Botswana Market Watch 18 January 2021

GMT		International and Local Data	Period	Exp	Previous
-	BO	Nothing on the cards			
-	US	Martin Luther King Jr. Day			
-	EC	Euro-Area Finance Ministers Meet			
13:30	UK	BOE Governor Bailey Speaks With Lord Stern on Climate			

\	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 GDP`	China's GDP expanded by 6.5% y/y to help overall growth in 2020 expand 2.3%. It is the only major country to have escaped a major contraction in 2020 as a result of the pandemic	China's tilt to focus on internal growth served it well, now it is poised for even stronger growth in 2021	5/5 (economy)	Notwithstanding the regional lockdowns to curb the spread of the virus, China looks set to expand at an even faster pace in 2021 and beyond. Policy measures for now remain supportive of GDP growth through the future
Trump protests	It is clear that the events of two weeks ago, resulted in a sharp deterioration in Trump's popularity. Although a few protestors showed up yesterday, they were a damp squib	The wind has been knocked out of the Trump support movement and a smooth transition will now follow	2/5 (politics)	Whether it was because the National Guard was present, or whether it was because Trump has lost support, the planned protests were a non-event and that too should see this week's inauguration unfold without a hitch
Japan Reuters Tankan	The Reuters Tankan showed that January's sentiment recovered to -1 from -9 in Dec. The services sector however suffered a knock to record a reading of -11 in Jan from -4 in Dec	With car and electronic goods demand recovering, The data will likely improve still further in the months ahead	4/5 (economy)	Economic data is gradually improving, but the path to recovery will be an uneven one frought with lots of fits and starts as the economy suffers periodic shocks from the pandemic and the lockdowns that are introduced

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.3242	1.4436	1.3497	1.4297
BWPUSD	0.0868	0.0945	0.0885	0.0936
GBPBWP	15.6069	14.3250	15.2692	14.6235
BWPEUR	0.0719	0.0783	0.0736	0.0768
JPYBWP			9.2159	9.5950
USDZAR	14.6486	15.8819	14.9920	15.5383
EURUSD	1.1585	1.2554	1.1857	1.2282
GBPUSD	1.3021	1.4109	1.3327	1.3803

Benchmark Yield Curve

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

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-1.8525	0.0000
3m	-5.1480	0.0000
6m	-10.7055	0.0000
12m	-21.9473	0.0000

Equities

BSE Domestic Index	6885.14
BSE Foreign Index	1547.28

Economic Indicators

GDP	-6.00%	Bank Rate	3.75
CPI	2.20%		

- COVID-19 continues to wreck havoc across the region with trade flows and cross border travel being cumbersome at best and almost impossible in the worst cases. Regionally Botswana has complained that it will not foot COVID-19 testing for cross border transporters alone. All Africa reported the following - *Leslie Mpofu, the executive director of the Trans Kalahari Corridor Secretariat (TKCS), in an interview said Botswana last week decided they would no longer conduct polymerase chain reaction (PCR) tests of foreign drivers at the border for free. He said the country is paying the costs alone, while other members of the corridor (South Africa and Namibia) are not contributing. The decision, which came into effect last Thursday, caused congestion at the border between Botswana and South Africa as cross-border transporters waited in long queues for their companies and the TKCS to resolve the issue.*
- Given this backdrop it would not be surprising to see shortages of certain commodities as the logistics chain stretches. A second wave of COVID-19 is sweeping South Africa at the moment with the new strain said to be far most infectious with greater casualities in the younger part of the population.
- In other news, the effective regulatory reform in the telecoms market has made Botswana a beacon in the region. Botswana has adopted a service neutral licensing regime and this allows for competition across all telcoms sectors. (view full article here)
- Internationally, the focus has been on China first up this morning. The 4th quarter GDP number released today came in at 6.5% according to the Chinese National Bureau of Statistics, which is faster than the 6.1% pencilled in by economists in a Reuters poll. This comes on the back of an equally robust print of 4.9% in the 3rd quarter, China is poised to have a stellar 2021 which will underpin pricing action on the base metals' counters going forward.
- The US will be enjoying a public holiday today for Martin Luther King Day implying markets will be closed. For the markets that are still trading, they will likely experience thinner trading conditions. The upcoming inauguration will also likely keep investors somewhat cautious, although the fact that the Trump protests this weekend were a non-event should help ease fears.
- The USD appears to be on the front foot this morning. Speculation that incoming Treasury Secretary Janet Yellen will affirm the US's commitment to a strong USD policy has helped generate some support for the greenback. This is a fundamentally different stance to the Trump administration who believed that a weaker USD was necessary to promote exports and return production to US shores. What that means in practical reality is difficult to ascertain when the Federal government is racking up enormous quantities of debt and the Federal Reserve is still committed to pursuing ultra-accommodative monetary policy. Both policies are USD negative. Emerging markets have responded negativity this morning and as such we expect the BWP to open on the back foot.

ZAR and Associated Comments

- At the end of a volatile week for FX markets, it is clear that investors are coming to terms with the reality that the global economic reflation in the wake of the pandemic's first wave is being set back by multiple virus resurgences and subsequent lockdown restrictions. As a result, the US dollar ended last week on the front foot as risk aversion drove haven appeal, while soft US data added to market pessimism.
- On a trade-weighted basis, the USD in fact ended the week 1.75% stronger than lows hit in the first week of 2021, as investors continue to question the outlook for the greenback. This has seen some emerging market currencies backpedalling after the last quarter's impressive gains. For the local currency, the ZAR snapped a three-day rally on Friday as it weakened 1.25%, closing at 15.23/$ and paring its weekly gain to just shy of 0.5%.
- This ended the local unit's own volatile week as idiosyncratic risk factors have compounded pressure on the currency, sapping any resilience against swings in market sentiment. Amongst these, sluggish vaccine procurement and extension of lockdowns have weakened sentiment towards the ZAR at the start of the year, while the return of structural constraints such as load shedding has worsened an already dire economic picture.
- While progress on the vaccine front has been a great cause for optimism, thanks to its potential to reduce death tolls and virus caseloads for hospitals, crude lockdown policies remain. The longer restrictions remain, the more damage is permanently inflicted onto the economy. Companies and firms will look to cut capital expenditure as they will be reluctant to invest in a struggling economy, the latest big name being SAB which announced on Friday another R2.5 billion worth of investment will be cut. These cuts will have knock-on effects throughout supply chains, to the detriment of the economy's recovery and attempts at fiscal consolidation.
- Domestically, the outlook remains bleak in the medium to long term, but the more near term effects will be one of heightened volatility for the ZAR. The week ahead provides several domestic market moving releases in that respect. Mining production data is due tomorrow, while Wednesday and Thursday will see inflation and retail sales data released prior to the SARB's rate announcement scheduled for Thursday as well. For the day thus far, positive Q4 2020 GDP data out of China has done little to support risk assets elsewhere earlier this morning. EM currencies remain supressed following on from Friday and the dollar bid. The day ahead will likely see thinner trade with US markets closed for holiday, while investors will look to developed central banks' rate decisions later in the week..

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