

Botswana Market Watch

20 January 2021

GMT	International and Local Data		Period	Exp	Previous
09:00	BO	Botswana to sell BWP12bn 7-Day certificates	Jan 15		16,7%
12:00	US	MBA mortgage applications	Jan 20	0,25%	0,25%
15:00	CA	Canada central bank rate decision	Jan	86.0	86.0
15:00	US	NAHB Housing market index			
	US	Joe Biden inaugurated as the next US President			

Africa	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	What happened?	Relevance	Importance	Analysis
BoE	Chief Economist Haldane said on Tue that he expected Britain's economy to recover strongly in H2 2021 once vaccines are rolled out and infection rates drop	This is more just a function of easing restrictions and an economy that is opening up	4/5 (economy)	Once the economy starts to normalise, the true cost of Brexit will be better understood. For now, the lockdown restrictions make it difficult to assess, but H2 will be substantially better
Yellen testimony	Biden's nominee for Treasury Secretary urged lawmakers to "act big" now on relief spending and to worry about paying down debt later with the benefits of doing so outweighing the risks	It implies a further strong build-up in debt and a more socialist minded approach to economic policy	4/5 (politics, economy)	Yellen painted a picture of a more active treasury that would seek to raise taxes in order to invest in the infrastructure programmes that Biden had promised, invest in climate change tech and try and address inequalities
Italian politics	Italian PM Conte has survived another vote of confidence, this time in the Senate to leave him in power. His problem however is that he now has to lead with a minority government	Italian politics have always been complex and a minority government may make Conte's task more difficult	4/5 (politics)	Although positive that Conte has survived and that Italian politics were spared a tumultuous period of uncertainty, Conte will have to compromise if he is to attract support from other parties

Local FX Opening Rates and Comment

CUSTOMER BUY CUSTOMER SELL CUSTOMER BUY CUSTOMER SELL									
CASH		CASH	TT	TT	Benchmark Yield Curve		Forward Foreign Exchange		
BWPZAR	1.3084	1.4288	1.3336	1.4150	6m	1.2240		BWPUSD	BWPZAR
BWPUSD	0.0876	0.0955	0.0892	0.0946	3y	3.9150		1m	-1.9305 0.0000
GBPBWP	15.5704	14.2776	15.2335	14.5751	5y	5.0550		3m	-5.1968 0.0000
BWPEUR	0.0721	0.0786	0.0738	0.0771	9y	5.2150		6m	-10.6958 0.0000
JPYBWP			9.2945	9.6968	22y	5.9250		12m	-22.1910 0.0000
USDZAR	14.3459	15.5634	14.6821	15.2267					
EURUSD	1.1657	1.2630	1.1930	1.2357					
GBPUSD	1.3105	1.4201	1.3412	1.3894					

- The Minister for Tertiary Education Mr Douglas Letsholathebe has announced that Botswana intends to spur economic growth through digital transformation. "Globally, countries that have digitally transformed have been able to achieve stronger economic growth, improved efficiency and productivity of the public and private sectors. This has resulted in increased citizen participation and raised standards of living and satisfaction," said Letsholathebe on Monday reported Xinhua.
- Botswana approved a digitization strategy in 2020 called SmartBots which is expected to yield an improvement in the quality of life for individuals and boost the opportunities available for the private sector to grow.
- The fact of the matter is that the government is pressing ahead with an economic diversification strategy which is aimed to make the country more robust in times of commodity downturns. The COVID-19 pandemic has exposed the fragile underbelly of many economies across the globe and has forced a strategic rethink of how we move forward.
- Internationally, at the risk of sounding like a broken record we have the United States firmly in focus this week.
- The US President Elect Joe Biden's Treasury Secretary Nominee, Janet Yellen, yesterday urged lawmakers to "act big" on coronavirus relief spending at her confirmation hearing. She pushed the narrative that the economic benefits far outweigh the risks of a higher debt burden in more than three hours of testimony. "Without further action we risk a longer, more painful recession now and longer-term scarring of the economy later," she said. Stimulus will be good for frontier and emerging markets however the dollar is likely to suffer as the world floods with dollar liquidity.
- Renewed stimulus hopes followed Janet Yellen's testimony to the Senate Finance Committee has seen risk appetite improve and the USD has come under pressure. Technically, the USD is now on the defensive and may well head back towards the 90.0 index level, but the real driver of the USD's performance is the expectation that the Treasury and the Fed will continue to stimulate aggressively and will systematically debase the value of the currency through the running of very high twin deficits.

ZAR and Associated Comments

- The ZAR once again shrugged off domestic data headlines yesterday as mining output incurred a far steeper contraction than expected in November, another show of how risk-on sentiment and the loose monetary environments in developed nations have driven investors into EM assets, leading to apparent market dislocations despite ailing real economies. In fact, the ZAR led the EM currency basket throughout the day, with the weak data doing little to halt the currency's appreciation.
- Upon closer inspection, the USD-ZAR currency pair tracked broader dollar moves during the day. The greenback weakened on aggregate amidst risk-on trade in anticipation of the incoming US Treasury Secretary Janet Yellen's confirmation speech where she was expected to promote the need for greater fiscal spending to prop up the economy. With the ZAR acting as a proxy trade for the broader EM sample, its apparent lack of protection against dollar moves worked in its favour this time as it topped gains for the day. The local unit ultimately climbed 1.2% as it broke the 15.0000/\$-level where it held steady throughout the latter half of the day.
- Despite the apparent dislocation with ZAR strength alongside soft incoming data, that's not to say the ZAR will be unperturbed by a souring domestic outlook as we saw at the backend of last year and beginning of 2021 as the country was sent down the road of economically damaging restrictions once more. It is clear market participants remain wary of longer term implications of the path SA is on. Continued bond yield steepening in the long end suggests the market is concerned about rising fiscal risks and future inflation, which will ultimately weigh on the ZAR further out.

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