

Botswana Market Watch

26 January 2021

GMT	International and Local Data		Period	Exp	Previous
09:00	BO	BWP11.8bn 7-day certificates on offer			
14:00	US	House price index m/m	Nov	0.60%	1.50%
14:00	US	S&P CoreLogic Case-Shiller house price composite-20 y/y	Nov		7.95%
15:00	US	Consumer confidence	Jan	88.75	88.60
15:00	US	Richmond Fed manufacturing index	Jan		19.00

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
Trump Impeachment	Yesterday, the House of Representatives delivered to the Senate a charge that former President Trump incited insurrection	Should Trump be convicted he would be barred from ever holding public office again	3/5 (politics)	A two thirds majority is needed to convict Trump and it is unclear whether all those votes exist. There is some support for the conviction by Republicans but far from all
US Treasury Secretary	The Senate voted overwhelmingly to confirm Janet Yellen as the next Treasury Secretary. Any opposition came from those concerned about the size of the fiscal stimulus which might follow	Just as she was expansive in her term as Fed Chair, Yellen will likely push hard for further fiscal stimulation	4/5 (politics, economy)	Yellen is unlikely to persist with the conservatism of her predecessor and the probability of another massive stimulus of \$1.9trln has now risen. Yellen becomes the first woman to hold this position
German business sentiment	Germany's Ifo business morale index fell to 90.1 in Jan from 92.2 in Dec. This was less than forecast and reflects the impact of the second wave of infections	Another round of lockdowns has taken the wind out of the sales of the economic recovery	3/5 (economy)	The effects will be temporary. Once the lockdowns yield the desired effect and the vaccine rollout gathers momentum, a more sustained economic recovery will materialise, albeit at a low trajectory

Local FX Opening Rates and Comment

CUSTOMER BUY SELL CUSTOMER BUY SELL											
CASH		CASH		TT		TT		Benchmark Yield Curve		Forward Foreign Exchange	
BWPZAR	1.3203	1.4460	1.3457	1.4321	6m	1.1730			BWPUSD	BWPZAR	
BWPUSD	0.0865	0.0946	0.0882	0.0937	3y	3.8750		1m	-1.8818	0.0000	
GBPBWP	15.7732	14.4137	15.4319	14.7140	5y	4.9250		3m	-5.9719	0.0000	
BWPEUR	0.0712	0.0780	0.0729	0.0765	9y	5.2150		6m	-14.1034	0.0000	
JPYBWP			9.1766	9.6052	22y	5.9250		12m	-31.5218	0.0000	
USDZAR	14.6540	15.8904	14.9975	15.5466							
EURUSD	1.1652	1.2627	1.1926	1.2353	Equities		Economic Indicators				
GBPUSD	1.3116	1.4212	1.3424	1.3904	BSE Domestic Index		6883.38	GDP	-6.00%	Bank Rate	3.75
					BSE Foreign Index		1547.28	CPI	2.20%		

- Botswana is building its profile within SADC and has put forward Mr Elias Magosi as the replacement for Tanzania's Dr Stergomena Tax as SADC executive secretary when her term ends in August of 2021. The Southern Times reported the following - *Mr Magosi is the Permanent Secretary to the President and Head of the Botswana Public Service, as well as Secretary to the Cabinet. This makes him the country's highest ranking civil servant. Government spokesperson Mr Andrew Sesinyi said Mr Magosi had a wealth of experience and the requisite leadership competencies in both the public and private sectors, as well as in international organisations, to steer the SADC Secretariat. Prior to being appointed Permanent Secretary to the President, Mr Magosi served as Deputy Permanent Secretary to the President from May 2018 to February 2020.*
- In other local news, the President Mr Mokgweetsi Masisi said yesterday that administration of the COVID-19 vaccine will start with front line workers as soon as its available. "Once available, administration of the vaccine will start with frontline workers since they are the first line of defense in treating and curbing the spread and transmission of COVID-19," the President said while speaking to police officers, nurses and doctors in Francistown,
- We now move to the United States where there is a lot going on. Given the country's broader macro influence it cannot be ignored. Janet Yellen has been confirmed as the next Treasury Secretary in what proved to be a well-supported nomination. Both Democrats and many republicans voted for Yellen, who will likely usher in a far more expansive approach to fiscal policy than her predecessor. Biden's \$1.9trln stimulus package will gain added support and although there will be some efforts to moderate the amount by some concerned Republicans, it is likely to be a substantial stimulus effort that is unveiled.
- The FOMC will be in full deliberation mode today. It is unlikely that the Fed changes policy at this point. With the fiscal authorities pushing for a massive stimulus package, the Fed will likely hold off and allow the dust to settle not only politically, but with regards to the pandemic, vaccine rollout, and stimulus efforts. It would be premature for the Fed to act with even more stimulus, when so much has already been done, with more in the pipeline.
- 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.
- Moving over the FX markets, ahead of the FOMC meeting this week where the Fed is expected to leave monetary policy unchanged, the USD has regained a firmer footing and risen marginally off its lows. There is also an element of improved risk aversion as earnings season gathers momentum and investors turn a little cautious on the valuations given the amazing run of records in the past few months. For now, investors are rotating towards the safety of the USD and this will result in some pressure on the BWP at the open today.

ZAR and Associated Comments

- Emerging market currencies, and global risky assets for that matter, kicked off the week on the back foot as the US dollar remained buoyed following on from last week's drop in risk appetite. For the ZAR, sentiment swung in mid-Morning trade yesterday, with market nerves being triggered once again by slow vaccine progress, the effectiveness of vaccines against variants and the impact of ongoing lockdowns. Furthermore, reports that US fiscal stimulus plans may face delays, raising near-term uncertainty for the greenback, drove investors away from higher-beta currencies.
- On the vaccine front, Moderna says its vaccine will still be effective against new variants, although the biotech company remains concerned that it will be less effective against the South African strain after it produced a weaker immune response against the strain. With this adding pressure on the ZAR, the local unit ultimately reversed gains throughout the day alongside the broader EM sample, closing 0.5% weaker around 15.22/\$. With South Africa being added to the travel ban list imposed by the US and the country's own identified new virus strain, the market is likely to remain skittish to upside moves by the ZAR until nerves have settled and a clearer outlook can be had. Thus, in the short-term we expect the currency to remain volatile and judging by heightened implied volatility in options prices, so does the broader market. The next month ahead will prove to be a crucial in allaying investors' fears, with the all-important February budget speech needing to convince market participants that South Africa can stay on track for economic recovery and fiscal consolidation.
- Corroborating a nervous market, net speculative long-ZAR contracts fell for the second week according to the latest CFTC data. The market remains bearish on the dollar, with recent dollar strength likely to prove temporary, however slow progress on vaccine front and the new virus strain is evidently weighing on the local currency.
- On the global stage, the market will be primarily focused on the US Fed's FOMC which meets today and tomorrow. Ahead of the rate decision tomorrow, where the market will largely look for hints as to the Fed's policy timeline, January's US consumer confidence index headlines the data card today. A substantial deterioration in the print will underscore the need for easy monetary policy and prompt US lawmakers to reach a bipartisan agreement sooner for the next round of fiscal stimulus. While progress in fiscal stimulus plans will keep the dollar under pressure in the medium to long term, the day thus far has kicked off much where yesterday ended. Asian stock markets have traded lower, while EM currencies are broadly in the red. The ZAR has continued to trade with a bearish bias after securing a third daily loss yesterday, while sustained risk off sentiment may open the door for the unit to approach the 15.50/\$-handle once again.

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