Botswana Market Watch

29 January 2021

GMT		International and Local Data	Period	Exp	Previous
	BO	Nothing on the cards			
09:00	EZ	M3 money supply sa y/y	Dec	11.10%	11.00%
13:30	US	BLS Employment cost index q/q SA	4Q	0.50%	0.50%
13:30	US	PCE core y/y	Dec	1.30%	1.40%
14:45	US	Chicago PMI	Jan	58.30	59.50
15:00	US	Michigan consumer confidence	Jan F	79.20	79.20

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
US GDP	Q4 GDP expanded at 4.0% to lead to a 3.5% contraction for 2020 as a whole. This would mark the worst performance in 74 years	The economy is on the path to recovery but remains under considerable pressure	3/5 (economy)	As the vaccines roll out and the economy is allowed to recover, overall economic growth is expected to accelerate through the coming quarters to produce a strong 2021 expansion
Japanese output decline	Japan's factories extended their output decline through Dec as it shrank 1.6% m/m as the overall recovery stalled. More stringent lockdowns globally have dented international demand	Japan's economy remains a good barometer for global growth. Demand through Dec slowed as a result	4/5 (economy)	The effects will be temporary and growth will rebound through Q1 2021, but it is clear that the global economy remains under considerable pressure. Only once vaccines have rolled out will the economy recover in sustained fashion
UK spending	The effects of the lockdowns in Dec and Jan have impacted heavily on spending. Spending on credit and debit cards fell 35% compared to Feb 2020	The spending contraction will impact heavily on GDP, debt levels and fiscal policy	4/5 (economy)	The lockdowns are having a material impact on how economic policy, most notably fiscal policy will unfold through 2021. Fiscal reforms and taxes will become a common theme

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.3268	1.4510	1.3524	1.4371
BWPUSD	0.0869	0.0950	0.0886	0.0940
GBPBWP	15.7448	14.4032	15.4041	14.7032
BWPEUR	0.0718	0.0785	0.0735	0.0770
JPYBWP			9.2945	9.7070
USDZAR	14.6610	15.8932	15.0046	15.5493
EURUSD	1.1612	1.2581	1.1884	1.2309
GBPUSD	1.3150	1.4249	1.3458	1.3941

Benchmark Yield Curve

6m	1.1760
3y	3.9150
5y	5.1250
9y	5.2150
22y	5.9250

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-1.8184	0.0000
3m	-5.9914	0.0000
6m	-14.1521	0.0000
12m	-31.6046	0.0000

Equities / **Economic Indicators**

BSE Domestic Index	6873.25	GDP	-6.00%	Bank Rate	3.75
BSE Foreign Index	1548.15	CPI	2.20%		

- Officials have ruled out poaching as a cause of death for the 5 elephants spotted over the Okavango recently given that their tusks were intact. This has raised fears that the bacteria that killed some 300 elephants from May to July last year may be back. It was revealed after months of investigations that the deaths were as a result of toxins produced by cyanobacteria in the water streams in the delta area.
- COVID-19 headlines are still holding focus in the region. Earlier in the week the President made it clear that the government intends to vaccinate every citizen once the vaccine becomes available. Botswana locked down hard in 2020 and the economy has taken a massive blow due to the pandemic. The government is actively looking to shield its population against the virus and repair the economic damage done.
- As the economy emerges from the pandemic doldrum we expect Botswana to remain a focal point for the investment community. The country has invested in telcoms and energy, its fiscal position is strong and there is a growing copper industry which will yield further dividends in the mining sector. This leads us to remain long term bulls on Botswana with the country having the right structural framework for strategic investors.
- Moving over to the US, Democrats remain undeterred and will seek to push through the Biden administration's plans for a massive stimulus plan. They have vowed to push ahead with the stimulus effort next week where they will look to try and pass a further $1.9trln package. This comes on top of the $4.0trln that was already approved last year. This is an enormous amount that will simply build the debt profile of the country and impose the need for fiscal reforms once the pandemic has been overcome. Republicans for their part will push against the bill as much as possible and try and reduce the overall size of it in favour of a more targeted approach to fiscal spending.
- GDP in Q4 expanded 4.0%, which although firmly positive, represents a loss of momentum. A surge in infections and more stringent lockdowns have detracted from economic growth. For the year overall, the economy contracted 3.5% in 2020 and that comes despite the more than $8.0trln stimulus injected into the economy through a combination of the Federal government and the Federal Reserve. This will market the worst GDP performance in 74 years, to reflect the full magnitude of the pandemic and lockdown induced contraction.
- As we head into the weekend, the USD appears to be ending on a firmer footing. The volatility in the global equity markets has translated into some risk aversion that has led some investors to rotate to safety. However, there are still some significant questions around the outlook for fiscal and monetary policy that will limit the extent of the gains. With the US still expected to run two sizeable twin deficits, there are significant headwinds that the USD will still face through the years ahead. It remains difficult to turn overly optimistic on the currency when these currency debasing policies remain intact.

ZAR and Associated Comments

- For the second time this week, the USD-ZAR tested levels above the 15.3500-handle but ultimately the ZAR bears have failed to sustain these drives. Yesterday's moves in particular saw the ZAR close 0.77% stronger against the USD around 15.0850/$, after hitting intraday lows some 2% weaker earlier on. With SA's economic outlook remaining clouded and any improvement therein held back until the efficacy of vaccine rollouts can be felt, the USD-ZAR pair has primarily taken cues from the dollar leg and likely will for some time still.
- As the end of the month approaches, the ZAR is on track for a 4% loss against the dollar at the time of writing. However, a large part of this year's trade has seen the ZAR maintain its current 15-15.50/$ range which it has held since the second week of January. An index gauge of the USD on a trade-weighted basis (the DXY), meanwhile, has held its own range between 90 and 91. Risk aversion has been providing some support to the dollar, especially in the absence of the massive and speedy US fiscal stimulus plans which has been expected. Regardless, the dollar should continue to trend weaker in the coming months once second waves of COVID-19 infections subside given the US Fed will not stop its policy easing to prop up the economy.
- But for the USD-ZAR pair, this is not as clear cut for the month ahead with February's budget speech to be a substantial risk event. The market will look to National Treasury's plans for fiscal consolidation and whether government will follow through on implementation to bring down government's borrowing requirements. With fiscal consolidation likely to take years to have an effect on government debt levels, February's budget may be the last chance to show commitment to reforms. Meanwhile, short term risks remain equally as prevalent, with a major concern being subsequent COVID-19 waves. The SARB has played a massive role in supporting the economy and financial markets, but the central bank's easing cycle has most likely bottomed out. However, in an interview yesterday, SARB governor Lesetja Kganyago said the bank still has room to respond to a third wave of infections through additional rate cuts. Kganyago did make it clear though that the SARB would wait for the requisite data to show the impact of new waves. Thus, this may only occur some months after the onset of a third wave and should vaccination plans comes to fruition, the impact will be lessened.
- Nevertheless, this will keep the market tetchy should infections rise again and will translate into greater currency volatility. For the day thus far, the ZAR has begun on the back foot, leading losses for a broadly weaker EM currency basket. The dollar remains buoyed by heightened risk aversion currently evident in stock markets, while news that the South African COVID-19 variant has spread to the US will keep market sentiment cautious after recent vaccine results suggested markedly lower efficacy rates against the SA strain compared to others. The day ahead will see a host of domestic data for December starting with private sector credit growth and M3 money supply this morning. Following this, December's government budget and trade balances are scheduled for later in the day.

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