

Botswana Market Watch

6 January 2021

GMT		International and Local Data	Period	Exp	Previous
	BO	Nothing on the cards			
13:00	GE	CPI y/y	Dec P	-0,2%	-0,3%
13:15	US	ADP employment change	Dec	50k	307k
15:00	US	Durable goods orders m/m	Nov P	0,9%	0,9%
15:00	US	Factory orders	Nov	0,7%	1,00%
19:00	US	Fed FOMC Meeting Minutes	Dec 16		

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
Georgia run-off	The Georgia run-off is still under way and as things stand remains too close to call. The Republican candidates have their nose in front, but the gap can be reversed	This will determine which party controls the Senate over the next two years and will impact policy	5/5 (politics, Economy, markets)	A clean sweep of the House, Senate and the White House would give Democrats a very powerful position in which to make significant policy advances. Markets may respond badly.
Oil price and OPEC=	Oil prices enjoyed a more bullish session yesterday after Saudi agreed to cut production by 1mn bpd in the face of bearish risks that are building amid the resurgent pandemic	Oil prices are set to remain stable and well supported by the move, even though production needs to remain constrained	3/5 (economy, markets)	Russia and Kazakhstan will be allowed marginal increases in production to avoid non-maintenance shutdowns through winter which might've left ageing wells more difficult to restart and may have shuttered them for good.
Chinese services	Although still expanding, the Chinese services PMI expanded at a slightly slower rate of 56.3 in Dec from 57.8 in Nov. New business dropped off sharply to drag the overall index lower	The Chinese economy continues to experience strong growth conditions, the pandemic notwithstanding	4/5 (economy)	In the midst of a resurgent virus, vastly reduced travel and renewed lockdown restrictions, even China will not be able to escape the cyclical downturn that is set to influence the global business cycle at the start of 2021.

Local FX Opening Rates and Comment

	CUSTOMER BUY		CUSTOMER SELL		Benchmark Yield Curve		Forward Foreign Exchange			
	CASH	CASH	TT	TT						
BWPZAR	1.3156	1.4358	1.3409	1.4220	6m	1.2440		BWPUSD	BWPZAR	
BWPUSD	0.0878	0.0958	0.0895	0.0949	3y	3.9150	1m	-1.8623	0.0000	
GBPGBP	15.4863	14.1998	15.1513	14.4957	5y	5.0550	3m	-5.1773	0.0000	
BWPEUR	0.0713	0.0778	0.0730	0.0763	9y	5.3850	6m	-10.6958	0.0000	
JYPBWP			9.2355	9.6357	22y	5.9350	12m	-22.3763	0.0000	
USDZAR	14.3783	15.5897	14.7153	15.2524						
EURUSD	1.1817	1.2802	1.2094	1.2525						
GBPUSD	1.3078	1.4170	1.3385	1.3863						
					Equities		Economic Indicators			
					BSE Domestic Index	6889.74	GDP	-6.00%	Bank Rate	3.75
					BSE Foreign Index	1547.28	CPI	2.20%		

- The World Bank's January 2021 Global Economic Prospects released yesterday revealed that global growth is forecasted to rebound this year to an expansion of 4.0% from a contraction of 4.3% in 2020. Global growth will remain 5.0% below its pre-pandemic trend as the resurgence of COVID-19 infections dampened growth in the near term. Growth in advanced economies is forecasted to rebound to 3.3% in 2021 and 3.5% in 2022 while emerging and developing economies are expected to record an expansion of 5.0% this year, the improvement largely reflects China's expected rebound. Zooming on regional prospects, the East Asia and Pacific will rebound sharply with growth forecasted at 7.4% in 2021, followed by Latin America and the Caribbean (3.7%), Europe and Central Asia (3.3%) Sub-Saharan Africa (2.7%) and then, the Middle East and North Africa (2.1%). The Washington based lender is projecting Botswana to rebound from a contraction of 9.1% in 2020 to 4.7% in 2021 before slowing to 4.0% in 2022.
- Moving the focus offshore, the release of Fed meeting minutes and ADP employment change data out of the US will likely be eclipsed by political developments. Nonetheless, the strength of the labour market in the US has become an important gauge of the business cycle in recent months, as has the Fed's interpretation of all the data. The US was on a firmer footing and looked to be gaining traction through early Q4 before the fresh surge in infections. The recovery trajectory may well be hampered by fresh restrictions as will business and household sentiment.
- All eyes are on the outcome of the high-stake Senate runoff elections in Georgia that took place overnight. As things stand, exit polls suggest the outcome is still too close to call. Republican incumbent David Perdue is leading his election race against Democrat Jon Ossoff by a very small margin, while Democrat challenger Raphael Warnock has taken a stronger lead against Republican incumbent Kelly Loeffler in their runoff election. As the results become clearer through the early stages of today's trade, investors are likely to leave the market side lines and become more active.
- Initially, a Democrats clean sweep of Georgia could raise expectations of more fiscal stimulus measures being applied to the US economy. That would be growth generative and would go some way to explaining the steepening in the US yield curve and the rise in bond yields. Over the medium to longer-term however that implies that there is more debt on the US balance sheet that will require some fairly substantial fiscal reforms. Whether a more socialist minded Democrat party has the means to impose such reforms is questionable.
- Global FX markets, the trade weighted USD remains under pressure. The depreciative bias remains intact and the thought of a Democrat win that will likely lead to even more US regulations and more fiscal stimulus has left USD bulls unimpressed. Other major currencies have taken their cue from the USD's inability to gain traction and gained some ground. For now, the bias remains against the USD and selling USD upticks the favoured strategy. Ultimate direction could however come once the Georgia election results are made final and official.
- A more than 1.00% retreat was recorded for the BWP-USD yesterday. The notable slide in the cross is the biggest intraday drop since October 28 and was in part underpinned by the government's decision to set the pula currency to lose value at a faster rate this year and the tentative risk sentiment. A breach below the 0.0920 which has been a line in the sand for the BWP-USD could potentially open doors for a further retreat. Offshore developments will hold focus today in the absence of domestic economic data.

ZAR and Associated Comments

- Markets signalled a sense of risk off trade yesterday as a possible Democrat victory in two US Senate races in Georgia may be on the cards, paving the way for the Biden administration to push for policies including more regulation and higher taxes. With traditional havens such as gold rising, the US dollar failed to attract bids in this respect, which suggests the market is weighing the likelihood of the above more than the possibility of greater fiscal easing under Biden should Democrats win both senate seats.
- Global FX market sentiment was more mixed than expected despite gold trading stronger. Locally, stocks rose while the ZAR lost ground against a broadly weaker USD. In fact, the local currency was the worst EM performer on the day amidst growing speculation of a move to tighter lockdown restrictions. This followed news reports that President Ramaphosa called for an urgent National Coronavirus Command Council (NCCC) meeting this morning, ahead of a meeting scheduled for next week. However, according to a government spokesperson, the meeting was indeed scheduled prior to yesterday's announcement with the last meeting interrupted by holidays.
- Nonetheless the risk of more economically devastating lockdown restrictions still exists, as shown in in the Northern Hemisphere this week as well, with market nervousness meaning participants will be quick to price in the associated fiscal risk premiums into domestic asset prices and the ZAR. Resultantly, the ZAR retreated more than 2% during the day yesterday as it crossed the 15.0000/\$-handle, ultimately closing just shy of the mark in its greatest daily loss since September.
- For today thus far, the US dollar's decline has steadied somewhat overnight after strong US manufacturing PMI data for December which downplays the need for further stimulus as the economy's recovery continues. Globally, traders are awaiting the Georgia runoff election results and the implications it will have on US fiscal policy, while focus will also turn to the release of December's FOMC meeting minutes later today. It is expected the minutes will reiterate the Fed's commitment to its highly accommodative monetary policy and low interest rates, ultimately providing further headwinds for the dollar. Domestically, the economy-wide Standard Bank PMI for December headlines the local data card. With the ZAR tracking broader sentiment and COVID-19 headlines, this may not have much market moving potential, especially since the move to tighter restrictions at the end of December.

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