

# Botswana Market Watch

21 January 2021

GMT	International and Local Data			Period	Exp	Previous
12:45	BO	Nothing on the cards		Jan 21	0.0%	0.0%
13:30	EZ	ECB rate announcement		Jan 16		965k
13:30	US	Initial jobless claims		Dec	1600k	1639k
13:30	US	Building permits		Dec	1564k	1547k
15:00	EZ	Housing Starts		Jan A	-15,0	-13,9
		Consumer confidence				
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		
Biden Inauguration	Yesterday, Joe Biden was sworn in as the 46 <sup>th</sup> president of the US and the transfer of power went smoothly with no protests of any kind. Biden immediately set about reversing Trump policies	Biden moved to return to the Paris Accord, to review all actions against Climate Change and re-join the WHO	4/5 (economy)	Biden plans to reverse the unilateralism of the Trump administration and will seek to place the US at the centre of all major policy shifts globally. Biden has already signed many executive orders doing just that		
Chinese sanctions	China has hit back immediately at former Trump administration officials, imposing sanctions of 28 of them including former Secretary of State Mike Pompeo	Tensions between the US and China are running high and Biden will attempt to rebuild relations	2/5 (politics)	The Chinese authorities have indicated that they are willing to co-operate with the Biden administration but will want to see accusations of genocide retracted and some good faith displayed		
Bank of Canada	Although the BoC left interest rates unchanged, the statement referred to considerable slack in the Canadian economy and the extraordinary support that is still required	It implies that the QE target of C\$4.0bn per week remains unchanged, and that monetary support will persist for some time	3/5 (monetary policy)	This will be the theme across most central banks, especially while the 2 <sup>nd</sup> or 3 <sup>rd</sup> waves are being managed through mobility restrictions and more lockdowns. Monetary policy remains an active theme through H1 2021		

## Local FX Opening Rates and Comment

CUSTOMER				CUSTOMER				CUSTOMER				CUSTOMER			
BUY		SELL		BUY		SELL									
CASH		CASH		TT		TT		Benchmark Yield Curve				Forward Foreign Exchange			
BWPZAR	1.3026	1.4212	1.3277	1.4075	6m	1.1760				BWPUSD	BWPZAR				
BWPUSD	0.0876	0.0955	0.0893	0.0946	3y	3.9150				1m	-1.5795	0.0000			
GBPGBP	15.5875	14.3090	15.2503	14.6071	5y	5.1250				3m	-5.2016	0.0000			
BWPEUR	0.0723	0.0787	0.0740	0.0772	9y	5.2150				6m	-10.6763	0.0000			
JPYBWP			9.2748	9.6561	22y	5.9250				12m	-22.8345	0.0000			
USDZAR	14.2670	15.4808	14.6014	15.1459											
EURUSD	1.1642	1.2615	1.1915	1.2342											
GBPUSD	1.3136	1.4231	1.3444	1.3923											

- The world watched yesterday as the new President of the United States Joe Biden was sworn in. Just as former President Trump went about signing executive orders as he came in to the White House, so too did President Biden yesterday. Biden has finalised seventeen separate executive orders aimed at aggressively dismantling Trump's legacy. These included halting the construction of the Mexican Wall, reversed the travel ban from Muslim countries, gave directives to reverse the exits from the WHO and the Paris Accord and halted any projects that might undermine climate change efforts. Looking ahead, Biden will want to re-engage global trading partners and re-establish cordial diplomatic ties to restore America's role in major international debates, while turning his attention very squarely to dealing with the Covid-19 pandemic in the very near-term and co-ordinating the vaccine rollout and other measures to mitigate some of the impact of lockdowns.
- Risk assets have taken a decidedly bid tone late last night as well as this morning. Stocks in Asia are posting record highs while Wall Street finished strongly in the green.
- The prospect of a wall of money coming from the US government to underpin the economic recovery in that country has seen the broader base metal group remain topside focused. The world's bellwether for economic growth namely copper is strongly bid in Asia this morning. The benchmark 3m LME contract printed a \$8077.50/tonne at 05:10 am local time, while the March Shanghai Futures contract advanced by some 0.5% to \$9195.46 tonne
- This broader macro backdrop will undoubtedly be positive for emerging and frontier markets. Botswana is developing its copper sector and given the demand that is expected out of China and now out of the U.S, the strategic significance of this sector will grow for the Botswana Government.
- In the meantime there are going to be a number of hurdles to climb, most of them related to the COVID-19 pandemic currently gripping the world.
- Xinhua reported - *Botswana and a number of other countries in southern Africa have been added by Britain on its travel ban list due to the new mutant strain of the coronavirus that was reported in South Africa late last year, an aviation official said on Tuesday. All travellers who came from or transited through Botswana, Namibia, Zimbabwe, Eswatini, Zambia, Malawi, Lesotho, Mozambique, Angola, the Seychelles, and Mauritius are prohibited from entering the United Kingdom, said Modipe Chris Nkwe, a manager for public relations and communications at the Civil Aviation Authority of Botswana. "Our proximity to South Africa has resulted in the action by the UK. This is causing Botswana's aviation industry to lose more money. So far, Botswana's aviation industry has lost over 90 percent of revenue," said Nkwe.*
- Moving onto the day ahead there is no local data out but there is the ECB rate decision to watch as well as a deluge of data out of the United States.
- Optimism around the Biden administration, calmer international relations which will focus on reversing trade wars, added to the significant stimulus efforts of both the Federal Government and the Federal Reserve will mean that the USD will continue to be undermined. Speculative positions remain firmly against the USD for the time being, while the improved risk appetite will assist higher beta and riskier currencies of which the BWP is one to gain more ground against a greenback that remains fundamentally overvalued.

## ZAR and Associated Comments

- The US dollar continued to trade weaker in general across the FX spectrum, however it ended the day marginally stronger on a trade-weighted basis owing to pressure on the euro as several of the bloc's countries face ongoing economic damage from the virus' resurgence. The ZAR meanwhile secured a third day in its rally as it ended the session 0.55% stronger than the previous, closing at the 14.90/\$-handle.
- In terms of domestic data, December's CPI print decelerated to 3.1% from a 3.2% y/y change in November. Furthermore, CPI growth averaged 3.3% in 2020, the lowest yearly rate in 16 years. Despite the minor fall in inflation, the headline figures were in line with expectations, while it is also unlikely as yet to sway the SARB into more easing today. The effects of last year's cumulative rate cuts would still be filtering through the economy where a full return of domestic demand has remained impeded. Additionally, the lack of fiscal reforms and consolidation will also hold the SARB back from more dovish actions as it could raise the risk of capital flight and government funding pressure.
- Having said the above, recall at the last meeting where the MPC held rates, the decision was split two to three. Thus, in light of further downside risks to the economy over December and into 2021, the market will remain wary and seek to hedge against notable ZAR movements should the SARB make any surprise movements. The SARB's tone and guidance for rates going forward will be key for investors, while a slow and protracted recovery has been forecasted, the economic outlook has continued to sour. All in all though, we expect the SARB to maintain its wait-and-see approach, ahead of notable developments including February's budget speech and the crucial public sector wage battle where the latest ruling which sided with government for reneging on an agreed wage increase will be taken to the Constitutional Court at the end of the month.
- Looking ahead, global vaccine rollout will continue to bolster risk appetite, while benign inflation domestically will help attract investors in developed economies to SA bonds given its relatively high real yields. This sets up the ZAR for some near term upside potential, although the outlook is anything but steady and may be subject to rapid change as we have seen in the past year. For the day ahead, retail sales for November and the BER inflation expectations survey will grace the domestic data card prior to the SARB's rate announcement. Any surprise prints could exacerbate ZAR moves, but for now the ZAR has continued to trade stronger amongst the emerging market sample. Elsewhere, the ECB will likewise announce rates today, and US initial jobless claims later in the day could compound pressure on the USD if the weakening trend in the labour market continues..

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