

Botswana Market Watch

15 December 2020

GMT		International and Local Data	Period	Exp	Previous
	BO	CPI y/y	Nov		2.2%
13:30	US	Empire manufacturing	Dec	7,5	6,3
13:30	US	Import price index y/y	Nov		-1.00%
14:15	US	Industrial production m/m	Nov	0,3%	1,1%
14:15	US	Manufacturing production m/m	Nov	0,2%	1.00%

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
US Elections	Yesterday, the Electoral College ratified Joe Biden's win and delivered the strongest message to President Trump to vacate office with even the Republicans voting along election outcomes	Although the Trump campaign may choose to continue their legal battles, the status quo is now a change of leadership	4/5 (economy, markets, politics)	With the Electoral College voting in line with the election outcome, the support behind Trump and his allegations is bound to start fading. Trump's last hope is to convince Congress to reject the results in Jan. Highly unlikely
Chinese factory activity	Chinese factory activity rose at the fastest pace in 20 months in Nov. A combination of revived consumer spending together with easing of restrictions have all contributed to the recovery	China's economy is recording activity levels well before the pandemic and has fully recovered its lost production	3/5 (politics, fiscal policy)	There is momentum behind the recovery in China. As the focus turns towards internalising their economic growth strategy, so it will likely continue to produce impressive growth results that remain above trend
London restrictions	Tighter Covid-19 restrictions have been imposed on London, with a new spate of infections, prompting the decision. A new strain of the virus may be to blame. Pubs and restaurants to close, but schools remain open	Tier 3 lockdown will once again detract from economic growth at a time when the British government's finances are shot	4/5 (economy)	The entire Capital and some surrounding areas are now being restricted to curb the spread of the virus. Vaccinations cannot be disseminated fast enough as more businesses suffer the devastating consequences of more restrictions

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	1.3127	1.4383	1.3380	1.4245	6m	1.2445				
BWPUSD	0.0873	0.0953	0.0889	0.0943	3y	3.8750	1m	-1.9500	0.0000	
GBPWP	15.2591	13.9451	14.9290	14.2356	5y	5.0250	3m	-5.1870	0.0000	
BWPEUR	0.0718	0.0786	0.0735	0.0771	9y	5.2750	6m	-10.7250	0.0000	
JPYWP			9.3043	9.7273	22y	5.9250	12m	-22.1813	0.0000	
USDZAR	14.4412	15.6680	14.7796	15.3290						
EURUSD	1.1663	1.2636	1.1936	1.2363						
GBPUSD	1.2802	1.3870	1.3102	1.3570						
					Equities		Economic Indicators			
					BSE Domestic Index	6880.72	GDP	-24	Bank Rate	3.75
					BSE Foreign Index	1547.28	CPI	2.2		

- Moody's announced the agencies completion of a periodic review of ratings of Botswana yesterday. The take home of the review is as follows - *The credit profile of Botswana (issuer rating A2) reflects the country's "ba2" economic strength balancing a track record of macroeconomic stability and relatively high wealth levels against a small economy that is highly reliant on the diamond sector; its "baa1" institutions and governance strength underscoring strong performance on the Worldwide Governance Indicators, robust monetary policy framework and prudent fiscal policy despite an expansionary fiscal stance in recent years; its "aa2" fiscal strength reflecting low and stable debt burden, strong debt affordability indicators and a still strong sovereign wealth fund despite weakening fiscal buffers; and its "a" susceptibility to event risk reflecting the country's stable political system, and modest government liquidity risk, banking sector risk and external vulnerability risk.* ([read full release here](#))
- Internationally, the contested United States Presidential elections was the focal point yesterday. Joe Biden has surmounted another hurdle placing him at the door of the White House. Although the Trump campaign may still pursue further legal action, it is now starting to look a little desperate, with some commentators saying that Trump's actions will be doing him more harm than good if indeed he wishes to pursue a second term in office in four years' time. Trump's last hope is to try and convince Congress to reject the results of the election, but unless he can provide incontrovertible proof of wide-spread voter fraud that would overturn the election results, it is highly unlikely that Congress would go against the Electoral College vote.
- Looking at the day ahead we have the November CPI data to look forward to, market commentators will be keeping an eye out for any inflationary pressures as the local economy opens. We do however believe that any pressures will be transitory as the BWP has managed to regain ground against the greenback and domestic demand is likely to remain weak as the economy recovers in 2021.
- Moving onto the FX markets, for now, the USD remains on the defensive. Yesterday's Electoral College vote removed a further risk event from the calendar and paved the way for Joe Biden to assume the presidency in Jan. A smooth transition can now take place and unless Trump can convince Congress to reject the results of the election in early Jan, Biden will be inaugurated on the 20th Jan. Investors will now turn their attention back to the surging infections and the stimulus that gets applied. The upcoming FOMC is unlikely to offer the USD much support and so for now the scales remain tilted against the USD. Speculators are likely to prefer persisting with their net-short USD positions and this is likely to support higher beta currencies going forward.
- Given this backdrop we expect the BWP creep higher in the coming months and as such we still look to accumulate on dips towards the 0.0900 level.

ZAR and Associated Comments

- The US dollar ended broadly weaker yesterday with risk appetite buoyed by vaccine rollouts as first inoculations were administered in the US. The ZAR bulls took this in stride, allowing the currency to advance to the top of the emerging market basket on the day. The local unit climbed as much as 1% higher against the USD but pared gains as the greenback regained its footing amidst tempered optimism from spikes in infection and death rates, and further tightening of restrictions being announced, notably in the UK.
- Ultimately, late afternoon deterioration in sentiment saw the USD-ZAR advance back above the 15.00-handle, ahead of a domestic address by the president where further tightening of restrictions were announced. President Ramaphosa announced further curbs to alcohol sales, tightening of the curfew and beach closures to limit the spread during the holiday season. Although these are somewhat reasonable when compared to the arguably arbitrary restrictions of earlier this year, any such restrictions will hamper the economic recovery underway and limit productivity in the busiest season for some sectors.
- This amplifies the risk of more seasonal job losses, posing longer term risks to the recovery in consumer confidence and household income, while the economy already faces long term structural challenges. This was captured in yesterday release of the BER consumer confidence index (CCI) which came in at -12 in the three months ending September, from -23 in the prior quarter, following the further easing of lockdown restrictions. According to the BER, this was the lowest festive season reading since 2015 and noted that the recovery in sentiment amongst the higher income category was lagging. With household consumption accounting for roughly 60% of GDP, the slower recovery here and further tightening of restrictions will put increasing pressure on government finances going forward.
- Further hindering government's efforts towards fiscal consolidation, state-owned power utility Eskom announced forecasts yesterday for an annual loss of R2.2 billion, which would mark the fourth consecutive yearly loss. Financial challenges for the cash-strapped SOE stem from an unsustainably high debt burden, of which two thirds is guaranteed by government. With Eskom not alone in this issue, further economic downturn poses systemic risk to the fiscus.
- Despite the longer term outlook being overwhelming dire, the shorter term view remains slightly more optimistic as the domestic economic recovery continues. For the local currency, the ZAR remains poised for appreciation in the short to medium term. Speculators remain net long ZAR, although according to the latest CFTC data, the net long position was trimmed from \$0.27 billion to \$0.24 billion in the week ending 8 December. The net position for the USD, meanwhile, dropped below -\$30 billion, suggesting speculators on aggregate see further downside for the USD-ZAR pair as the market remains largely dollar bearish.
- For the day ahead, a slew of domestic data is due ahead of a domestic holiday tomorrow. This includes the SARB leading indicator, November PPI and Q3 payroll data. Externally, the market will likely focus on Brexit proceedings and will look to the start of the Fed's FOMC meeting today, with a rate announcement due tomorrow. Investors will rather gauge the Fed's longer term outlook and implications of continued loose monetary policy on the USD, with no drastic policy changes expected..

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