

Botswana Market Watch

8 January 2021

GMT		International and Local Data	Period	Exp	Previous
	BO	Nothing on the cards			
10:00	EZ	Unemployment rate	Nov	8,5%	8,4%
13:30	US	Change in nonfarm payrolls	Dec	50k	245k
13:30	US	Unemployment rate	Dec	6,8%	6,7%
15:00	US	Wholesale inventories m/m	Nov P	-0,1%	-0,1%

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
Trump impeachment	Following the chaos that unfolded in the US Capitol, calls for Trump's removal have been louder than ever. Pence looks reluctant to invoke article 25 which means impeachment might follow if there is enough time	Any impeachment if successful would prevent Trump from running for re-election and a second term in office. Time may be too short	5/5 (economy, politics)	Article 25 would be the easier approach, but Mike Pence appears reluctant to do so, partly as it may affect his political prospects in the future. That being said, Pence has reportedly already angered Trump who has increasingly isolated himself in the White House
Indian GDP growth	The statistical office released its forecasts for the current fiscal year and predicted that GDP would shrink by 7.7%, the worst performance in four decades	It will imply that the budget deficit will likely rise to more than 7% of GDP in the current fiscal year	4/5 (economy, fiscal policy)	The recovery has begun and solid growth is anticipated in the final quarter of 2020. The start of the mass vaccination project this week will also help bolster confidence levels
Italy fiscal stimulus	Italy plans on spending more than €222bn to help revive its economy according to a draft document seen by Reuters. Italy is entitled to €200bn from an emergency programmes	It may offer some near-term respite, but it will also result in debt levels escalating beyond current uncomfortable levels	4/5 (economy)	Notwithstanding this amount, PM Conte is facing internal resistance and criticism by former premier Renzi who would like to see more money spent through accessing the EZ's bailout fund (ESM) to help fund hospitals

Local FX Opening Rates and Comment

	CUSTOMER BUY	CUSTOMER SELL	CUSTOMER BUY	CUSTOMER SELL	Benchmark Yield Curve		Forward Foreign Exchange			
	CASH	CASH	TT	TT			BWPUSD	BWPZAR		
BWPZAR	1.3300	1.4542	1.3556	1.4402	6m	1.2250				
BWPUSD	0.0867	0.0945	0.0884	0.0936	3y	3.8750	1m	-1.8233		
GBPGBP	15.6484	14.3483	15.3098	14.6472	5y	5.1250	3m	-5.1188		
BWPEUR	0.0707	0.0771	0.0723	0.0756	9y	5.2750	6m	-10.5788		
JPYBWP			9.2159	9.6052	22y	5.9250	12m	-21.9765		
USDZAR	14.7285	15.9979	15.0737	15.6518						
EURUSD	1.1775	1.2760	1.2051	1.2484						
GBPUSD	1.3042	1.4132	1.3347	1.3826						
					Equities		Economic Indicators			
					BSE Domestic Index	6888.09	GDP	-6.00%	Bank Rate	3.75
					BSE Foreign Index	1547.28	CPI	2.20%		

- Botswana President Mokgweetsi Masisi met with visiting Chinese State Councillor and Foreign Minister Wang Yi yesterday on bilateral ties. Speaking at the meeting, Yi said that China is willing to join in Botswana to strengthen the party-to-party and people-to-people exchanges and deepen post-COVID-19 bilateral cooperation in various fields. Following the meeting with President Masisi, Yi met Botswana's Minister of International Affairs and Cooperation Lemgang Kwapo where the two signed a Memorandum of Understanding on jointly advancing the Belt and Road Initiative (BRI) and other cooperation documents.
- On the international scene, following the chaos that unfolded in the US Capitol, calls for Trump's removal have been louder than ever. Pence looks reluctant to invoke article 25 which means impeachment might follow if there is enough time. Any impeachment if successful would prevent Trump from running for re-election and a second term in office. Time may be too short. Article 25 would be the easier approach, but VP Pence appears reluctant to do so, partly as it may affect his political prospects in the future. That being said, Pence has reportedly already angered Trump who has increasingly isolated himself in the White House.
- In related news, Trump appears to have finally conceded that a transition to a new administration will take place on the 20th Jan. However, Trump will likely face a string of legal problems once he leaves office. Beyond just the probable court case around hush-money paid to two women Trump had affairs with for which he cannot be pardoned, to tax evasion and defamation. He is also looking at potentially starting a media company of his own and the establishment of a fund that would allow him to continue campaigning ahead of 2024
- Moving to the global FX markets, the USD has recovered marginally, with some sensibility returning to US politics and Trump seemingly conceding that a transition of power will take place on the 20th Jan. The recovery has come off a low base and it remains too soon to tell whether the gains are simply a market recovery within a broader weakening trend, or whether this was the start of something more substantial. Looking at all the evidence available, one would more than likely conclude that it was the former. There appears to be no obvious reason for why the USD should begin any recovery, other than a market that may be a little one-sided in its speculation against it.
- Locally, it was a downbeat session for the BWP-USD yesterday. The local currency gave up its earlier gains to end the day about 0.87% lower from the previous close. The resurgent dollar underpinned the retreat in the cross. In the early morning session today, losses in the BRWP from yesterday were sustained as the cross pulled back further, breaking below the 50-session moving average (0.0908). Note that the 50-SMA was last breached in September. A move below this level could potentially open the doors for a further slide in the BWP-USD.

ZAR and Associated Comments

- Despite the results of the recent Georgia runoff elections swinging in favour of Democrat candidates, potentially paving the way for additional fiscal stimulus, investors spurred on a significant US dollar pullback as bearish bets were unwound and a bout of profit taking ensued. Meanwhile, a broad EM currency decline added an extra tailwind, leading the DXY (trade-weighted dollar index) to an intraday gain of roughly 0.5%.
- The ZAR meanwhile took a heavy hit yesterday as the currency closed around 15.42/\$ after opening slightly above the 15.0000/\$-handle. Although the local currency was not alone in its slide as the USD rebounded broadly against major and emerging market currencies, it did show the least resilience to the broader market decline. As a result, the local unit was the worst performer in the EM sample closing more than 2.5% weaker. For comparison, the next worst EM performers were the Brazilian Real and Mexican Peso closing 1.86% and 1.79% lower, respectively.
- This week had led the ZAR to record almost 5% in losses against the USD, removing much of December's gains. The ZAR's rally through Q4 2020 was fuelled by a general emerging market rally where investors were seeking proxies for EM exposure, but arguably much has changed in the short amount of time since then. As South Africa battles through its own second COVID-19 wave of infections, difficulties in securing vaccines, growing speculations for tougher lockdown restrictions, these specific factors serve to exacerbate the currency's decline in heightened volatility trading conditions.
- Looking ahead, South Africa's worsening economic outlook in the short term and deteriorating fiscal position further out suggests a rough road ahead for the ZAR. This still may be dampened somewhat as central banks are set to maintain their highly accommodative monetary policies for some time. For the dollar, increased stimulus under the Biden administration would likely not mean an immediate change to the Fed's highly accommodative monetary policy and a tapering to asset purchases. Thus, we still see further dollar bearishness set to continue and the current pullback not a technical correction.
- For today thus far, FX markets have steadied overnight with the ZAR trading water in early trade this morning. Gross and net reserves will grace the domestic data card today alongside Absa manufacturing PMI data. Later in the day, investors will look towards an update on the US labour market with official employment report forecasted to show a sharp dip in hiring, which will underscore the need for additional stimulus to be passed in the near term.

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