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Botswana Market Watch 12 January 2021

GMT		International and Local Data	Period	Exp	Previous
	BO	No data scheduled			
O/N	US	Fed's Kaplan Discusses Economy and Monetary Policy			
O/N	JN	Current account total	Nov	¥1878,4bn (a)	¥2144,7bn
O/N	JN	Trade balance	Nov	¥616,1bn (a)	¥971,1bn
14:35	US	Fed's Brainard Speaks at Artificial Intelligence Symposium			

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
Hong Kong crackdown	Last week saw the authorities arrest more than 50 democrats as Beijing sought to stifle any return to protests against Chinese rule, with more measures likely	The behind the scenes move was aimed at stomping out any would-be protests before they begin	4/5 (politics)	The efforts of the Chinese will not stop here. Next they will seek to "reform" the electoral system to tackle perceived "deficiencies" that will likely quell any ability for self-determination. It is far from clear that this will stop the protests
UK Covid-19 crisis	PM Johnson declared that the UK was in a race against time to roll out vaccines as infections and deaths hit fresh record highs and hospitals ran out of oxygen	Economically speaking, the resurgent virus and lockdowns will see GDP take a battering	4/5 (economy, markets)	Johnson has lamented the complacency that has crept into the population due to the distribution of vaccines, warning that the situation could become even worse before it gets better
EZ investors morale	Notwithstanding the latest spike in infections and deaths and the new lockdowns announced investor morale rose more than expected in Jan as confidence grew of mass vaccinations	With vaccines approved and the mass roll-out starting, investors are looking beyond the current pandemic	3/5 (markets, economy)	The expectations sub-component to the index rose to an all-time high of 33.5 in Jan from 29.3 in Dec, while the current situation index recovered to -26.5 in Jan from -30.3 in Dec and will likely continue improving as vaccines roll out

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.3368	1.4532	1.3626	1.4392
BWPUSD	0.0864	0.0938	0.0881	0.0929
GBPBWP	15.6670	14.4276	15.3280	14.7282
BWPEUR	0.0710	0.0772	0.0727	0.0757
JPYBWP			9.2060	9.5645
USDZAR	14.8533	16.1103	15.2014	15.7618
EURUSD	1.1676	1.2651	1.1949	1.2377
GBPUSD	1.3014	1.4100	1.3319	1.3795

Benchmark Yield Curve

6m	1.2250
3y	3.8750
5y	5.0550
9y	5.2150
22y	5.9250

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-1.9110	[redacted]
3m	-5.0993	
6m	-10.5203	
12m	-21.8498	

Technical Iss

Equities

BSE Domestic Index	6887.17
BSE Foreign Index	1547.28

Economic Indicators

GDP	-6.00%	Bank Rate	3.75
CPI	2.20%		

- Mining news will hold focus for today. The unit of Anglo American company, Debswana cancelled a $1.4bn contract (Pula 15.7bn) with Majwe mining to deepen Jwaneng diamond mine. While information relating to the reason for cancellation remains unknown for now, the cancellation of will be effective January 4 and Majwe was given a 90-day notice. According to Debswana's spokeswoman Rachel Mothibatsela, deepening of Jwaneng, known as cut 9 operation, will transition to an owner-mining operation, with some of the key services and resources, being provided by contractors and services providers. It is also worth highlighting that deepening Jwaneng will extend its lifespan to 2035 and is scheduled to yield an additional 53mn carats of rough diamonds.
- On the international scene, much of the focus at the moment revolves around the political developments in Congress. The Democrat-controlled House of Representatives has moved at record pace and will introduce a vote for impeachment on Wed. It will likely pass and be pushed on to the Republican-controlled Senate to hold a trial. However, even though many Republicans have tilted their stance against Trump, it is not clear whether the 2/3rd majority needed to convict Trump would be secured. Furthermore, it is unlikely that there would be enough time to hold the trial unless Senate Majority Leader calls a special sitting of the sitting before the Jan 19 return. This might ultimately prove to be in vain.
- Vice President Pence has indicated that he will not invoke article 25 to remove President Trump, while President Trump has defiantly said that he will not step down. Arguably the only other strategy left for the Democrats would therefore seek ways to bar him from holding any political office in the future. This is where a second impeachment in the House could prove useful. The ultimate objective would be to prevent him from running in the 2024 election and to pour cold water on any campaign rally Trump was looking to launch on the same day as Biden's inauguration.
- Moving to the global FX markets, amid new stimulus hopes and rising bond yields, the USD has found some support. That this happens to be unfolding shortly after a long and grinding bear run for the USD will lead many to conclude that the current move is more about a correction that it is about a material shift in favour of the USD. After all, the Fed is still conducting aggressive monetary easing and the Federal government is still running a massive budget deficit. The trade account is looking worse than ever and US politics remain fractious. With the Democrats at the helm, the USD may very well face fresh debasement concerns in time.
- Looking at the local FX market, the bearish bias on the BWP-USD remain entrenched at the start of the new week. The cross retreated about 0.70% on Monday for the third straight session amid a broad-based dollar strengthening. A sustained break below the 50-session moving average at 0.0909 is likely to potentially open doors for the BWP-USD to pull back further. The next level to watch is the 100-session moving average at 0.0890 which coincides with the next crucial support. International development will continue to be looked at for directional impetus.

ZAR and Associated Comments

- The ZAR's sell off of late resumed yesterday after a brief pause at the end of last week, this time driven weaker in anticipation of an address by President Ramaphosa, while a stronger US dollar added pressure onto the local unit. The USD has recently been buoyed on higher US Treasury yields as investors expect further stimulus to accompany the Biden administration once taking office in just over a week.
- Although this would ordinarily drive a weaker greenback with inflation expectations leading to currency debasement, rising Treasury yields have had more weight in the market's eyes and as investors begin to gauge the timeline of potential Fed hikes. Biden is set to release proposals for relief spending and economic stimulus on Thursday.
- Back to the local currency, the ZAR ended yesterday a further 1.43% weaker after reaching an intraday low of 15.66/$, levels last seen mid-November. However, the day was characterised by broad losses amongst emerging market as well as developed economies' currencies. The ZAR, nonetheless, fared amongst the worst as pressure mounted ahead of Ramaphosa's televised address. Ultimately, the President announced that the country will remain on virus alert level 3. This will likely far from settle the market and the country's population with economically damning restrictions remaining in place. There was no change to the alcohol ban, various land-border posts will be closed to most travellers until Feb 15, no public gatherings will be allowed except funerals and the nationwide curfew was slightly changed to 9 pm to 5 am.
- With the private sector taking the immediate, devastating hit of crude virus containment measures that are ongoing lockdown restrictions, it is only a matter of time these effects rear their head in the form of government funding issues with tax intake unlikely to recover for some time. Ultimately for the currency, this will prove to be a tough road ahead. Having said that, according to the latest CFTC data speculators remain net long ZAR at the end of last week, although the position was trimmed to $0.24bn from $0.25bn. This suggests the market expects further upside for the ZAR which remains undervalued on a purchasing power adjusted basis. The unit's ability to capitalise on this in the short-term is, however, at the mercy of the virus' spread and government's vaccine procurement efforts. On that note, the first shipments of vaccines from the initial deal with the Serum Institute of India is expected this month, while Ramaphosa also announced last night government has secured 20 million vaccine doses thus far, with the majority expected in H1.
- For today, the Asian session has kicked off with emerging market currencies remaining under pressure as the dollar extends recent gains. On the domestic data card, the market will have November manufacturing production data to digest later today. Given how dated the data is with the advent of tougher restrictions and considering last week's Absa PMI release which fell in December, any improvement for the structurally-impeded sector may not hold much focus.

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Report produced by ETM Analytics for BancABC Botswana.

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