Botswana Market Watch — 17 December 2020

GMT		International and Local Data	Period	Exp	Previous
	BO	Nothing on the cards			
12:00	GB	BoE bank rate	Dec 17	0,1%	0,1%
13:30	US	Initial jobless claims	Dec 12		853k
13:30	US	Building permits	Nov	1560k	1545k
13:30	US	Housing Starts	Nov	1528k	1530k

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
FOMC	Until such time as the US economic recovery is secure, the Fed will continue purchasing $120bn worth of assets every month in an extension of the current QE programme	Fed will persist with QE until data targets of price stability and full employment are met. QE remains data dependent	4/5 (economy)	This is a firm commitment to doing what it can to assist in the reflation, but Chairman Powell was clear to point out that the Fed's tools were inadequate to assist households in dire need of assistance through the pandemic
Currency manipulators	The US Treasury has labelled Switzerland and Vietnam currency manipulators, adding that India, Thailand and Taiwan may also be weakening their currency to the USD	Trump administration targeting countries that are tilting the trade balance against the US through FX intervention	3/5 (economy, politics)	There is much truth to the label of manipulation, but those countries will simply argue that they are trying to fight against a deflationary risk and are doing so through monetary policy that indirectly weakens the currency
Risk appetite	A supportive and dovish Fed, coupled with signs of more fiscal stimulus in the US and the active deployment of vaccines has investors trading on improved risk appetite	Emerging markets are expected to attract stronger portfolio flows through the months ahead	3/5 (markets)	EM currencies are responding strongly to improved risk perceptions. Yields abroad remain low and will continue to force investors to accept higher risk in order to enjoy the yields that are available in emerging markets

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2989	1.4210	1.3239	1.4073
BWPUSD	0.0879	0.0959	0.0896	0.0950
GBPBWP	15.3695	14.0634	15.0370	14.3564
BWPEUR	0.0719	0.0786	0.0736	0.0771
JPYBWP			9.2945	9.7171
USDZAR	14.1795	15.3785	14.5118	15.0458
EURUSD	1.1736	1.2718	1.2011	1.2443
GBPUSD	1.2995	1.4078	1.3299	1.3774

Benchmark Yield Curve

6m	1.2440
3y	3.8750
5y	5.0250
9y	5.2750
22y	5.9250

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-1.8525	0.0000
3m	-5.2845	0.0000
6m	-10.8225	0.0000
12m	-22.3665	0.0000

Equities

BSE Domestic Index	6878.39
BSE Foreign Index	1547.28

Economic Indicators

GDP	-24	Bank Rate	3.75
CPI	2.2		

- Local news flow is on the thin side as the December wind down starts. Internationally all focus is currently on the narrative coming out of the major Central Banks.
- The Fed has left rate at near zero and kept its bond buying programme unchanged at its final meeting of 2020 overnight. The bank has tied bond buying programme to their full employment and stable inflation goals while also vowing to support the economy on its road to recovery. The bank will increase its holdings of US Treasuries by some $80bn and agency mortgage-backed securities by at least $40bn on a monthly basis. In addition the Fed has extended temporary USD swap lines as well as the repurchase facilities. The Fed's median term forecast shows rates near zero through 2023, while the Fed Forecast shows 5 of the 17 officials looking at a rate hike during 2023. The vote to maintain the status quo was unanimous as it was at the November meeting.
- All eyes will be on the BOE today. Market expectation is that the BOE stays firm and keeps the pumps primed ahead of a potential no-deal Brexit. Should this occur it may need to open the taps to support the markets.
- We cast our eye towards gold to give us a sense of the current macro backdrop. Gold ramped up sharply overnight however the yellow metal is trading flat this morning in the Asian session holding around the $1865.00/oz mark. The major driver of the upswing in the fortunes of gold has been the weaker USD which is currently being pressured as US lawmakers close in on a stimulus deal. The risk is that the deal is not as extensive as everyone had hoped which potentially results in a sell off into the end of 2020.
- Moving over to the FX markets, the USD is now under substantial pressure. The speculative bias has shifted against the USD and the general trend is lower. Improved risk appetite was encouraged by a Fed that remains committed to reflating the economy, Congress that appears to be making progress in achieving a stimulus deal and the steady roll-out of the Covid-19 vaccine. Technically, the USD is firmly on the defensive and is showing signs of targeting the lows last seen in Q1 2018. There is much room for the USD to lose ground as it remains over valued vs the USD.
- As a result we remain BWP-USD bulls and our thoughts on the Pula have not changed we 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

- With domestic markets closed yesterday, international trade saw the ZAR extend its gains over the US dollar this week as risk appetite remained strong ahead of the US Fed's FOMC meeting and rate announcement. Ultimately, the local currency closed 0.3% stronger against the USD after gaining in excess of 1% on Tuesday. As such, the ZAR is now sitting firmly below the 15.00/$-handle, having closed yesterday just shy of 14.80/$ while the USD remains in the doldrums after the Fed indicated its commitment to support the economy through the current pace of asset purchases for the foreseeable future.
- Domestically, there has been several developments this week with far reaching implications on the political front. Firstly, ANC Secretary General Ace Magashule may be faced with stepping down from his post pending corruption charges after the ANC's Integrity Commission recommended he do so to the party's National Executive Committee (NEC). While this will go a long way in rooting out graft within the party, a notable development was made in government's efforts towards fiscal consolidation after a court ruling sided with government in not paying for previously agreed public sector wage increases this year.
- As noted recently by global ratings agencies, the playing out of the wage dispute would set the tone of government's ability to reduce its rising debt burden. While this should lead to more prudent negotiations between the state and labour unions going forward, it will largely improve government's fiscal credibility as it marks substantial progress in alleviating the government's rising debt burden.
- Nevertheless, substantial headwinds remain for the economy and by extension for government's tax intake. Structural constraints will continue to hinder foreign and domestic investment in the economy, affecting the recovery underway. According to SARB Quarterly Bulletin released earlier this week, the South African economy entered its 85th week in the current weakening cycle in December, as business and consumer confidence continue to lag behind the overall economic recovery evident in some data. Furthermore, the return of some COVID-19 restrictions may diminish any return of activity for some sectors.
- In the near term however, loose monetary policy globally will continue to support the recoveries of emerging market currencies, while currently market sentiment remains buoyed following the Fed's announcement yesterday. The dollar received a temporary boost yesterday after the Fed failed to meet expectations that it would increase purchases in longer dated bonds, but has subsequently retreated overnight after the strong commitment by the Fed to essentially keep support open-ended until employment and inflation targets have been met. Investors will now await news of a US fiscal stimulus bill ahead of a Friday deadline, with progress therein likely to keep the greenback subdued. The day ahead will feature the BoE rate announcement, while later in the afternoon US initial jobless claims may add to the greenback's downwards bias this week considering recent signs of a slowing US economic recovery.

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