BancABC part of atlasmara

Botswana Market Watch

14 January 2021

GMT		International and Local Data	Period	Exp	Previous
	BO	No data scheduled			
-	CH	Trade balance (USD)	Dec	$78,17bn (a)	$75,43bn
O/N	JN	Machine orders y/y	Nov	-11,30% (a)	2,80%
13:30	US	Import price index y/y	Dec		-1,00%
13:30	US	Initial jobless claims	Jan 9		787k

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
Trump impeached	For the second time in his tenure, and for the first time in American history, a sitting president has been impeached a second time through his term in office, this time with 10 Republicans supporting the impeachment	The Senate has however rejected calls for a quick impeachment trial, implying that Trump will not be removed before the transition	5/5 (politics)	The charge p[ut before the Democrat controlled Senate will be one of "incitement of insurrection". Trump is unlikely to get convicted given that at least 2/3rds of the Senate will need to vote for it and it is unlikely that those votes exist.
Chinese exports	China's exports grew more than expected in Dec, albeit at a slower pace than a month before. It suggests that global demand is holding up reasonably well	Exports will continue to be supported by demand for medical supplies and work-from-home-products	4/5 (economy)	China posted a trade surplus of $78.17bn, substantially more than the $72.35bn anticipated and more than the $75.4bn in Nov. The surplus to the US remains large at $29.92bn.
EZ industrial production	EZ industrial production was stronger than expected in Nov, data released yesterday showed. Industrial output rose 2.5% m/m implying a 0.6% decline y/y	The data bodes well for an improvement and recovery in investment in the early phases of 2021	4/5 (economy)	Despite the second wave, the resistance to locking down hard a second time, has meant that a recovery of sorts is still under way, although for now it largely excludes entertainment and tourism

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.3280	1.4433	1.3536	1.4294
BWPUSD	0.0869	0.0945	0.0886	0.0936
GBPBWP	15.6644	14.4254	15.3255	14.7260
BWPEUR	0.0715	0.0777	0.0732	0.0762
JPYBWP			9.2552	9.6052
USDZAR	14.6739	15.9136	15.0178	15.5693
EURUSD	1.1652	1.2628	1.1926	1.2354
GBPUSD	1.3084	1.4176	1.3390	1.3870

Benchmark Yield Curve

6m	1.2240
3y	3.8750
5y	5.0550
9y	5.2150
22y	5.9250

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-1.7843	[redacted]
3m	-5.1480	
6m	-10.7348	
12m	-21.9570	

Technical issue

Equities / **Economic Indicators**

BSE Domestic Index	6887.17	**GDP**	-6.00%	**Bank Rate**	3.75
BSE Foreign Index	1547.28	**CPI**	2.20%		

- Economic data remains sparse today and as such added focus will fall on the news scrollers. The African Union (AU) announced on Wednesday that it had secured almost 300mn COVID-19 vaccine doses for the African continent. The doses secured by the AU have been sourced from Pfizer, Johnson & Johnson, AstraZeneca and through the Serum Institute of India. Deliveries are expected to be made by the end of March. President Ramaphosa, the chairman of the AU, stated that arrangements with the African Export Import Bank were made to support member states who want to access the vaccines. Such news would be welcomed by the markets following concerns that Africa was being left behind in the vaccine rollout.
- In a report published yesterday, global ratings agency Moody's said that the outlook for Sub-Saharan African sovereigns in 2021 is negative, reflecting the severe economic challenges the region is grappling with amid the fallout from the coronavirus shock. Moody's said that most Sub-Saharan African governments' debt burdens would stabilise at materially higher levels in 2021 with the average debt burden for the region at around 64% of GDP in the near to medium term.
- Looking ahead, the global ratings agency said that it doesn't expect debt burdens to come down in the foreseeable future as revenue-generation capacity remains weak. The agency concluded by saying that higher debt loads, lower government revenue, and higher interest costs will increasingly challenge debt affordability. Contingent liabilities from state-owned enterprises also pose an additional risk. As mentioned in previous commentary, it is therefore vital that African countries facing high levels of debt distress return to a path of reform and debt consolidation before its too late and they are unable to service their debt obligations.
- Stateside, US President Trump was impeached for a second time, setting a new record that will prove difficult to surpass. It is unlikely that he will be convicted before his term in office ends, which means that the early phases of Biden's administration will be held up by his impeachment trial in the Senate. Recall that the Senate can only convict on a successful trial that generates more than 2/3rds support. The Democrats, even with a bit of help from dissenting republicans simply do not carry that level of support and so ultimately this will not amount to much and will not prevent Trump from campaigning for the next elections.
- There has also been a significant amount of blow-back both domestically and internationally to the private sector censorship that has transpired, in the wake of last week Wed's storming of the Capitol. Companies of different industries, from the social networking platforms, the media, banking, and even money transfer transaction companies have sought to distance themselves from President Trump and his allies for fear of being targeted as supporters of an insurrectionist movement. Although one can appreciate the need for swift action to be taken from the police and other relevant judicial authorities, censorship of this nature might not be the desired course of action to take, and potentially sets a precedent where narrow private sector interests might dictate the broad-based political narrative.
- Finally, Biden's top economic advisor has confirmed that he will push Congress to deliver immediate pandemic rescue efforts, before turning the focus towards an economic revival plan. Biden's transition team has already started to brief all lawmakers on the proposal to be unveiled today. The proposals will include direct payments to affected households, ramping up the vaccination efforts, conducting more testing and tracing and offer funding to get most schools to reopen quickly.
- Shifting attention to the global FX market, impeachment proceedings have done little to change sentiment in the USD that has consolidated its slight gains from last week. Clearly the USD is still struggling to gain any meaningful traction with many structural headwinds still in play. Data out of China this morning showed that the US deficit to China remains large at nearly $30bn per month, despite Trump's best efforts. It goes to highlight that it is difficult to out-regulate exceptionally loose monetary policy that promotes a strong credit cycle which in turn fuels demand for consumption and imports. The outlook for the USD remains bearish.
- The BWP continued to bounce off its recent low yesterday after rallying for the second straight session. The local unit, buoyed by an improvement in risk appetite appreciated by 0.33% against the USD. A failed breach above the 50-session moving average suggests that upside momentum is still weak. With no local data slated for release today, offshore developments will hold focus for local markets.

ZAR and Associated Comments

- It was a mixed day for emerging market currencies yesterday, as investors looked to capitalise on recent declines while the US dollar remained buoyed by higher US Treasury yields. The ZAR extended Tuesday's rally as it gained 0.64% by the end of the day, bested only by the similarly volatile Turkish Lira which ended 1% stronger. The ZAR ultimately ended domestic hours at 15.2454/$, with gains for the local currency being trimmed in afternoon trade as investors continue to limit more bearish bets on the USD.
- According to JSE data compiled by Bloomberg, foreign purchases of domestic stocks picked up the pace as local equities outperformed last week and investors saw a weaker ZAR as an opportunity to buy low. Bond yields meanwhile have held above their long-term averages and, thus, remain attractive to investors searching for returns in low interest rate environments. This is where the local currency is likely to garner support in the short-term as it suggests investors are quick to profit from EM exposure and see gains to be had from a global economic recovery. Despite this being in the face of a looming fiscal crisis for South Africa, this presents the opportunity for gains in the near term, while sluggish vaccine procurement and clarity surrounding vaccine rollout will continue to cap larger ZAR moves.
- On the other side of the USD-ZAR leg, recent comments from US Fed officials over when to start talks for the eventual reducing of its massive monetary stimulus have triggered investors to begin tempering bearish bets on the dollar. With big spending and relief packages expected under the Biden administration, investors expect this to lead to a faster economic recovery and bring forward the timeframe for Fed hikes.
- Longer term though, more US stimulus should contribute to the global economic recovery, supporting risk appetite and ultimately leading the greenback weaker. The Fed also clarified its position overnight that the economy remains far from the central bank's recovery targets, after officials have recently seemed split over the possible timeline on tapering asset purchases. For the day ahead, this could be a catalyst for the USD-bears as trade begins to hot up. Later in the day, the market will have US initial jobless claims data as of last week for an update into the US' recovery, where a sluggish recovery amid a high virus caseload underscores the need for sustained stimulus for the foreseeable future.

Contacts

Mogamisi Nkate +267 3674335 email: mnkate@bancabc.com
Phillip Masalila +267 3674621 email: pmasalila@bancabc.com
Kefentse Kebaetse +267 3674336 email: kkebaetse@bancabc.com
Maungo Sebonego +267 3674338 email: msebonego@bancabc.com

Report produced by ETM Analytics for BancABC Botswana.
Disclaimer