

Botswana Market Watch

13 January 2021

GMT		International and Local Data	Period	Exp	Previous
	BO	No data scheduled			
06:00	JN	Machine tool orders y/y	Dec P	8,70% (a)	8,60%
10:00	EZ	Industrial production (wda) y/y	Nov	-2,90%	-3,80%
13:30	US	CPI y/y	Dec	1,30%	1,20%
13:30	US	Real ave weekly earnings y/y	Dec		4,70%

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
Oil rally	The bullish bias in oil seen at the backend of last year remains intact at the start of 2021 supported by vaccine optimism, a larger than expected output cut from Saudi Arabia and a decline in American crude inventories	International oil prices have risen to more than a 10-month high at the start of the new year. This is supportive for African oil producers who rely on the commodity for foreign currency earnings	4/5 (commodity)	While technical indicators suggest that the recent rally in oil is overstretched, we expect oil prices to remain buoyed near current levels in the weeks ahead even as countries around the world tighten lockdown restrictions. The front month Brent contract is expected to oscillate around the \$55/bbl mark
AfCFTA	Members of the African Continental Free Trade Area (AfCFTA) should complete their tariff reduction schedules and finalise essential rules of origin by July according to a senior official. Recall that the new trade agreement came into effect on January 1	Members must phase out 90% of tariff lines over the next 5-10 years while the 7% that is considered sensitive will be granted more time and 3% will be allowed to be placed on an exclusion list	3/5 (economy)	Silver Ojakol, chief of staff at the AfCFTA Secretariat, announced that nearly 90% of the rules of origin have now been agreed and the remaining 10% which involves key issues such as infrastructure interconnectivity will have until July. While the AfCFTA is seen boosting trade and growth, there are still major challenges to be overcome

Global Developments	What happened?	Relevance	Importance	Analysis
Chinese lockdown	China has never feared locking down to battle the virus as it recorded the biggest jump in five months. Although the daily jump is small compared to the UK or the US, 4 cities are locked down	The aggressive response is aimed at avoiding widespread infections and limiting impact on the economy	4/5 (politics)	In the broader scheme of things, locking down 28mn people is like locking down a country, but in the context of China's overall population it is small. The ultimate impact on the economy will be negative, but not devastating
China's CoronaVac vaccine	Data released by Brazil collected from a trial shows that China's vaccine generates an efficacy rate of just 50.4% at preventing symptomatic infections	This is disappointing for Brazil given that this was one of two vaccines earmarked for distribution	4/5 (economy)	This will likely raise the scepticism of using the Chinese vaccine, although the data did include cases where only very mild symptoms were recorded amongst some who received the vaccine.
US vaccine rules	The US has changed its vaccine rules, releasing the rest of the doses it had been keeping in reserve for the second dose of those that have already had the first dose	Shows confidence in the supply chains that more vaccines will be made available in the correct time	4/5 (economy)	It is believed that wider vaccination with slightly lower efficacy will be more beneficial in fighting the pandemic that focusing on improving the efficacy slightly, but injecting half the amount of people

Local FX Opening Rates and Comment

	CUSTOMER BUY		CUSTOMER SELL		Benchmark Yield Curve		Forward Foreign Exchange			
	CASH	CASH	TT	TT						
BWPZAR	1.3260	1.4455	1.3516	1.4316	6m	1.2260	BWPUSD	BWPZAR		
BWPUSD	0.0870	0.0945	0.0887	0.0936	3y	3.8750	1m	-1.8623		
GBPWP	15.7044	14.4137	15.3647	14.7140	5y	5.0550	3m	-5.1480		
BWPEUR	0.0712	0.0776	0.0729	0.0761	9y	5.2150	6m	-10.6178		
JPYBWP			9.2257	9.6154	22y	5.9250	12m	-22.2105		
USDZAR	14.6364	15.8716	14.9795	15.5283				Technical issue		
EURUSD	1.1724	1.2705	1.1998	1.2430						
GBPUSD	1.3131	1.4228	1.3439	1.3920						
					Equities		Economic Indicators			
					BSE Domestic Index	6887.17	GDP	-6.00%	Bank Rate	3.75
					BSE Foreign Index	1547.28	CPI	2.20%		

- Given the rise in coronavirus infections around the globe and locally, President Mokgweetsi Masisi has implored students to heighten adherence to COVID-19 measures as Botswana's 2021 school calendar begins. The Botswana government has put in place several initiatives ahead of the 2021 school year which includes reducing class sizes, renovating handwashing stations and hiring more personnel. Despite these measures being in place, President Masisi urged learners to continue observing the basic safety measures such as washing hands with clean water, sanitising frequently, social distancing and proper wearing of masks.
- Stateside, today will likely see another vote in the House of Representatives to impeach Trump. If it goes ahead, there is almost no doubt that Trump will set a new record as the only president to be impeached twice by the House. From there it will head to the Senate for trial, but it is unclear whether this will take place before his term in office ends, or whether enough Republicans in the Senate will vote with the Democrats to be able to convict Trump and oust him in time. An impeached and convicted president would not be allowed to contest a second term in office which is undoubtedly one of the objectives of the Democrats.
- Vaccine rules have changed. In response to the rapid spread of the virus, the US authorities have sought to utilise the second doses that people are supposed to receive to inoculate more people quickly. They are of course hoping that the logistics of more doses arrives in time to be able to inoculate those that need it with their second dose while still achieving greater resistance to the virus. The numbers make sense. The first dose offers more than 70% efficacy. Waiting for the second dose to raise the efficacy to more than 90% vs doubling the amount of people with a 70% efficacy, makes the choice relatively clear.
- Boston Fed President Rosengren has made it clear that the economy is likely to have a strong H2 2021. Once enough people have been vaccinated and the economy can open up a lot more, then the full effects of all the monetary and fiscal stimulus will become clear. There is much pent up stimulus waiting to be unleashed and the US economy is likely to go into a post-pandemic boom.
- Global FX market, some upbeat comments from Boston Fed President Rosengren, a more conciliatory tone by President Trump, and decisions to vaccinate more people with the spare doses has reduced overall risk assessments. Equity markets held up reasonably well yesterday and have remained supported today. US Treasury yields have caught a fresh bid and yields have stopped surging which has also helped put the brakes on the USD spike. With so much counting against the USD in so far as the twin deficits, loose monetary policy and the virus, the USD is expected to resume its depreciative bias.
- The BWP halted its losing streak yesterday as the dollar rally lost steam. The local unit advanced slightly in line with other emerging currencies. The recovery in the BWP has been sustained this morning with the local currency gaining almost 0.30% at the time of writing as global risk aversion subsided. A sustained breach above the 50-session moving average (0.0910) which was tested earlier could potentially open the doors for the local currency to recoup some of its losses that were suffered last week.

ZAR and Associated Comments

- Despite the extension of level 3 lockdown restrictions announced on Monday, the ZAR was offered some reprieve yesterday alongside a host of emerging market currencies as the US dollar's rally lost steam. After touching the 15.60/\$-handle in morning trade, the USD-ZAR pair gradually pulled back during domestic trading hours as the dollar came under pressure due to a retreat in US yields.
- The ZAR was able to capitalise on general EM currency demand as it closed near the top of the sample. However, this was likely spurred on by the exacerbated decline of last week which saw the currency underperform its peers and wipe out some 4% of value against the USD. With investors seeing this as an opportunity to buy into a ZAR rebound, the local unit ultimately ended 1.16% stronger against the greenback at 15.3424/\$.
- A ZAR rebound driven by global central bank easing and overall bearish outlook on the dollar may yet occur, but it would be in the face of a souring economic and fiscal outlook domestically. While the tightening of restrictions in December has added further constraints to the economy's recovery, November's manufacturing production data released yesterday showed the recovery already losing steam as South Africa's structural constraints continue to hold back domestic demand and business confidence. Manufacturing output decreased in November, snapping expectations for a month-on-month ride. Looking ahead, manufacturing output will likely struggle to recover meaningfully in Q1, hurting the country's economic growth prospects and the government's fiscal consolidation efforts.
- Thus as swings in risk appetite occur, it is expected the ZAR will be subject to greater volatility than the broader EM currency basket. For the time being however, it seems the USD rally has run out of steam, which could allow the ZAR further upside in the near-term. Given the greenback's rally followed a sustained bear run, many will believe this is rather a correction than a substantive shift in trends. The Fed is still easing aggressively, with officials yesterday stating it was too soon for any talks of tapering asset purchases, add a new Democrat-led presidency and the case remains for further USD weakness looking ahead.
- Yesterday's improvement in EM sentiment looks set to spill over into today's session with the dollar losing ground in early morning trade. The ZAR has continued its upward momentum from yesterday, and with market moving data slim for the day ahead, the local unit will likely continue to track global risk appetite. Later in the day, the market will look to US inflation data for December as a gauge of the US' economic recovery and the likelihood for Fed easing to begin slowing down towards the end of the year, which could ease pressure on the greenback.

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