Botswana Market Watch

15 January 2021

GMT		International and Local Data	Period	Exp	Previous
-	BO	CPI y/y	Dec	-	2,2%
13:30	US	Empire manufacturing	Jan	3,80	4,90
13:30	US	Advance retail sales m/m	Dec	-0,10%	-1,10%
14:15	US	Industrial production m/m	Dec	0,30%	0,40%
15:00	US	Michigan consumer confidence	Jan P	79,50	80,70

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
Biden rescue package	President-elect Biden yesterday unveiled a $1.9trln rescue package which would include more than $400bn for Covid response, $1.0trln to help households, and $440bn to help companies affected	It is a substantial increase in fiscal stimulus and will likely generate a market response through reducing risk aversion	**5/5** (politics)	This package would raise the $600 stimulus package up to $1,400 and the supplemental unemployment benefit by $400/week, while he will also seek to implement a $15/hr minimum wage. This is now an enormous package with longer-term debt consequences
BoE rates	BoE Governor Bailey yesterday pushed back against the idea of reducing interest rates below zero citing a number of issues that it could lead to	Bailey maintained that the primary reason for QE was inflation and not to fund the government	**4/5** (monetary policy)	Bailey made it clear that he does not favour relying on negative rates to assist the economy, adding that a rapid roll out of vaccines would likely go a long way to bolstering growth prospects
Fed monetary policy	Fed Chair Powell yesterday confirmed that with inflation and employment goals far from met, that this was not the time to be discussing the scaling back of Fed bond purchases	The Fed will remain accommodative to ensure a return to full employment, even tolerating some inflation	**4/5** (monetary policy)	The Fed will also want to see whether President-elect Biden is able to pass his much larger stimulus plan and what the effects of this plan will be on financial markets as well as the economy. Current policy will remain unchanged

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.3202	1.4353	1.3456	1.4215
BWPUSD	0.0873	0.0947	0.0889	0.0938
GBPBWP	15.6480	14.4116	15.3095	14.7119
BWPEUR	0.0718	0.0780	0.0735	0.0765
JPYBWP			9.2552	9.6052
USDZAR	14.5234	15.7552	14.8638	15.4143
EURUSD	1.1656	1.2632	1.1930	1.2359
GBPUSD	1.3129	1.4224	1.3437	1.3916

Benchmark Yield Curve

6m	1.2250
3y	3.9150
5y	5.0550
9y	5.2150
22y	5.9250

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-1.7940	[redacted]
3m	-5.1675	
6m	-10.7738	
12m	-22.0545	

Technical issue

Equities

BSE Domestic Index	6885.14
BSE Foreign Index	1547.28

Economic Indicators

GDP	-6.00%	Bank Rate	3.75
CPI	2.20%		

- CPI data is front and centre of market focus for today. Botswana's headline inflation came in at 2.2% y/y in November unchanged from the previous month. At this current rate, consumer prices growth remains benign in part due to the depressed domestic demand conditions and weak economic growth. Against this backdrop, we of the view that there is still some room for further policy easing as the economy struggles to recover from the coronavirus pandemic.
- Stateside, consumer sentiment in the US has failed to rebound significantly from the plunge seen early in 2020. Since the COVID-19 outbreak, the US has faced a surge in infections, political instability, riots, a lack of fiscal stimulus, and a poor initial distribution of the vaccine. Many of these issues remain and combined, they suggest that consumer confidence will unlikely rebound significantly in the near-term. Once the vaccine distribution issues are worked out, and consumer start receiving their stimulus cheques, we could see confidence levels start to recover, however, it is unlikely that they will return to pre-pandemic levels anytime soon.
- Politically speaking, president-elect Biden yesterday made clear his intensions to push ahead with a powerful stimulus package and urged Congress to accept and pass the package. He unveiled a $1.9trln rescue package which would include more than $400bn for the country's Covid response, $1.0trln to help households, and $440bn to help companies affected by the lockdowns. This package would raise the $600 stimulus package up to $1,400 and the supplemental unemployment benefit by $400/week, while he will also seek to implement a $15/hr minimum wage. This is now an enormous package with longer-term debt consequences.
- Shifting attention to the global FX market, Despite all the political developments, the USD has remained surprisingly range bound and has continued to consolidate its recent gains. With President-elect Biden now urging Congress to pass his enlarged and bold stimulus package, the weaker USD bias could well resume. In the short-term, it will provide more fuel for markets and help reduce overall levels of risk aversion, while at the same time building the US debt pile, to erode the US's longer-term debt sustainability position. Add to that the other underlying structural issues of low rates, QE, a large trade deficit and poor international trade relations and the USD will likely remain on the defensive for a while to come.
- The bullish bias BWP-USD remains entrenched as the cross extended its winning streak to three consecutive sessions yesterday. The improved risk appetite underpinned the rally in the cross. However, a failed breach above the 50-session moving average which is a hard line in the sand suggests that upside momentum might be fading. In the session ahead, CPI will be looked at for directional momentum.

ZAR and Associated Comments

- Positive risk appetite drove emerging market currencies broadly higher yesterday following a change in sentiment towards the US dollar as its recent rally appears to be faltering. The greenback was ultimately whipsawed during the day to close lower against a basket of currencies as Fed Chair Jerome Powell ruled out premature talks of tapering bond purchases. Furthermore, US jobless claims data also weighed on the dollar as both initial and continuing claims rose last week, underscoring the extent of damage of the virus' resurgence.
- As to the local currency, the ZAR ended the day 1.35% stronger to close slightly below the 15.05/$-handle. Strong performance since the start of the week has seen the unit appreciate some 3% from around 15.50/$, with the new line in the sand being the 15.00/$-mark. Should the currency break through this key psychological level, this opens the door for a move back towards the 14.50-14.75/$ range in the short term which the unit held through the latter half of December.
- Despite a quick pullback for the ZAR, this was largely driven by the USD rally fizzing out. Looking further ahead, domestic woes could still weigh on the currency and ultimately cap larger gains to be had against the USD. The tightening and subsequent extension of restrictions this year would have the effect of delaying if not ultimately risking SA's longer term economic recovery. On top of this, additional bouts of load shedding after more power plant failures further restricts the economy, ultimately eroding the ZAR's chances of recovery.
- Focus is now turning to next week's MPC meeting where it is expected the SARB will stand pat on repo rate hikes. The case appears to be growing for further cuts, however, with inflation sill benign and recent data suggesting the speed of recovery is slowing down. Additionally, the New Year has brought the tightening of lockdown restrictions and a reminder of structural constraints in the form of load shedding. However, further cuts would come at the expense of ZAR depreciation. Should the market anticipate cuts, the ZAR could be in store for some volatile trade over the next few sessions.
- Overnight, the release of details surrounding President-elect Joe Biden's stimulus plans have provided some support to the greenback. Biden announced he will ask US Congress for $1.9 trillion for immediate pandemic relief spending. Following this, a broader economic recovery plan will be unveiled next month. For the day ahead, the market will have a slew of US economic data to digest, however this may be overshadowed given fresh stimulus announcements.

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