# Botswana Market Watch

## 28 January 2021

| GMT | | International and Local Data | Period | Exp | Previous |
|---|---|---|---|---|---|
| | BO | Nothing on the cards | | | |
| 13:00 | GE | CPI y/y | Jan P | 0.70% | -0.30% |
| 13:30 | US | GDP q/q annualised | 4Q A | 4.10% | 33.40% |
| 13:30 | US | Personal consumption | 4Q A | 2.60% | 41.00% |
| 13:30 | US | Initial jobless claims | Jan 23 | | 900k |
| 13:30 | US | Wholesale inventories m/m | Dec P | | 0.00% |
| 13:30 | US | Advance Goods Trade Balance | Dec | $-83,40bn | $-84,82bn |
| 15:00 | US | Leading Indicators | Dec | 0.20% | 0.60% |
| 15:00 | US | New home sales | Dec | 860k | 841k |

| Africa | What happened? | Relevance | Importance | Analysis |
|---|---|---|---|---|
| Africa investment | A UK development finance institution, CDC Group, is planning to invest about $1bn into Africa this year in infrastructure and finance. The group is targeting markets including Ethiopia, Kenya, Egypt and Nigeria | In the midst of the pandemic, which has weighed heavily on government funds for infrastructure projects, any investment should be seen in a positive light by investors | 3/5 (economy) | The UN Conference on Trade and Development reported that the continent is expected to have suffered a 25% to 40% decline in foreign direct investment last year as a result of the COVID-19 pandemic. As such, the UK investment into Africa at the start of the new year is encouraging |
| **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 | What happened? | Relevance | Importance | Analysis |
|---|---|---|---|---|
| **Fed – FOMC** | Last night, the Fed left the key overnight interest rate unchanged at 0-0.25% and reaffirmed its commitment to a full range of tools to support the economy | Fed will continue the pace of monthly purchases of at least $80bn of USTs and $40bn of MBSs | 3/5 (economy, monetary policy) | According to the Fed, economic activity has moderated in recent months and until such time as substantial further progress is made on employment and price stability, the current policy will hold |
| **China fiscal policy** | Data out of China confirms that fiscal spending rose by 2.8% in 2020, but that revenue fell 3.9%. That changed in Q4 with revenue up 5.5% y/y compared with 4.7% y/y in Q3 | With China's economy recovering so rapidly, the fiscal damage will be limited, but fiscal authorities will act if needed | 4/5 (economy, fiscal policy) | Debt/GDP current stands at 45.8%, which for a country that runs interest rates as low as China's and has access to savings and resources if a comfortable position to be in. China will experience almost no fiscal distress |
| **ECB speak** | ECB Governing Council member Klaas Knot said that the ECB could cut its deposit rate further below zero if that was necessary to keep its inflation target intact | Any material strength in the EUR could prompt the central bank to take action to protect trade | 4/5 (economy) | The ECB has resisted the temptation of doing so out of fear that there could be unintended financial stability consequences, but it is clear that the EZ economy is still struggling to recover |

## Local FX Opening Rates and Comment

| | CUSTOMER BUY CASH | CUSTOMER SELL CASH | CUSTOMER BUY TT | CUSTOMER SELL TT |
|---|---|---|---|---|
| **BWPZAR** | 1.3284 | 1.4436 | 1.3540 | 1.4297 |
| **BWPUSD** | 0.0869 | 0.0943 | 0.0886 | 0.0934 |
| **GBPBWP** | 15.7092 | 14.4646 | 15.3693 | 14.7660 |
| **BWPEUR** | 0.0718 | 0.0780 | 0.0735 | 0.0765 |
| **JPYBWP** | | | 9.2748 | 9.6357 |
| | | | | |
| **USDZAR** | 14.6793 | 15.9181 | 15.0233 | 15.5738 |
| **EURUSD** | 1.1607 | 1.2576 | 1.1879 | 1.2304 |
| **GBPUSD** | 1.3121 | 1.4216 | 1.3429 | 1.3908 |

**Benchmark Yield Curve**

| | |
|---|---|
| **6m** | 1.1750 |
| **3y** | 3.8750 |
| **5y** | 4.9250 |
| **9y** | 5.2150 |
| **22y** | 5.9250 |

**Forward Foreign Exchange**

| | BWPUSD | BWPZAR |
|---|---|---|
| **1m** | -1.8233 | 0.0000 |
| **3m** | -6.0401 | 0.0000 |
| **6m** | -14.2009 | 0.0000 |
| **12m** | -31.5656 | 0.0000 |

| Equities | | Economic Indicators | | | |
|---|---|---|---|---|---|
| **BSE Domestic Index** | 6883.38 | **GDP** | -6.00% | **Bank Rate** | 3.75 |
| **BSE Foreign Index** | 1547.28 | **CPI** | 2.20% | | |

- Looming job cuts are imminent at one of Botswana's largest employers namely Kgalagadi Breweries Limited due to the ban on alcohol sales. Alcohol sales were restricted in some form for much of 2020 and this has had an effect up and down the value chain. Botswana's neighbour South Africa has also opted for a dry January sparking massive condemnation from the leisure industry which has seen profits and jobs decimated during the various stages of lockdown.
- The government will be mindful of pushing certain industries to the point of no return. As it stands, we have a tourism sector which is reeling from new bans from the UK. It's a balancing act of lives against economic survival, something that is never easy to achieve.
- Internationally, focus was on the FED decision on rates overnight.
- The Fed held steady at the first meeting of 2021 confirming that rates are to remain near zero with bond purchases constant at $120bn per month. The tone was dovish with Fed Chairman Jerome Powell stating numerous times that it is premature for the Fed to think of exiting its accommodative policy stance. DJ reporting - "The pace of the recovery in economic activity and employment has moderated in recent months, with weakness concentrated in the sectors most adversely affected by the pandemic," the Fed's interest-rate committee said in a statement. This stance is broadly what most market commentators have predicted. It is unlikely that the Fed would compromise on the economy at a time when the size and timing of the next round of stimulus from the US government is unknown. At its last meeting in December, the Fed categorically stated that it would maintain purchases until there was "substantial further progress" in its twin goals of a stable 2% inflation rate and low unemployment. This does suggest that the Fed is unlikely to slow asset purchases this year, and a rate hike in 2021 is certainly off the cards, current thoughts are potentially 2023.
- Taking a look at base metals this morning, we see Zinc remaining under pressure as London inventories continue to surge rising by some 55% in the past two days. Copper has steadied somewhat after yesterday's pullback however the bulls are non-committal at this stage given the fact that we are heading into the Chinese Lunar New Year period where demand traditionally tapers off.
- An equity market sell-off yesterday has triggered a rise in risk aversion and consequently a rotation to the safety of the USD. The USD gained ground as a result, with the Fed's commitment to persisting with easier monetary policy doing little to detract from the USD's performance. Whether the USD can gain any traction from here remains to be seen. It might require a deeper correction in stock markets for this to materialise. For now, the bias as reflected in the speculative positions in the CFTC data remains against the USD and thus we expect the BWP to hold above the 0.0900 level.

## ZAR and Associated Comments

- The ZAR was under pressure against the US dollar once again following a temporary break in the currency's current slide on Tuesday. However, moves lower for emerging market currencies were seen broadly across the board as investors adopted a more cautious stance ahead of the Fed's FOMC rate decision. Furthermore, comments during the session from the European Central Bank that investors should not rule out additional policy rate cuts, specifically to put a damper on the euro's rise against the dollar throughout last year, stoked haven demand and added further support to the greenback.
- Ultimately, the Fed announced overnight that rates are to remain near zero and bond purchases constant at $120 billion per month. There was no indication that the Fed would alter its highly accommodative policy stance in the near future, with Fed Chair Jerome Powell reiterating that it was too soon to begin talks of scaling back support to the economy. It is clear the Fed is reluctant to taper asset purchases or provide a timeline of such until more concrete plans on the fiscal stimulus front are known. Despite massive stimulus expected under the Biden administration, the ultimate size and timing of the next round is unknown as yet. Furthermore, the Fed noted a moderation in the US' economic recovery but stressed weakness was concentrated in more vulnerable sectors. Nevertheless, the prolonged recovery will see inflation and employment targets being met further out, with the current consensus ruling out any policy changes in 2021.
- Massive monetary easing in developed nations has helped protect sovereign credit ratings and will likely keep changes to a minimum further out, but emerging markets may struggle to a greater extent with less monetary and fiscal space, as noted recently by S&P Global. For South Africa, last year's ratings downgrades may have been more severe were it not for the SARB with its prudent monetary policy over the last decade allowing room to respond to the pandemic while still maintaining relatively high rates compared to developed nations. However, monetary policy needs to be accompanied by sound fiscal policy, and in South Africa's case, substantial fiscal consolidation and reforms.
- In the short-term though, the economic recovery underway depends highly on the government's implementation of vaccine rollouts, the funding of which is also being brought into question. National Treasury (NT) Director-General Dondo Mogajane outlined the government's options in a webinar yesterday, including raising taxes, increasing borrowings, reprioritizing the budget, or using available cash in the government's bank accounts per the Public Finance Management Act. This sets up the arduous task of delivering next month's budget speech, with ultimate cost estimates for vaccines differing widely between the Health Ministry and NT.
- Consequently, domestic asset prices and the ZAR are likely to endure a turbulent month ahead with investors likely seeking to hedge movements, pushing up volatility and option premiums. The day thus far has seen the ZAR trending weaker during the Asian session, following yesterday's 0.55% tumble against the USD. A stock market rout on Wall Street yesterday has fuelled risk aversion in the session thus far with the dollar holding onto gains. The day ahead holds domestic data in the form of December's PPI reading, while Stateside GDP data for the fourth quarter of last year will take precedence as the market gauges the health of the US recovery and the implications on stimulus plans.

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