

Botswana Market Watch

5 January 2021

GMT		International and Local Data	Period	Exp	Previous
	BO	Nothing on the cards			
08:55	GE	Unemployment rate sa	Dec	6,2%	6,1%
09:00	EZ	M3 money supply sa y/y	Nov	10,6%	10,5%
15:00	US	ISM manufacturing PMI	Dec	56,6	57,5

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
England lockdown	PM Johnson has announced tougher restrictions and ordered the whole of England into a new national lockdown with a stay-at-home order issued	Another devastating impact to the economy and another recession will therefore materialise	5/5 (economy)	By mid-Feb, Johnson expects the cohort of elderly people to have been vaccinated and by early March restrictions are likely to be lifted more rapidly. The s-term impact will be huge
Clean break	As Britain left the EU, the biggest shift in share trading in two decades, characterised trading on Monday. The bulk of EU share trading shifted away from the UK	Many companies re-established offices in the EU to cope. A blow for London but has been planned for	3/5 (economy)	The good news is that all systems operated efficiently and normally. Non-EU share trading has remained in London and the impact of the switch has generally been minimal
US manufacturing	December's final PMI reading printed at a very strong 57.1 vs the flash estimate of 56.5. It is the highest since Sep 2014. The pricing environment is the strongest since May 2011	With many supply chains severely disrupted, the pricing environment appears to be a more positive one for producers	4/5 (economy)	While the data ended the year on a much firmer footing, it will be interesting to see whether the gains will be sustained into the start of the new year given the resurgence of infections and another round of lockdowns

Local FX Opening Rates and Comment

	CUSTOMER BUY		CUSTOMER SELL		Benchmark Yield Curve		Forward Foreign Exchange			
	CASH	CASH	TT	TT						
BWPZAR	1.2974	1.4215	1.3224	1.4078	6m	1.2460		BWPUSD	BWPZAR	
BWPUSD	0.0886	0.0967	0.0903	0.0958	3y	3.9150	1m	-1.9403	0.0000	
GBPZAR	15.3341	14.0137	15.0023	14.3056	5y	5.0550	3m	-5.2260	0.0000	
BWPEUR	0.0722	0.0790	0.0739	0.0775	9y	5.3850	6m	-13.3868	0.0000	
JPYZAR			9.3338	9.7578	22y	5.9350	12m	-29.7814	0.0000	
USDZAR	14.0567	15.2521	14.3862	14.9221						
EURUSD	1.1780	1.2766	1.2056	1.2490						
GBPUSD	1.3060	1.4151	1.3366	1.3845						
					Equities		Economic Indicators			
					BSE Domestic Index	6891.77	GDP	-6.00%	Bank Rate	3.75
					BSE Foreign Index	1547.28	CPI	2.20%		

- The Finance Ministry announced that Botswana will maintain a downward crawl rate of 2.87% in 2021. The permanent secretary in the ministry of finance and economic development noted that the downward rate of crawl “*reflects the need to contribute to the easing of real monetary conditions, while supporting domestic industry competitiveness in the absence of significant inflationary pressures in the economy.*” It is worth noting that the rate of crawl was increased last year in May from 1.51%, and at the current rate, marks the most significant change from previous years when adjustments were less than 1.00%. The move to set the pula currency to lose value at a faster rate this year will help boost exports competitiveness after the coronavirus pandemic has had a deep impact on diamond sales that are central to its economy.
- Meanwhile, the government kept the currency basket at 45% to the rand and 55% to the IMF’s special drawing right currencies.
- Globally, today, the market’s focus will be on runoff elections for two US Senate seats in Georgia, which will determine which party controls the upper house of Congress in the first two years of the Biden administration. If Democrat candidates win both of today’s closely-contested elections, the party will have control over Congress and the White House. This would open the door for more expansive US fiscal policy in the years ahead, which would support EM currencies at the margin and perhaps provide the ZAR-bulls some support through the months ahead.
- However, in the very near-term, the potential for a “blue wave” sweep of US politics, raises the risk of more regulation and socialist type policies that need to be priced into markets. Just as markets responded favourably to the expectation that the Senate could hold the Democrat-controlled House of Representatives to account, the opposite is also true. It is therefore possible that Democrat control of the Senate will cause a phase of profit taking in financial markets especially equities that performed so well in Q4 2020.
- In FX markets, the trade-weighted USD recovered off yesterday’s lows after the UK announced a countrywide lockdown. Risk aversion levels generally rose and the USD caught a safe-haven bid. That being said it remains on the defensive and the risk that the Senate shifts to become more democrat will keep USD bulls a little wary of any significant positioning, especially in what is ultimately thinned-out holiday trade. For now, the balance of forces remains slightly against the USD.
- The BWP-USD gapped higher this morning, gaining around 0.22% at the time of writing. The risk-on trading prevailing amid vaccine optimism is helping to underpin the rally in the cross. Technically, the next level to watch is the resistance level of 0.0930. A breach above this level could potentially open doors for the BWP-USD to rally further in the sessions ahead. Given the absence of domestic economic data, the ongoing risk-on/risk-off narrative will provide directional impetus for the cross.

ZAR and Associated Comments

- The first trading session of the New Year got off to a mixed start with market sentiment swinging through the day. Rising COVID-19 infections remains a key driver keeping risk appetite in check, the fear being that governments continue to impose economically damaging containment measures. The latest on that front comes out of the UK where PM Boris Johnson announced yesterday a third nationwide lockdown to curb new infections as the National Health Service faces increased pressure from a new COVID-19 variant.
- The British Pound subsequently came under selling pressure, allowing the trade-weighted dollar index (DXY) some reprieve, while the change in sentiment during the day saw the local currency reverse intraday gains of 1.3% to end marginally weaker against the USD. With USD rebounding alongside the price of gold bullion, fading market sentiment was likely accompanied by investors taking some risk off the table ahead of key stateside developments this week. The first being runoff elections today in the State of Georgia which will decide Senate control, followed by Wednesday’s release of the last FOMC meeting. A swing to a Democrat controlled Senate will make it easier for further stimulus bills to be passed under the Biden administration, however the extent to which market prices reflect this remains to be seen.
- Domestically, government is coming under fire from unions, health officials and opposition parties over its lack of transparency and sluggish procurement of COVID-19 vaccines, seen as key to ending the pandemic and moving past lockdown restrictions. Issues over funding and vaccine cost has delayed access thus far, however various business organisations and medical-insurance companies have been developing a program to help fund vaccine procurement alongside government. Allowing business and the private sector to accelerate the arrival of vaccines is key to leaving the worst of the pandemic in 2020, somewhat ironic as the crowding out of the private sector, a key structural challenge, has plagued growth in the past decade.
- In the near term though, financial markets will continue to find support from capital flows from developed economies despite the risks the real economy still faces. As such, the ZAR will likely remain range-bound as investors await a new catalyst to drive trade. For the day ahead, alongside Georgia Senate elections, US manufacturing PMI for December scheduled for later in the day will likely drive afternoon trade. As it stands, emerging markets currencies have traded broadly stronger with the ZAR capitalising during the Asian session after the USD trimmed part of yesterday’s gains.

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