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Botswana Market Watch

11 January 2021

GMT		International and Local Data	Period	Exp	Previous
	BO	Nothing on the cards			
-	JN	Public Holiday			
01:30	CH	CPI y/y	Dec	0,2% (a)	-0,5%
09:30	EZ	Sentix investor confidence index	Jan	2	-2,7

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
IMF reserve target	Citing increased credit risks given the debt explosion seen globally following the lockdown induced recessions, the IMF executive board has agreed to raise the medium-term target for its precautionary reserves by $25bn	The amount increased is tiny by comparison to the risk escalation, but a sign of a more stressed economic environment ahead	3/5 (economy)	Credit outstanding has doubled, while there has been a surge in emergency financing without conditionality. As the demands on the IMF grow, so this increase in reserves will likely be adjusted even further through the months ahead.
UK fiscal concerns	Fin Min Sunak has expressed concern that a rise in interest rates down the line will impact significantly the government's cost of funding given the explosion of debt through 2020	Such increased levels of debt will usher in a new phase of fiscal conservatism in the years that follow to contain the debt	4/5 (economy, markets)	Once the pandemic is behind us and a real economic recovery begins, Sunak will need to seriously consider what can be done to help pay down overall levels of government debt in order to render the UK sustainable with a good rating
Chinese deflation	Chinese factory gate prices have fallen at the slowest pace in 10 months, suggesting there is a recovery under way. That being said, deflation remains a feature of the economy for now	CPI has returned to growth as seen last month, but producer process will keep pipeline pressures relatively soft	3/5 (economy)	With economic activity still remaining relatively strrong, the prognosis is that the Chinese economy will recover from this deflationary environment and the PBoC will consider gradually tightening policy later this year

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.3339	1.4497	1.3596	1.4357
BWPUSD	0.0866	0.0940	0.0883	0.0931
GBPBWP	15.5827	14.3469	15.2456	14.6458
BWPEUR	0.0710	0.0772	0.0727	0.0757
JPYBWP			9.2257	9.5747
USDZAR	14.7886	16.0356	15.1352	15.6886
EURUSD	1.1700	1.2677	1.1975	1.2402
GBPUSD	1.2970	1.4056	1.3274	1.3752

Benchmark Yield Curve

6m	1.2230
3y	3.8750
5y	5.0550
9y	5.2150
22y	5.9250

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-1.9890	[redacted]
3m	-5.1383	
6m	-10.6178	
12m	-22.0448	

Technical Iss

Equities

BSE Domestic Index	6888.09
BSE Foreign Index	1547.28

Economic Indicators

GDP	-6.00%	Bank Rate	3.75
CPI	2.20%		

- Economic data is scant for this week. As such the focus falls on global developments. The pressure on President Trump is ramping up from all angles. The House Democrats will today hold a vote for Trump's removal to further pressure Vice President Pence to remove him from office. Pence has expressed his reluctance to do so, in which case a move for impeachment will take place in record time. The House will undoubtedly pass the vote for impeachment on to the Senate, but this time, unlike the first, Trump might not be able to avoid his removal from office. Whether there is enough time for this to take place is debatable. Such impeachment would prevent him from running again as a presidential candidate in 2024. This week's actions will be key.
- Within the White House, there is talk of Trump losing widespread support and that those that have chosen not to resign in protest to the insurrection developments of last week are only there to ensure a smooth transition. Trump and his Vice President are not on speaking terms, and morale is low. For all intents and purposes, Trump has lost his administration with may of his staff now expressing concern about their careers and political futures given their link to his administration.
- In the meantime, mass vaccination sites are open a full functional in New York, while Texas is planning on a different approach devoting more resources to fewer sites. Time will tell which approach is best, but vaccinations are now taking place with full commitment from the authorities. Add to that the widespread infection rate and the recovery of most patients and herd immunity levels will likely be achieved later this year, whether everyone vaccinates for the virus or not.
- Moving to the global FX markets, the return of some political stability and the hopes that a Democrat clean sweep of Congress and the White House will lead to greater stimulus has translated into short-bets on the USD being curtailed. This is leading to a correction in the USD more than it is a reversal of fortunes. Over the longer-term, once the overhang of short USD positions is unwound, we would expect to see the USD resume its depreciation.
- Looking at the local FX market, the BWP-USD ended relatively flat on Friday, bringing to a halt the retreat recorded in the previous session. The broader performance last week showed that the BWP-USD bears were in charge with the pair losing more than 2.00%. The USD correction underpinned the depreciation in the BWP last week. Whether or not last week’s losses will be sustained remains to be seen. With no local data slated for release, market focus will be derived from international developments for directional guidance.

ZAR and Associated Comments

- The ZAR managed to end the first week of 2021 on a slightly positive note as the currency snapped a six-day losing streak. The local unit gained 0.83% against a US dollar which remained broadly stronger on aggregate as it closed just shy of the 15.30/$-handle.
- Investor fears were allayed on Friday after the announcement that South Africa would acquire vaccines from the Serum Institute of India who would be producing the AstraZeneca vaccine. However, the ZAR suffered a terrible week amidst recording record daily rises in new COVID-19 infections and government’s sluggish procurement of vaccine supplies. This gave the ZAR bears sufficient impetus to erase most of December’s gains as the currency retreated close to 4%. Although, USD strength exacerbated the local currency’s decline, the ZAR fared amongst the worst as it ended the week second from the bottom of the emerging market currency sample, evidence that idiosyncratic factors were at play which may drive further currency weakness in the future. For comparison, the ZAR finished below the Colombian Peso which declined 1.33% over the week while the next worst EM performer was the Brazilian Real as it fell 4.11%.
- External conditions have generally been good for the ZAR, as bets for dollar weakness persisted into the end of 2020. Though, South Africa’s internal headwinds may come more to the fore as 2021 gets underway and vaccine rollout progresses globally. Adding to this and much to the displeasure of the business community, at the ANC’s anniversary celebration last week President Ramaphosa said in his televised address that the ruling party expects parliament to approve an amendment to the constitution outlining the circumstances in which land expropriation without compensation may occur.
- Looking to the week ahead, dollar moves still appear to be driving general direction for the USD-ZAR pair. This was evident in Friday afternoon’s turbulent trade as US markets opened and gains in US treasury yields played out in FX markets. Growing perceptions the US may be in for a period of inflation is currently driving yields higher, but overall this may be too soon to drive dollar strength. Friday’s weak US jobs report continues the narrative that the Fed will remain highly accommodative throughout 2021, while President-elect Joe Biden’s late Friday call for immediate further stimulus should serve as a sign of what is to come. Accompanying this, further currency debasement as well as easy money to flow to emerging markets should provide risk assets a continued boost in the months to come following the short-term correction, save for idiosyncratic factors as was the case for the ZAR last week.
- It is a slow start to the week in terms of data. Investors will have to wait until tomorrow’s release of November’s manufacturing production data and retail sales data on Wednesday, which may be seen as old data given the advent of tougher lockdown restrictions.

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