

Botswana Market Watch

19 January 2021

GMT		International and Local Data	Period	Exp	Previous
09:00	BO	Botswana to sell BWP12bn 7-Day certificates			
10:00	EZ	ZEW economic sentiment	Jan		54,4
10:00	GE	ZEW economic sentiment	Jan	55.0	55.0
18:00	UK	BOE's Haldane In Conversation With Lord Rusbridger			
21:00	US	Net long term TIC flows	Nov		\$51,9bn

	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 Ojokol, 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
Italian Politics	Italian PM won a confidence vote yesterday to ensure that he remains in power. Today he faces another vote and another test in the Senate to ensure that his tenure extends	Italian politics remain fractious amid the fallout from the pandemic. Major economic reforms will be needed	4/5 (economy)	Conte's focus is to embark on modernising the economy and the implementation of a recovery plan. The policy implemented will need to contain the explosion of debt which is becoming systemically unsustainable
EZ fiscal support	Yesterday, EZ finance ministers pledged to continue offering fiscal support with strong consensus for maintaining a supportive budgetary stance	The concern with this stance, is that highly indebted countries are being forced to accept more debt	3/5 (politics, economy)	While this might prove acceptable in the short-term as policymakers try to contain the fallout of the pandemic, it imposes the need to implement hard-hitting fiscal reforms
Brexit problems	British exporters, especially those exporting fresh catch such as the fisheries have found themselves unable to enter the EU without a mountain of administrative paperwork	Although described by Johnson as teething problems, it is negatively affecting export industries that cannot deliver quickly	4/5 (economy)	Although there are no quotas under the agreement signed, there has been a curtailment of exports through the creation of a full customs border that has impacted massively on express delivery systems

Local FX Opening Rates and Comment

	CUSTOMER BUY		CUSTOMER SELL		CUSTOMER BUY		CUSTOMER SELL		Benchmark Yield Curve		Forward Foreign Exchange		
	CASH	CASH	TT	TT	6m	3y	5y	9y	22y	1m	3m	6m	12m
BWPZAR	1.3106	1.4294	1.3358	1.4156	1.2260	3.9150	5.0550	5.2150	5.9250	BWPUSD	0.0000		
BWPUSD	0.0868	0.0945	0.0885	0.0936									
GBPBWP	15.6518	14.3673	15.3132	14.6666									
BWPEUR	0.0717	0.0781	0.0734	0.0766									
JPYBWP			9.2355	9.6154									
USDZAR	14.4981	15.7244	14.8379	15.3842									
EURUSD	1.1612	1.2581	1.1884	1.2309									
GBPUSD	1.3060	1.4149	1.3366	1.3843									
					Equities		Economic Indicators						
					BSE Domestic Index	6888.82	GDP	-6.00%	Bank Rate	3.75			
					BSE Foreign Index	1547.28	CPI	2.20%					

- Local news flow remains centred around the supply chain havoc being caused at the regional borders given the extensive delays caused by COVID-19 testing and the likes. Traditional trading patterns have been disrupted and the expectation is that this will remain the status quo as long as we have the second-wave of COVID-19 plaguing the likes of South Africa.
- There is however some good news on the horizon. Bloomberg reported that De Beers has implemented its largest price increase for diamonds in years as the industry bounces back from COVID-19 induced shutdown across the globe. Diamond prices have been hiked by about 5% at its first sale of 2021 according to those in the know. The increases mostly applied to stones bigger than 1 carat.
- Internationally the United States is taking centre stage. Treasury Secretary Nominee Janet Yellen is expected to call for "Big" action at her Senate confirmation hearing. She is likely to favour using fiscal policy to help support the economy in the immediate future and to worry about curtailing the deficits to a later date. Her contention is that failing to act now will risk more damage to the economy over a longer period of time and that the scarring within the economy will be greater. What that might eventually mean for fiscal policy and how conservative it will need to turn remains debatable, especially with interest rates as low as they are and the Fed fully committed to reflation of the US economy through the encouragement of a fresh credit cycle.
- Although the Trump administration may be seeking to lift the ban on international travellers from the UK and Europe, Biden has already indicated that he will keep the bans in place. Biden is likely to take a much tougher stance on tackling the pandemic and that will include stricter enforcement of social distancing rules, as well as curtailing possible inflows of infections from hotspots such as the UK and Europe.
- One of the fears of a Democrat government, is that it will seek to force outcomes, especially in industries which it inherently distrusts. Wall St is bracing for the imposition of more regulations to address social injustices and climate change, where companies will be forced into doing business differently. It is unclear what this will look like, but at this point it is safe to say that the individuals Biden has tasked with leading the SEC and the CFPB are considered "progressives" in their ideological stance. Gary Gensler has been appointed as head of the SEC and Rohit Chopra as head of the CFPB.
- Moving onto the day ahead we see the local data card remaining sparse. There is however some funding that needs to be done with a 7-Day T-Bill auction taking place.
- Looking at the FX markets, its all about the USD at the moment. All eyes are on the commentary to be delivered by Treasury Secretary nominee Janet Yellen on Capitol Hill today. She is expected to give testimony on the dollar and the \$1.9trn stimulus package, which comes a day before the swearing in of the next US President, Joe Biden.
- Questions are doing the rounds as to the new administration's policy on the dollar. Trump welcomed a weaker USD as he believed it provided American exporters with an edge. This may not be so under the new guard. According to the WSJ, Yellen is expected to affirm the U. S's commitment to market-determined exchange rates

ZAR and Associated Comments

- Emerging market currencies ended the day broadly weaker yesterday, however the US dollar was driven lower in the latter half of the US holiday-thinned trading session, paring some losses in the EM basket. Expectedly, the ZAR was subject to a bout of intraday volatility as the currency generally and readily signals changes in EM sentiment. The local unit managed to pull back from the 15.38/\$-handle to end the day 0.44% stronger around 15.1650/\$.
- The ZAR may still be in store for further upside, but such may be limited and may occur more gradually than Q4. Although, the overall speculative position on the USD remains overwhelmingly bearish and increasing so, the latest CFTC data showed net long ZAR bets were trimmed last week for the fourth straight week. The net position dropped to \$0.2 billion from \$0.24 billion, the least bullish position on the ZAR since mid-November. There may yet be further upside for the ZAR as the speculative futures market suggests, however the ability to do this is diminishing, reflected by the falling of the net long position.
- This trend will likely continue for as long as economic restrictions on businesses remain and the pandemic rages on, however positive news on the vaccine procurement front will provide the ZAR bulls with some fresh impetus. The Health Ministry said on Monday that 9 million vaccine shots will be received from Johnson & Johnson, while according to Health Minister Zweli Mkhize, South Africa may have passed the peak of the second wave of infections after new cases began to fall during last week. However, the issue of funding the vaccine is now upon National Treasury. With President Ramaphosa stating last week that the government cannot afford further fiscal support to support the economy, thus implying excess funds being limited for vaccine procurement, Treasury is reportedly considering tax hikes to fund the inoculation drive. Despite Treasury having an arduous task ahead of February's budget announcement, tax hikes seem unlikely in the current economic environment and budget reprioritisation may be the first port of call.
- Without further fiscal support, many will look to the SARB for further monetary easing to support the economy as the MPC meets this week. The consensus, however, is for the SARB to hold out on further cuts as the effects of the aggressive front-loading of rate cuts last year will still be filtering through the economy which has been severely throttled compared to normal conditions.
- The ZAR may still see further volatility this week with one-week implied volatility on options having spiked in yesterday's session in anticipation of the MPC meeting. However for the day thus far, EM sentiment has been generally positive in early trade. Mining production data for November is on the domestic data card later this morning, but this will likely be overshadowed by broader market moves as the dollar has come under pressure this morning...

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