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Botswana Market Watch 22 January 2021

GMT		International and Local Data	Period	Exp	Previous
	BO	Nothing on the cards			
14:45	US	Markit PMI manufacturing	Jan P	56,5	57,1
14:45	US	Markit composite PMI	Jan P		55,3
15:00	US	Existing home sales	Dec	6,6mn	6,7mn

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
Credit rating uncertainty	While a return to GDP growth in 2021, rising commodity prices, improving capital flows and a weaker US dollar point to a more favourable credit environment for emerging markets than was the case in 2020, the outlook remains uncertain	Global credit ratings agency Fitch said that the favourable funding conditions would not prevent pockets of acute stress and possible defaults across emerging markets	4/5 (fiscal)	Fitch said that it anticipates only a gradual fiscal consolidation due to concerns over the ongoing health situation, social pressures, and choking-off of the nascent recovery. In addition to ballooning fiscal piles, Fitch said that the virus impact provides grounds for political shocks

Global	What happened?	Relevance	Importance	Analysis
ECB	The ECB has, as expected, held interest rates unchanged at its first MPC meeting of 2021. The central bank also kept its pandemic asset purchase programme at EUR1.85trn p/m	Current loose monetary policy will persist until at least March of 2021, with even more possible if needed	4/5 (economy, monetary policy)	With inflation still well below the 2% target, there is sufficient flexibility within its current mandate to be able to persist with existing monetary policy. Whether more is done or not will depend on how trhe pandemic continues to unfold
Japanese deflation	Japan's core inflation fell 1.0% y/y, raising serious concerns that deflationary pressures have returned as a trend that the BoJ will struggle to reverse	Given such high debt levels, deflation only serves to raise the real value of that debt	3/5 (economy)	With consumption and general demand as weak as it is, margin compression is a recuring theme in Japan, although this time, the main culprits were fuel prices and government campaigns
China current account	According to the latest Ifo data, China overtook Germany as the country with the largest current account surplus of $310bn in 2020. This contrasts with the US holding the largest c/a deficit	For all of Trump's best efforts to rebalance trade between the US and China, he had limited success	3/5 (economy, trade policy, monetary policy)	The biggest driver of a deficit is what drives the consumption of imported goods. If the demand was not there to start with, neither would the deficit to the same degree. To this end, authorities might look at monetary policy

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.3186	1.4379	1.3440	1.4241
BWPUSD	0.0880	0.0959	0.0897	0.0950
GBPBWP	15.5569	14.2803	15.2204	14.5778
BWPEUR	0.0723	0.0787	0.0740	0.0772
JPYBWP			9.3239	9.7171
USDZAR	14.3787	15.5951	14.7157	15.2577
EURUSD	1.1686	1.2661	1.1960	1.2387
GBPUSD	1.3166	1.4266	1.3475	1.3957

Benchmark Yield Curve

6m	1.1730
3y	3.9150
5y	5.1250
9y	5.2150
22y	5.9250

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-2.0621	0.0000
3m	-6.2303	0.0000
6m	-13.3136	0.0000
12m	-29.5376	0.0000

Equities

BSE Domestic Index	6883.38
BSE Foreign Index	1547.28

Economic Indicators

GDP	-6.00%	Bank Rate	3.75
CPI	2.20%		

- News out yesterday on ESI Africa is that Tlou Energy and Botswana Power Corp have executed a Power Purchase Agreement (PPA) for the first 2MW of power form the Lesedi project. ESI reported that *Tlou Energy is focused on delivering power in Botswana and southern Africa through the exploration and development of gas and solar power. The company's first proposed development is the Lesedi Power Project (Lesedi). According to a company statement, a grid connection agreement has been signed which enables the injection of power into the BPC grid. "These are key agreements that will facilitate the development of the power project and the sale of first power," Tlou Energy noted. In addition, Botswana's Ministry of Mineral Resources Green Technology and Energy Security (MMGE) has provided confirmation that negotiations on a larger PPA are due to commence in February.*
- The government has placed the Presidency under enhanced vigilance as the COVID-19 pandemic wrecks havoc for a second time across the globe. Some of the Presidents closest officials have tested positive for the virus while one unidentified official has died as a result of COVID-19 complications.
- Casting an eye towards international developments, data from the Ifo institute shows that China overtook Germany in producing the world's largest current account surplus. Contrast that with America's record current account deficit with its largest deficit recorded with China, and it is clear that Trump's efforts to rebalance trade have failed. It is also the reason why the Biden administration will not want to give up on the hard-fought concessions that the Trump administration secured in its trade deal with China or the pressure it exerted on China to change its business practices. The tough stance that the US has exhibited towards China may therefore not change to the degree many might have feared and Trump's legacy of tough renegotiation with China is likely to continue, albeit in a less antagonistic way.
- Good news from the J&J camp is that they are ramping up production massively in what must surely be a show of faith in the clinical trials currently being assessed. The objectives is to soon start deploying the vaccines wholesale through the US by spring, with some 100mn doses earmarked for distribution by then. The J&J vaccine could prove a game changer, not just because it is a vaccine in the more traditional sense, but also because it is a single jab, it is cheap and can be more easily stored.
- Moving onto the FX markets, any recovery in risk appetite is translating into pressure on the USD at the moment and expectations that a large stimulus plan would be unleashed on the US economy will translate into investors feeling more constructive about future prospects for growth. Increasingly, they will become less supportive of safe-haven currencies, while the expansive fiscal and monetary policies in the US, which would promote a massive current account deficit, will likely keep the pressure on the USD.
- Given this backdrop we expect emerging market currencies to remain on the front foot and this is likely to underpin the price action of the BWP during todays trading session.

ZAR and Associated Comments

- Leading into yesterday's MPC rate announcement, the ZAR remained on the front foot following on from recent sessions of buoyant risk appetite. The market was confident that the SARB would maintain its wait-and-see approach, expectations which the reserve bank ultimately met.
- The rate announcement from SARB Governor Kganyago came and went, rather underwhelmingly however, as he emphasized the uncertain environment in which the SARB reluctant to act. The reserve bank opted to keep rates unchanged and, as expected, decided they would wait for a fiscal update from February's budget announcement. Although it is very likely we have seen the bottom of the SARB's easing cycle in reaction to the pandemic, the decision amongst MPC members remained split 3 – 2 in favour of a hold.
- According to the SARB, risks to inflation outlook appear to be balanced. Expectations are for CPI growth to average 4% in 2021, below the 4.5% midpoint of the SARB's inflation target range. These forecasts suggest that further easing in the year ahead is unlikely, a prudent outlook given SA's structurally fragile economy and rising fiscal risks. It is clear the SARB is wary of exchange rate pressure from rising fiscal risks, noting the ZAR remains weaker than its long-run equilibrium value. Thus, the SARB may not sacrifice potential exchange rate volatility with another cut, or at least will wait for further ZAR appreciation. According to the SARB's quarterly projection model (QPM), the projected outlook going forward is for a repo rate of 4.11% by the end of 2021, suggesting two 25bps hikes in the second and third quarters.
- However, gains were ultimately reversed for the ZAR and a host of emerging market currencies in a late afternoon drive, despite the USD remaining softer on aggregate. Russia's Ruble ended weaker on lower oil prices, the Brazilian Real fared worse due to its own virus resurgence, while the ZAR closed the day -0.52% down against the USD. COVID-19 and vaccine rollout is still key for investors' outlook currently, with the latest headlines coming overnight from top US infectious disease expert Dr Anthony Fauci who expressed concern over new virus variants, one of which has dominated the second wave domestically, but attempted to downplay concerns that vaccines would be less effective.
- For the day thus far, the ZAR appears to be holding slightly below the 15.00/$-handle in early trade. As of yesterday's open, the local unit had appreciated some 4% since the first week of the year, and the market may be consolidating the move due to the economic outlook not improving substantially in any respect. Retail sales data yesterday pointed to ongoing pressure on domestic demand with the sector recording a greater than expected contraction of 4% y/y in November, while added economic restrictions and the second wave of infections would have tainted the outlook since and impacted consumer confidence further. For the day ahead, the market will have the releases of preliminary PMI's for January to digest, namely out of the Eurozone area, UK and US later in the day, which are expected to show a sustained dip given the second waves around the world…

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