

Botswana Market Watch

25 January 2021

GMT	International and Local Data			Period	Exp	Previous
09:00	BO	Nothing on the cards			Jan	91.00
10:45	GE	IFO business climate				
13:30	EC	ECB's Panetta Gives Speech			Dec	0,27
	US	Chicago Fed activity index				
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 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	
Global FDI	For all the blame that China has endured for spreading Covid-19, it has not affected its ability to attract FDI. UNCTAD data shows that China still attracted \$163bn in FDI. The US attracted \$134bn		China's economy rebounded strongly through 2020 to highlight its attraction amongst foreign investors	3/5 (economy)	In 2019, it was the US that had attracted most of the FDI flows with almost double the amount received in 2020. It suggests there is a clear cyclical to this data that will likely resume when the pandemic is over	
EZ Business Activity	Economic activity shrank markedly in Jan as stringent lockdowns detracted from normal economic activity. IHS's Markit flash composite PMI fell to 47.5 in Jan from 49.1 in Dec		Employment and prices are still moderating and this will likely remain a trend while the pandemic plays out	4/5 (economy)	2021 is shaping up to be little more than an extension of 2020, but with more infections. The vaccine rollout will gather momentum and the tide will turn but through much of H1 2021, economic activity will remain restricted	
Japanese politics	PM Suga is facing a steady erosion in support on account of his handling of the pandemic, which was deemed too slow in declaring a state of emergency		Support for Suga's cabinet has dropped steadily and is now just 33%. This may prompt changes	3/5 (politics)	Japan can ill-afford any uncertainty on the political front that will likely slow rather than speed up action on the part of the government. Frustration levels at the weak economy are however growing	

Local FX Opening Rates and Comment

CUSTOMER					CUSTOMER					CUSTOMER				
BUY		SELL		BUY		SELL								
CASH		CASH		TT		TT		Benchmark Yield Curve			Forward Foreign Exchange			
BWPZAR	1.3145	1.4412	1.3399	1.4274	6m	1.1760			BWPUSD	BWPZAR				
BWPUSD	0.0870	0.0953	0.0887	0.0943	3y	3.8750		1m	-2.0573	0.0000				
GBPBWP	15.7297	14.3570	15.3894	14.6561	5y	4.9250		3m	-6.2108	0.0000				
BWPEUR	0.0714	0.0782	0.0731	0.0767	9y	5.2150		6m	-13.2795	0.0000				
JPYBWP			9.2355	9.6663	22y	5.9250		12m	-29.4401	0.0000				
USDZAR	14.5092	15.7338	14.8492	15.3935										
EURUSD	1.1690	1.2665	1.1964	1.2391										
GBPUSD	1.3151	1.4251	1.3459	1.3943										
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- The COVID-19 pandemic has pushed out Botswana assuming Chairmanship of the Kimberly Process Certification Scheme, the international diamond mining and trading regulator. 2020 was a wash out as a year with Russia set to be chairman during 2020 and Botswana then following in 2021, this has been pushed out by a year.
- The tropical depression Eloise which hit Mozambique on Friday and Saturday moved over the eastern parts of South Africa over the weekend bringing vast quantities of rain. There is an expectation that this storm moves towards southern Botswana through the course of today and this may well result in abnormal amounts of rain hitting that area of the country with the potential for localised flooding etc.
- Moving on to developments out of the United States. Just a few days into the Biden presidency and there is a lot to contend with. More than a dozen executive orders have been signed, the White House is pushing hard for the \$1.9trln stimulus package but is meeting with some resistance on its size, Biden is hinting at implementing more travel bans to curtail the spread of new variants of the virus, and geopolitical tensions are escalating between China and Taiwan which will do little to promote relations between China and the US.
- Beyond just keeping track of developments in the economy and the unfolding pandemic, this week's main event will be the FOMC decision and statement and the guidance that Fed Chairman Powell offers the market. No change is anticipated, but the focus will be on the commitment the Fed shows to leaving monetary policy accommodative, to see if any insight into the duration of support can be gleaned. The overwhelming expectation is that the Fed will proceed cautiously so as not to disrupt financial market sentiment and cause further disruption at such a sensitive time in the economic recovery.
- Casting an eye towards the FX markets, although the USD may have paused its decline, the bias remains tilted towards further depreciation. Concerns over new Covid variants with greater transmissibility have investors concerned, and that rise in risk aversion will support the USD. Offsetting this however will be the expectation that vaccine rollouts will only gather momentum as more vaccines are approved and the authorities become more efficient in immunising the population. Selling dollars on any upticks still appears to be the strategy of choice and this should keep the local unit above the 0.0900 mark for now.

ZAR and Associated Comments

- Last week ended with market sentiment taking a dive following the US stimulus-driven rally of late where large amounts of fiscal and monetary easing have added to global growth prospects. However, amid renewed fears of economic risks due to the pandemic, risk appetite was driven lower by headlines that Hong Kong would go into lockdown and the UK's lockdown restrictions would be extended until the summer.
- Furthermore, fears that vaccines would be less effective against new virus strains have been weighing on the market psyche which ultimately saw the ZAR fall by 1.10% against the USD, paring its weekly advance as it closed just shy of the 15.15/\$-handle. However, the ZAR depreciated in line with the broader emerging market (EM) currency sample. For comparison, Russia's Ruble and Brazil's Real closed 1.95% and 2.00% weaker, respectively, suggesting South Africa's idiosyncratic risk factors were less at play here than they have been in prior weeks.
- We maintain that large stimulus plans and expectations thereof will continue to debase the USD moving forward, while loose fiscal and monetary policy will add to global growth prospects as well. Thus, support for the USD may be temporary at best and a resumption in risk appetite will see the greenback under renewed pressure. Meanwhile, swings in sentiment may cause slides in EM assets, albeit short-term.
- Although EM currencies do have upside potential broadly speaking, this assumes idiosyncratic risk factors do not hinder specific currencies. For the ZAR, structural challenges inhibiting growth have been exacerbated by the pandemic and high levels of government debt has meant the government has not been in a position to shield the economy from lockdowns, all the while the lockdowns have seemed to accelerate the country's seemingly inevitable slide towards fiscal collapse.
- In the short term though, the ZAR's potential to appreciate will likely be dictated by government's implementation of its vaccine rollout plan. After a three-day meeting with the ANC's top leadership, President Ramaphosa said vaccine provision is a top priority for the ruling party and that the budget will need to be reprioritised. However, unions and allies of the ANC have continued to criticise the government for failure to implement its own vaccine procurement plans in a timely manner. As such, this could yet be another setback for South African assets and risks capital flows from developed nations should SA not recover alongside the broader EM space. Furthermore, the meeting revealed plans for policy implementation to be accelerated, of which land reform is a priority.
- All in all, the economy remains in a fragile state too and the currency's potential strength owing to developed world easing may be capped going forward. Given the currency has largely been driven by global factors for some time now, this still holds the potential to work in its favour. For the day thus far, the ZAR has traded positively alongside the broader EM sample despite US President Biden reinstating travel restrictions against a host of countries and adding South Africa to the list. The week ahead will see a US Fed rate decision on Wednesday, while investors will need to wait until the latter half of the week for a domestic update with economic and government budget data scheduled for release.

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