

Botswana Market Watch

16 December 2020

GMT		International and Local Data	Period	Exp	Previous
	BO	Nothing on the cards			
13:30	US	Advance retail sales m/m	Nov	-0,2%	0,3%
13:30	US	Retail sales ex. auto and gas	Nov	0,3%	0,2%
14:45	US	Markit PMI manufacturing	Dec P	55,8	56,7
19:00	US	FOMC rate decision	Dec 16	0,25%	0,25%

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
Japanese trade	Japan's exports fell in Nov extended the decline in exports to the 24 th consecutive month. Once again exports unexpectedly fell y/y, while imports also extended their decline	Soft US and Chinese demand have continued to weigh and detracted from the export-led economy	4/5 (economy)	The data confirms that the economic recovery may be stalling and that Japan's normalisation will lag those of China and the US. Goods typically used in capital spending are the exports that are lagging the most
Biden in Georgia	It was only a matter of time before President elect Biden was going to start campaigning for two Democrat Georgia Senators in a bid to try and secure the Senate with a Democrat majority	Biden is fearful that a Republican majority will hamstring his efforts to reverse some of Trump's policy changes	3/5 (politics)	This would amount to a clean sweep and might count against Biden in his bid to turn both the House and the Senate "blue." Markets have also felt more comfortable with the Republicans holding the Democrats to account
US Treasury holdings	Data released yesterday showed that China and Japan reduced their holdings of US Treasuries through Oct to \$1.054trln and \$1.269trln respectively, extending the trend seen recently	The trends in these holdings says a lot about broader relations between the countries and their internal strategies	4/5 (economy)	Much of the selling from Japan and China was offset by purchases from Belgium and the UK, but not too much should be read into this. Should the trend extend for another 3-6 months, the message would be strong

Local FX Opening Rates and Comment

	CUSTOMER BUY		CUSTOMER SELL		Benchmark Yield Curve		Forward Foreign Exchange			
	CASH	CASH	TT	TT						
BWPZAR	1.3011	1.4251	1.3262	1.4114	6m	1.2460		BWPUSD	BWPZAR	
BWPUSD	0.0874	0.0956	0.0890	0.0947	3y	3.8750	1m	-1.9695	0.0000	
GBPBWP	15.3737	14.0511	15.0411	14.3439	5y	5.0250	3m	-5.2065	0.0000	
BWPEUR	0.0718	0.0786	0.0735	0.0771	9y	5.2750	6m	-10.7835	0.0000	
JPYBWP			9.2552	9.6764	22y	5.9250	12m	-22.3080	0.0000	
USDZAR	14.2972	15.5076	14.6323	15.1721						
EURUSD	1.1675	1.2648	1.1948	1.2375						
GBPUSD	1.2913	1.3990	1.3216	1.3687						
					Equities		Economic Indicators			
					BSE Domestic Index	6878.7	GDP	-24	Bank Rate	3.75
					BSE Foreign Index	1547.28	CPI	2.2		

- The Consumer Price Index released for November yesterday was a non-starter in terms of its market moving ability given that it remained well contained. The print came in at 2.2% year on year which was the same as the previous month. There was a mild increase in consumer prices in November with the month-on-month reading coming in at 0.1%, this compares to 0.5% in October. What this points to is an economy that is still in recovery mode and domestic demand remains subdued. We also have the weaker USD to thank for taking the sting out of any imported goods and thus reducing price pressures.
- De Beers and the Botswana government have announced that there will be an extension of a year to the decade long sales agreement which will provide both sides with more time to solidify a new deal. 2020 was besieged by the COVID-19 pandemic and thus logistically it was almost impossible to make any strides in terms of an agreement between the two partners.
- Internationally it is all about the United States at the moment. It was only a matter of time before President elect Biden was going to start campaigning for two Democrat Georgia Senators in a bid to try and secure the Senate with a Democrat majority. Biden is fearful that a Republican majority will hamstring his efforts to reverse some of Trump's policy changes. This would amount to a clean sweep and might count against Biden in his bid to turn both the House and the Senate "blue." Markets have also felt more comfortable with the Republicans holding the Democrats to account.
- Aside from the obvious FOMC decision and guidance, some key data will also be released. While US retail sales topped expectations in September and October, the outperformance in the sector is unlikely to be sustained unless material progress is made in fiscal stimulus negotiations. The ongoing resurgence of COVID-19 and consequent lockdowns in the States continue to pose significant downside risks to economic recovery, with the recent loosening of the labour market also expected to be a strong headwind to the retail sector's own recovery in the months ahead. Consensus expectations reflect this, with a -0.2% m/m contraction pencilled in for November by analysts polled by Bloomberg.
- High-frequency PMI data suggests that the recovery in the world's largest economy has been sustained in the final quarter of 2020 despite the resurgence in COVID-19 infections and the lack of a new stimulus package. Recall that the US composite PMI gauge climbed to a multi-year high of 58.6 in November. Although consensus forecasts point to a softer pace of expansion in both the manufacturing and services sectors in December, we expect both gauges to remain buoyed well within expansionary territory, especially following the latest developments on the vaccine front which has boosted optimism over the outlook for 2021. Going forward, the pace of recovery in the months ahead will be dependent on whether lawmakers in the US are able to see eye to eye over a new stimulus package.
- Moving onto the FX markets, stimulus talks are ongoing and dialling down risk aversion, while the FOMC decision this evening is likely to reflect a Fed that remains fully committed to reflating through monetary means. The environment remains one that is overwhelmingly still USD negative and the USD itself reflects this as it breaks to a fresh 2018 low. No indications as yet that this trend is about to reverse. If anything, it may still accelerate as the USD's overvaluation is gradually unwound.
- As a result we remain BWP-USD bulls and look for higher levels in the coming months. We still advocate a strategy of buying on any dips towards the 0.0900 level.

ZAR and Associated Comments

- The South African markets are shuttered today for the Day of Reconciliation public holiday. News flow out of the region is still focused heavily on the additional lockdown measures taken over the festive period with critics pointing to the uneven implementation and inconsistencies in approach.
- The ZAR has powered ahead overnight and we are below the R14.90 mark. Flow is likely to be light with the local market closed. International drivers will of course have an impact on the CLS cleared currency and thus the FOMC decision later this evening holds focus.

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