Botswana Market Watch 11 December 2020

GMT		International and Local Data	Period	Exp	Previous
	BO	Nothing on the cards			
13:30	US	PPI final demand y/y	Nov	0,6%	0,5%
15:00	US	Michigan consumer confidence	Dec P	76,3	76,9
17:40	US	Fed's Quarles Discusses Bank Supervision			

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
Commodity rally	International commodity prices are rallying as coronavirus vaccination rollouts boost optimism that demand would improve markedly next year. Weakness in the USD also providing support for commodity futures	The Bloomberg Commodity Index reaches to its highest level since 2014 with the rollout of COVID-19 vaccinations and the transition to a new US president well underway	4/5 (economy, commodity)	Copper, which is often used as a proxy for the health of the global economy, is surging, while oil is rebounding from the devastating effects of the virus containment measures. Meanwhile, extreme weather conditions and robust Chinese demand are driving up international crop prices
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
ECB	Yesterday, the ECB announced that it would be rolling out more stimulus measures driven mainly by a €500bn and 9m extension to asset purchases aimed at mitigating effects of the 2nd wave	This is a clear show of commitment on the part of the ECB to reflate the EZ economy and protect balance sheets	4/5 (economy, markets)	The idea is to protect liquidity within the markets and the size of balance sheets to avoid a credit crunch like that seen in 2009. Although there was some resistance from some, the majority on the board still backed more stimulus
EU recovery budget	EU leaders on Thursday agreed to unblock a €1.8trln financial package aimed at helping the economy recover from the pandemic induced recessionary conditions	This has been a long time coming, but now that it can be unleashed, it bodes well for stronger growth in 2021	3/5 (politics, fiscal policy)	Of the €1.8trln, €750bn is earmarked to help stimulate the EU economy, while the remainder will form part of the EU budget for 2021-2027 that will also be focused on digitisation and fighting climate change
US FDA vaccine approval	A panel of advisors to the FDA voted overwhelmingly in favour of endorsing emergency use of Pfizer's Covid-19 vaccine. This paves the way for FDA approval within days	This implies that the US could start rolling out vaccines before the end of the year, while other vaccines are awaited	4/5 (economy, politics)	This marks the beginning of the end of the pandemic, and although there is a long way to go for mass immunisation that will take most of 2021, this does offer policy makers degrees of freedom to open up their economies

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.3092	1.4325	1.3345	1.4187
BWPUSD	0.0873	0.0954	0.0889	0.0945
GBPBWP	15.2396	13.9425	14.9099	14.2329
BWPEUR	0.0718	0.0784	0.0735	0.0769
JPYBWP			9.2945	9.7070
USDZAR	14.4035	15.6220	14.7410	15.2841
EURUSD	1.1671	1.2644	1.1944	1.2371
GBPUSD	1.2785	1.3853	1.3085	1.3553

Benchmark Yield Curve

6m	1.2450
3y	3.8750
5y	5.0250
9y	5.2750
22y	5.9250

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-1.8428	0.0000
3m	-5.1870	0.0000
6m	-12.7189	0.0000
12m	-28.2360	0.0000

Equities		Economic Indicators			
BSE Domestic Index	6883.23	GDP	-24	Bank Rate	3.75
BSE Foreign Index	1547.28	CPI	2.2		

- Botswana will welcome the news that it has been placed on the list of travel corridors for the United Kingdom having been assessed by the Joint Biosecurity Centre as posing a lower infection risk. The United Kingdom has been a strong source of tourists for the country and strong revenue earner, equally, many of Botswana's mining companies have their primary listing in the United Kingdom so this will allow for the free movement of executives and company personnel.
- The broader investment community kept a close eye on the European Central Bank yesterday who left rates on hold at record lows, but increased its PEPP asset purchase programme by a further 500bn, extending the duration of the programme to at least March of 2022 from the initial end date of mid-2021. The bonds purchased under this programme will now be reinvested until the end of 2023, while bonds purchased using its other asset buying programmes will be reinvested for an "extended time" after the next rate hike. Other changes to the bank's policy included raising the possible TLTRO borrowing to 55% of eligible loans, with the lowest rate on offer extended to June 2022.
- As expected, the ECB is doing everything it can to support the regional economy through the months ahead. This will keep the distortionary effects of its purchase programmes in place which will have long term ramifications. One merely has to cast an eye towards Japan where one sees what decades of low rates and Central Bank support has resulted in. Japan is full of zombie companies which cannot compete globally any longer, The Bank of Japan is said to be the largest holder of Japanese equities via is stimulus programme, this can only lead to disaster down the line.
- Moving over to the US, the big news overnight is that the advisory panel to the FDA has effectively approved the Pfizer vaccine for emergency use. It was never going to take long, after Britain granted its approval and so this paves the way for the vaccine to now be rolled out throughout the country. This will set the tone for how other vaccines are treated and investors can expect a similarly speedy approval if the efficacy levels and trials have proved as successful as Pfizer's has. Through the coming months, we would expect to see more and more vaccines gain FDA approval and for mass immunisation to become the main theme for 2021. It marks the beginning of the end of the pandemic, although dealing with the surging infections will still take time. Nonetheless, the rollout of the vaccine could not have come at a better time.
- Heading into the weekend, the USD once again finds itself on the defensive and approaching recent prior lows on the trade weighted USD index. The bias has not shifted, and remains overwhelmingly bearish. Wide twin deficits, a Fed that remains committed to reflating, and the machinations of Congress in trying to avoid a government shutdown and agree to the next tranche of stimulus has left speculators and investors cautious in how they approach any USD positioning. The risk is that the USD bearish bias extends significantly further through 2021.
- The BWP-USD lost ground yesterday shedding 0.22% on the day. We view these mild pull backs as potential opportunities for better levels and would continue to buy on any dips.

ZAR and Associated Comments

- The ZAR swung gains in intraday trade yesterday as this week's second attempt towards the 14.90/$-level could not be sustained. The local unit had gained 0.65% at one stage on the back of US dollar weakness, but ultimately closed slightly above the 15.00/$-handle, 0.3% weaker on the day. Given the USD was weaker on aggregate, against a slate of emerging market currencies too, this suggests the ZAR bulls are taking the cards off the table into the end of the week and awaiting a fresh catalyst to sustain a move below the key psychological 15.00/$ level.
- However, rising COVID-19 cases domestically could also be denting sentiment towards the local currency at present and with South Africa's Health Ministry officially declaring a second wave of the virus, this could stoke fears of prolonged restrictions into 2021.
- Given these near-term fears, the ZAR shrugged off data yesterday which should in fact support the currency in the coming months. South Africa's third quarter current account balance swung into the biggest surplus since Q3 1988, recording R297 billion from a R124 billion deficit. This was a result of export volumes rebounding alongside global trade following hard lockdowns, with the trade surplus increasing more than six-fold from R71.4 billion in Q2 to R453.6 billion. Weak domestic demand dynamics should contain imports to some degree going forward, maintaining the trade surplus which continues to support the current account. Barring another downturn in global trade, this should provide further support to the ZAR in the near term as imminent fiscal risks are beyond immediate concern.
- Additional data yesterday in the form of mining and manufacturing data showed South Africa's strong Q3 economic recovery may have already been losing steam at the start of Q4. Specifically, mining production recorded a 6.3% y/y contraction from -3.4% y/y in the month prior, while manufacturing production fell 3.4% y/y from -1.9% y/y in September despite output gaining on a monthly basis. The pace of economic recovery may be topping out, however the industries' structural constraints will indeed hinder growth in output going forward. Furthermore, since those figures, the COVID-19 caseload has risen and a second wave has been declared which will likely put a dent in domestic demand throughout Q4.

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