

Botswana Market Watch

4 January 2021

GMT		International and Local Data	Period	Exp	Previous
	BO	Nothing on the cards			
08:55	GE	Markit GE Manufacturing PMI	Dec F	58,6	58,6
09:00	EC	Markit EC Manufacturing PMI	Dec F	55,5	55,5
09:30	UK	Markit UK Manufacturing PMI	Dec F	57,3	57,3
14:45	US	Markit US Manufacturing PMI	Dec F	56,3	56,5

Regional Developments	What happened?	Relevance	Importance	Analysis
Africa COVID-19 resurgence	The total number of coronavirus cases in Africa breached the 2.5mn mark as a second wave of infections erupts on the continent. According to Reuters data, countries such as the DRC, Nigeria, Mauritania, Ghana and Ivory Coast have witnessed a sharp rise in cases and are reporting near-record levels of infections	The spike in regional infections comes against the backdrop of a resurgence in infections in other parts of the world and a fast-spreading new strain in the UK. Fears are rising that this could stall the global recovery	5/5 (economy)	Given the fiscal constraints in Africa, most countries are reliant on the World Health Organization's COVAX programme, which aims to deliver at least 2bn vaccine doses by the end of 2021. However, according to several forecasters, it could take up to 3-4 years for African countries to receive vaccines. As such, the medium outlook for Africa remains gloomy
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 election certification	On Wed, the US Congress will vote to certify the outcome of the elections. President Trump is still trying to pressure allies to reject the outcome	Trump remains steadfast in his bid to overturn the election. It is destabilising politically	5/5 (ECONOMY, politics)	Should his bid fail, that would be his last possible avenue for overturning the election outcome. It has been labelled as a long-shot by many market watchers and seen as illegal by law experts
Vaccine rollout	Starting today, Britain will start to roll out the cheaper and easier to transport AstraZeneca vaccine, which many view as a game changer	Britain is the first to roll out the vaccine looking desperately for ways to overcome the pandemic	4/5 (economy)	Beyond Pfizer and AstraZeneca, the world awaits news from Moderna and J&J which will be producing results soon and could also be added to the arsenal of vaccinations to be disseminated
Brexit	January promises to be a challenging start for the financial services industry that will better understand the ramifications of Brexit when markets start trading	It is believed that the biggest transfer of share trading influence will take place today	4/5 (markets)	Europe and the UK will now behave as two separate trading pools, with much of the trading now likely to take place out of Frankfurt and away from London. This may impact competitiveness

Local FX Opening Rates and Comment

	CUSTOMER BUY		CUSTOMER SELL		Benchmark Yield Curve		Forward Foreign Exchange			
	CASH	CASH	TT	TT				BWPUSD	BWPZAR	
BWPZAR	1.2972	1.4159	1.3221	1.4022	6m	1.2440				
BWPUSD	0.0887	0.0967	0.0904	0.0958	3y	3.9150	1m	-2.0670	0.0000	
GBPGBP	15.4019	14.1213	15.0687	14.4155	5y	5.0550	3m	-6.2985	0.0000	
BWPEUR	0.0724	0.0789	0.0741	0.0774	9y	5.3850	6m	-13.4696	0.0000	
JPYBWP			9.3534	9.7477	22y	5.9350	12m	-29.7716	0.0000	
USDZAR	14.0389	15.2246	14.3680	14.8952						
EURUSD	1.1759	1.2743	1.2035	1.2467						
GBPUSD	1.3133	1.4231	1.3441	1.3923						
					Equities		Economic Indicators			
					BSE Domestic Index	6879.35	GDP	-6.00%	Bank Rate	3.75
					BSE Foreign Index	1547.28	CPI	2.20%		

- Economic data is scant for this week and added focus will be provided by new scrollers. Focus at the start of the new year is centred on the eagerly awaited African Continental Free Trade Area (AfCFTA) deal. Following months of delay, in part driven by the COVID-19 pandemic, African countries officially began trading under a new continent-wide free trade area on January 1. While this marks a significant milestone for the continent and members included in the agreement, we expect that it could still take years for the full implementation of the deal given the plethora of problems that still need to be ironed out.
- Recall that the AfCFTA aims to bring together 1.3bn people in a \$3.4trn economic bloc that will be the largest free trade area since the formation of the World Trade Organization. The deal is expected to significantly boost intercontinental trade in the coming years as well as drastically increase the continent's self-dependence in transforming a raw good into a finished product that can either be sold on the continent or exported as opposed to the mining of raw materials, exporting the raw materials to other parts of the world and purchasing the finished good from other parts of the world as is currently the case.
- Speaking at the online launch of the AfCFTA, Ghana's President Nana Akufo-Addo said that "there is a new Africa emerging with a sense of urgency and purpose and an aspiration to become self-reliant." That said, investors must be cautioned of becoming overly optimistic, given the obstacles that remain including pervasive red tape and poor infrastructure to the entrenched protectionism of some of its members. If these obstacles can, however, be taken care of in a timely manner, we are of the view that the deal should bolster development and growth on the continent in the coming years.
- Against the backdrop of the emergence of a new and more transmissible strain of coronavirus, the Botswana government announced yesterday the extension of the night-time curfew up to Jan 31. The Minister of Health and Wellness Edwin Dikoloti said that *"the curfew enacted by President Mokgweetsi on December 23 will continue to be enforced between 8 p.m. to 4 a.m. as the virus related risk have increased in the country."* The imposition an extension also comes after the Health and Wellness Minister noted that coronavirus cases increased during the festive period as people failed to abide by set regulations to prevent the spread of the virus.
- Internationally, the market will also be watching developments surrounding this week's runoff vote in the US state of Georgia, which will determine control over the Senate and, consequently, the fate of President-elect Joe Biden's policy agenda. It is a very tight contest and with Georgia already falling the way of the Democrats in the most recent election for the first time in a generation, Republicans are quite fearful of losing the two Senate seats, giving the Democrats a clean sweep of Congress and the White House. From a market point of view, a Republican win would be seen as a better result, given that the Senate would then hold the potential to keep any runaway shift in socialist policies in check.
- Furthermore, Congress will vote on Wed on whether to ratify the Electoral College vote and ensure that Joe Biden becomes the next president to be inaugurated on the 20th Jan. Although there may be some Senators that will seek to support Trump, their effort to overturn the election is considered a long-shot. It is however an important event given Trump's reluctance to concede defeat.
- In FX markets, the USD starts the week on the defensive and while the trends in the USD are broadly lower, there are enough risk events scheduled for this week to keep investors relatively cautious in their trading behaviour, but with a USD bearish tilt. Selling USDs at the start of the year may well prove a theme that persists throughout the remainder of the year as investors seek to unwind some of the USD's own overvaluation against the majors.
- The local unit is a little changed this morning in what is the first day of 2021 trading amid thinned liquidity conditions. The tight range in the BWP-USD is expected to hold throughout the week amid the absence of a strong catalyst to induce some volatility into the market.

ZAR and Associated Comments

- The New Year has kicked off with much of the same dynamics in the FX space judging by this morning's Asian trading session. The US dollar remains under pressure owing to investors counting on the US Federal Reserve to maintain its ultra-loose monetary policy stance, despite significant risks in the form of surging COVID-19 infections and lockdowns still faced by the global economy.
- The ZAR, meanwhile, has held relatively steady over the festive period as it settled into a narrow range between 14.50-14.75/\$. In the face of persistent setbacks to the local economy due to the pandemic, the local unit ended the year roughly 4.5% weaker from where it began. This is seemingly a mere decline in spite of the hit to the real economy, government's budget woes and further ratings downgrades, highlighting the flush liquidity in global financial markets and the search for yield.
- Buoyed by foreign risk appetite and demand, the ZAR shrugged off domestic developments as the country was moved into tougher lockdown restrictions over the festive period. However, with significant risk-taking unlikely to occur during holiday-thinned trade, this may explain the somewhat muted moves. For the day thus far, the local currency has started the year on the front foot as the USD-ZAR pair has been led lower in early trade this morning thanks to the dollar-leg.
- More broadly, as yet substantial risk-taking may be unlikely as the New Year gets underway with investors favouring gold this morning supporting precious metals prices, while the UK hinting at tougher lockdown restrictions and Japan considering a state of emergency may keep risk appetite at bay. This may slow the dollar's decline temporarily, however the greenback's downwards bias remains well intact. Investors will focus on stateside developments this week with the last Fed meeting minutes due on Wednesday, while prior to this the state of Georgia will hold a run-off election for two Senate seats on Tuesday. This will decide whether Republicans will maintain control of the Senate, with Democrat control here seen as further dollar-bearishness. Domestically, Naamsa vehicle sales for December will provide a local economic update today, but much of the domestic focus will be on COVID-19's spread and the likely arrival time for vaccines after SA health minister Zweli Mkhize announced on Sunday aims to procure the vaccine by February.

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