Maibele project is located on the revered Limpopo Mobile Belt in the east of Botswana.
- Copper prices have come under pressure this morning in Asia driven by a broadly stronger USD and concerns over the US stimulus package. The US House of Representatives yesterday approved a 1-week extension of the funding for the federal government to give more time for discussions.
- From an international perspective, all eyes will be on the ECB announcement later this afternoon.
- Members of the ECB have made it clear that they will be announcing additional stimulus measures at the December meeting. While there hasn't been any mention of what form it will take, it is likely to include additional bond purchases or at least an extension of the Pandemic Emergency Purchase Programme of around 12 months. The meeting will also bring with it an update on the bank's economic forecasts, with a downgrade to Q4 GDP estimates expected. The medium-term outlook, however, will likely remain unchanged. A final point will be what Lagarde and co. say about the EUR, given its recent rally. There may be some comments aimed at talking it down, but history suggests that these efforts are normally futile barring a brief reaction to the comments.
- Out of the United States, we expect the CPI reading to hold interest. After gradually recovering from the lows reached in May, Stateside inflation appears to have hit a ceiling in September at 1.4% y/y. A disinflationary print in October, is expected to be followed by another in November, reflecting diminishing demand-side inflationary pressures due to the ongoing resurgence of COVID-19 infections and consequent containment measures. More of the same is expected until such time that the US can gain control over the virus's spread, with recent progress in the development of a vaccine suggesting this may be sooner rather than later. Nevertheless, inflation is likely to remain anchored below the Fed's 2% target for some time, implying that US monetary policy will stay ultra-accommodative for the foreseeable future under the central bank's new average inflation-targeting framework.
- The USD has recovered marginally off its lows and that has coincided with equity markets taking a breather. Risk appetite has taken a slight knock and higher beta currencies have paused their gains. Today all eyes will be on the ECB decision and statement, the vaccine review in the US, the prospect of a mass roll-out to begin soon, as well as the unfolding Brexit talks which are likely to generate more news in the coming days. These developments will keep the USD underpinned for now, but the weaker USD bias remains intact and will reassert itself once event risk passes.
- Given this backdrop it was not surprising to see the BWP-USD pull back somewhat however our view remains unchanged, we favour buying the dips towards 0.0900 across the time spectrum.

ZAR and Associated Comments

- Following on from Tuesday's domestic GDP release, the ZAR continued to gain during the mid-week session yesterday as it high a 10-month high against the US dollar around the 14.88-handle. However, momentum slowed for the local unit towards the end of the day as the dollar continues to recoup recent losses. Ultimately, the ZAR secured a marginal gain of 0.12% after a late afternoon bearish drive saw it cross 15.00/\$ from the downside, settling marginally below at the end of domestic hours.
- In the case of the greenback, the currency extended its rally on a trade-weighted basis yesterday, as both the Yen and Euro weakened. The US dollar index (DXY) has now posted gains for the last four sessions as it comes off more than a 2 ½ year low. Notably, the ZAR, which has generally been moving in lockstep with the USD for some time now, has managed to gain amid the slight USD rebound. With risk appetite spurred on by vaccine developments and investors persistently overlooking worsening fiscal stances, emerging markets will continue to garner flows from developed markets.
- Thus, the ZAR still has room for further upside as it remains roughly 7% weaker year-to-date, barring another significant downturn and moderation in inflation which could prompt the Reserve Bank into more policy easing. On the inflation front, yesterday's data showed CPI grew 3.2% y/y, in line with expectations. With demand-side inflation pressure remaining weak, inflation is expected to be contained in the near term despite the SARB's rate cuts totalling 300 basis points this year. The SARB may be at the end of its rate cut cycle, but persistently weak growth and an underperforming business environment may tempt the central bank into further cuts yet. This was corroborated by the SACCI business confidence index which, despite posting a marginal rise to 93.4, remains below its decadal average of 98.2. Furthermore, retail sales figures for October released yesterday showed a monthly contraction for the first month of Q4, bringing into question the sustainability of the recovery in GDP seen in the prior quarter.
- For the day ahead, sentiment remains tetchy in global financial markets as the current vaccine being administered in the UK hits a snag with side-effects and US stimulus negotiations drag on as lawmakers voted to extend a government funding deadline before tomorrow. Nevertheless, the ZAR has traded stronger in early trade this morning and despite South Africa's Health Ministry officially declaring a second wave of the virus yesterday afternoon. It thus remains to be seen which direction sentiment may swing, with most emerging market currencies trading stronger amidst softer Asian stock market indices. The day ahead concludes the domestic data card this week with Q3's current account balance, followed by mining and manufacturing production data for October. Externally, the market will look to the ECB's rate announcement later in the day where it is expected that the central bank will further increase the size of its asset purchase program to support the recession-hit Eurozone area

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