

Botswana Market Watch

7 January 2021

GMT		International and Local Data	Period	Exp	Previous
	BO	Nothing on the cards			
07:00	GE	Factory orders y/y	Nov	6,3% (a)	1,8%
10:00	EZ	CPI estimate y/y	Dec	-0,2%	-0,3%
10:00	EZ	Consumer confidence	Dec A		-13,9
13:30	US	Initial jobless claims	Dec 19		787k
15:00	US	ISM non-manufacturing composite PMI	Dec	54,5	55,9

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	Both Senate seats have gone the way of the democrats in Georgia, completing a clean sweep of the state. Yet another repudiation of the Trump administration	It means that Democrats now control the House, the Senate and the White House	5/5 (politics, Economy, markets)	The "blue wave" gives Democrats a very powerful position in which to make significant policy advances. Investors originally believed that a "blue wave" would usher in more socialist policies
Fed minutes	Path of the recovery would be dependent on the virus. The vaccines have strengthened the medium-term outlook. Future policy changes would be subject to qualitative assessments	Policy was deemed appropriate at this time and the Fed remains flexible to add more stimulus if needed	4/5 (economy, Monetary policy)	While improvements in the labour market are lagging the real economy recovery, policy will remain appropriate. However, policy will not be governed by data alone. Qualitative assessments will also be made
UK car sales	British car sales fell by nearly 30% in 2020 in what is the largest percentage drop since 1943 and World War II as lockdowns deal a devastating blow to car makers	Car sales are a good indicator of the health of the real economy, confirming the severe hit to aggregate demand	4/5 (economy)	A combination of lockdowns, loss in earnings, weak profitability and reduction in investment have all impacted negatively and the effects of the lockdowns will linger for some time to come and across other industries

Local FX Opening Rates and Comment

	CUSTOMER BUY	CUSTOMER SELL	CUSTOMER BUY	CUSTOMER SELL	Benchmark Yield Curve		Forward Foreign Exchange			
	CASH	CASH	TT	TT	6m	12230	1m	BWPUSD	BWPZAR	
BWPZAR	1.3164	1.4378	1.3417	1.4240	3y	3.8750	3m	-1.8525	0.0000	
BWPUSD	0.0876	0.0956	0.0893	0.0947	5y	5.1250	6m	-10.7640	0.0000	
GBPGBP	15.4815	14.1942	15.1466	14.4899	9y	5.2750	12m	-22.2495	0.0000	
BWPEUR	0.0711	0.0776	0.0728	0.0761	22y	5.9250				
JPYGBP			9.2552	9.6561						
USDZAR	14.4175	15.6450	14.7554	15.3066						
EURUSD	1.1827	1.2815	1.2104	1.2538						
GBPUSD	1.3044	1.4135	1.3350	1.3829						
Equities		Economic Indicators								
BSE Domestic Index	6888.09	GDP	-6.00%	Bank Rate	3.75					
BSE Foreign Index	1547.28	CPI	2.20%							

- There is no domestic news worth discussing. Therefore the focus this morning falls on the oil market and global developments. Notwithstanding the drama on Capitol Hill last night, oil prices have continued to trend higher this morning supported by expectations for tighter global supply after Saudi Arabia unilaterally agreed to cut output and as official data out of the US showed that crude stockpiles fell sharply last week. Investors were left in shock last night after an unprecedented event which saw supporters of President Donald Trump storm the US Capitol, sending it into lockdown, as Vice President Mike Pence refused a demand from the president to cancel his loss to Democrat Joe Biden.
- Oil has risen for a third straight session this morning. The front month Brent contract is heading for the next psychologically important resistance level of \$55.00/bbl, which has not been broken since February last year. The bullish bias this morning is in large being supported by the bigger than expected drop in US crude inventories which fell by 8mn barrels in the week ending January 1, according to a report published by the Energy Information Administration on Wednesday. Looking at the session ahead, given the bullish impetus stemming from the massive drop in US crude inventories and commitment from Saudi Arabia to supporting oil prices through a larger than expected production cut, we expected the topside momentum in oil to persist.
- Meanwhile, more importantly for global markets is that the “blue wave” scenario is back in play in Washington after Democrat candidates emerged victorious in this week’s two Senate runoff elections in Georgia. These election results mean the US’s left-leaning party will control both the White House and Congress for at least the first two years of the Biden presidency, providing a significant boost to the president-elect’s policy mandate. While change is very much in the air in Washington, it is worth noting that the Democrats’ slim majority in Congress may prevent any radical legislative changes. Nonetheless, the global market is preparing for greater debt-funded stimulus out of the US, as well as higher corporate taxes and tighter regulations.
- All this has prompted calls for Trump's impeachment which would put paid to any second term in office and articles for impeachment are being drawn up. The transition in power from the Trump administration will take place after all, but reflects just how divided the country is and just how polarised US politics have been through the past four years. Republicans have been hurt badly by the polarisation not just in the polls, but also within their own party that has fractured.
- Moving to the global FX markets, the USD for now remains on the defensive. News that the Democrats won both senate seats in the Georgia run-off election has investors positioning for the consequences of more stimulus spending on debt, higher taxes and more regulation, none of which is deemed USD supportive. Most markets priced in USDs are performing well, as is the likes of Bitcoin which is rapidly turning into a digital safe-haven play, albeit with higher degrees of volatility. There are no indications as yet that the USD is about to recover
- On the domestic FX market, the BWP-USD gapped higher at the open this morning and is trading 0.22% high at the time of writing. The move higher has been supported by the risk-on environment amid the US Democrats party taking control of the Senate. With the key event risk coming to pass, the market is likely to turn to vaccine developments for direction guidance in the session ahead.

ZAR and Associated Comments

- The ZAR continued its New Year losing streak yesterday, failing to hold onto gains during the day amid rising speculation that South Africa may move to tighter COVID-19 restrictions to curb the virus’ unabated spread. Resultantly, the USD-ZAR currency pair failed to sustain a break below the 14.90-handle, while the dollar was offered some reprieve during the day after it hit lows on a trade-weighted basis last seen in March 2018. Ultimately, the local unit ended not far from where it began the day, closing 0.2% weaker around the 15.03/\$-handle.
- The USD’s minor rebound yesterday proved to be short-lived, however, with the Georgia runoff elections swinging towards Democrat candidates overnight. Democrats now have majority seats in the Senate and House of Representatives, making it easier for Biden’s legislative aims to be passed including supplementary fiscal stimulus packages. As a result, investors will continue to bet on further expansive fiscal policy in the future while the latest Fed minutes showed members were unanimous in decision to keep asset purchases unchanged in December.
- Despite the dollar beginning the year at multiyear lows, the ZAR has been lagging its EM peers as idiosyncratic risks continue to mount. This is in stark contrast to the resilience the currency has enjoyed in recent weeks, with the risk of further lockdown restrictions as the government drags its heels in vaccine procurement compounding pressure on the ZAR and limiting its upside potential in the short-term. In terms of data too, the economy-wide Standard Bank PMI moderated in December to a three-month low, albeit only marginally. Nevertheless, momentum was slowing and given the restrictions at the end of December and fresh load shedding announcements from Eskom, this sets up the SA economy for a tough first quarter.
- There was some positive news yesterday that SA insurers will subsidise vaccines for a proportion of the population, as the private sector attempts to accelerate towards the perceived end of the pandemic. This did little to settle market nerves, however, as participants await the outcome of yesterday’s NCCC meeting and an address from the President which usually occurs some days following the meeting. For the day thus far, the dollar continues to be weighed down and it may be further unsettled this morning as European markets awake to news that protesters stormed the US Capitol overnight in a bid to overturn election results. As yet however, the reaction has been fairly muted with Biden’s election certification having recommenced.

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