

Botswana Market Watch

14 December 2020

GMT		International and Local Data	Period	Exp	Previous
10:00	BO EZ	Nothing on the cards Industrial production (wda) y/y	Oct	-4,4%	-6,8%

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
Brexit	Another deadline missed and another extension agreed to. Negotiators remain deadlocked but agreed to continue trying to reach an agreement before the end of the month	The incentive to agree is great given the size of the trade between Britain and the EU as well as the economic challenges	4/5 (economy, politics)	It has been an extraordinarily tough year as it is. There is simply no need to make it tougher than it need be, for two economies that have been battered by the pandemic. It remains a question of compromise to find a solution
US vaccinations	The first vaccinations were dispatched over the weekend and the first few doses would already be injected on Monday. The vaccination programme therefore begins in earnest this week	This is a start and investors will now be looking past the current pandemic, but it will still take many months	3/5 (economy, politics)	The objective is to have as many as 100mn immunised before the end of March which would still be less than 30% of the population, meaning that social distancing efforts and some restrictions will remain intact
Japan Tankan	The BoJ's latest Tankan survey shows a powerful recovery that hasn't been seen in some two decades, but sentiment remains negative, Capex will be cut, hiring has been hit and sentiment over the next three months worsened	Although the initial recovery remains intact and powerful, there is still a long way to go before a full recovery has unfolded	4/5 (economy, politics)	The damage done will drag on for many more months to come. The risk is that the "normalised" activity that follows the recovery will be more subdued, hamstrung by mispriced markets, elevated risk levels and a colossal rise in overall debt levels

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	1.3157	1.4389	1.3410	1.4251	6m	1.2460	1m	-1.8330	0.0000	
BWPUSD	0.0873	0.0952	0.0889	0.0942	3y	3.8750	3m	-5.8305	0.0000	
GBP/BWP	15.2454	13.9488	14.9155	14.2394	5y	5.0250	6m	-12.7579	0.0000	
BWPEUR	0.0719	0.0786	0.0736	0.0771	9y	5.2750	12m	-28.3189	0.0000	
JPY/BWP			9.2846	9.7070	22y	5.9250				
USDZAR	14.4734	15.6924	14.8127	15.3529						
EURUSD	1.1647	1.2621	1.1920	1.2348						
GBPUSD	1.2791	1.3858	1.3091	1.3558						
					Equities		Economic Indicators			
					BSE Domestic Index	6883.23	GDP	-24	Bank Rate	3.75
					BSE Foreign Index	1547.28	CPI	2.2		

- Political tensions between Botswana and South Africa are rising. SA has been accused of breaching international cooperation laws to protect Bridgette Motsepe-Radebe. She is well connected within South Africa's elite being the sister of businessman Patrice Motsepe and the First Lady of South Africa Tshepo Motsepe. ([Please view City Press article here](#))
- Internationally, the first vaccinations were dispatched over the weekend and the first few doses would already be injected on Monday. The vaccination programme therefore begins in earnest this week. This is a start and investors will now be looking past the current pandemic, but it will still take many months. The objective is to have as many as 100mn immunised before the end of March which would still be less than 30% of the population, meaning that social distancing efforts and some restrictions will remain intact.
- A \$908bn bipartisan Covid-19 relief plan is expected to be presented today and is likely to be split into two packages, in an attempt to win approval. Congress has committed itself to finding a solution before the holidays to be deployed soon. The first part of the plan would amount to \$748bn which will target small businesses, the jobless and Covid-19 vaccine distribution. The second will target liability protection and local govt.
- Politically speaking, this week is likely to help Joe Biden take a significant step towards the presidency. After all the legal battles that have been fought, and virtually all of them have been lost by the Trump campaign, the expectation is that the transition towards Joe Biden will now gather momentum as he continues to prepare to undo some of the policies implemented by Trump through his years in office. Biden is expected to be brutal in his approach and unravel what he can, as quickly as he can and attempt to once again integrate the US into the global arena. That in itself will be polarising, but will likely be welcomed by many governments around the world that have been on the receiving end of Trump's unilateral negotiating tactics.
- In terms of data, it will be a much busier week ahead, with the event of the week undoubtedly being the FOMC decision and statement. The focus will not be on the monetary policy position so much as it will be on the Fed's view on the outlook for the economy. There are unlikely to be any surprises, with the Fed remaining committed to reflating the US economy through all means possible.
- Locally we can look forward to the next round of inflation data which is scheduled to be released from tomorrow. .
- 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 encountered some selling pressure Friday, moving in lockstep with the trade-weighted US dollar index which added to its recent rebound. Gains for the USD-ZAR currency pair were capped at 0.7% on the day though as the unit failed to sustain a move above the 15.15-handle. The ZAR still ended the week positively against the USD, albeit by a slim margin, posting a 0.4% rise over the greenback.
- The ZAR's appreciation in the first half of last week was put on hold in the latter half as sentiment began to deteriorate for the local currency. This was amidst a rising virus caseload domestically, announcements by Eskom for potential load shedding and general tentativeness rising in global financial markets with news headlines switching between COVID-19, vaccines, US stimulus and Brexit woes. As such, risk-on gains for the local currency may be limited as the year and Q4 comes to an end, and investors look to take some risk off the table.
- However, investors also remain hesitant in flocking to the haven USD, with the bias for further downside still intact. This has meant global markets are cautious regarding any USD positioning, brought about by the large degree of economic uncertainty remaining and what the final product of a US stimulus bill may look like. With the USD still overvalued as it is, it remains to be seen how much more stimulus and potential currency devaluation is priced in, bringing the risk of further depreciation through 2021.
- Domestically, the data card includes the Q4 BER consumer confidence index today, while the SARB leading indicator, November PPI and Q3 payroll data are stacked together tomorrow ahead of the public holiday on Wednesday. Later this evening, the nation will turn to an address by President Ramaphosa, seeking up update on the COVID-19 front and the potential for further lockdown restrictions. The day thus far has seen some buoyant trade amongst Asian equities, however with more hard lockdowns being announced in the Northern Hemisphere over the weekend, market sentiment may yet take a dive at the start of the week.

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