

Botswana Market Watch

17 February 2021

GMT		International and Local Data	Period	Exp	Previous
09:00	BO	Nothing on the cards	Feb 12		
12:00	US	MBA mortgage applications	Jan	0.80%	-4.10%
13:30	US	PPI final demand y/y	Jan	0.80%	0.80%
13:30	US	Advance retail sales m/m	Jan	0.80%	-0.70%
13:30	US	Retail sales ex. auto and gas	Jan	0.50%	-2.10%
14:15	US	Industrial production m/m	Jan	0.40%	1.60%
14:15	US	Manufacturing production m/m	Jan	0.70%	0.90%
14:15	US	Fed's Rosengren Speaks			
19:00	US	Fed FOMC Meeting Minutes	Jan 27		

Africa	What happened?	Relevance	Importance	Analysis
Oil surge	International oil prices have continued to surge with the front month Brent contract reaching a 13-month high as market dynamics continue to tighten on the back of the OPEC production cuts and extreme weather in the US	The sharp rise in oil prices has provided a strong headwind for oil-producing countries' assets. Moreover, the rise in oil is also providing a boost to government revenues	3/5 (commodities)	After underperforming for most of 2020, oil-producing nations' currencies and bonds have kicked off the new year amongst the top performers. With demand dynamics improving and dollar weakness likely to be sustained, we expect that oil prices will remain buoyed in the coming weeks
SSA debt	Fitch said in a report that the coronavirus pandemic has driven interest-to-revenue ratios among sovereigns in Sub-Saharan Africa close to levels seen before debt relief was extended in the 2000s	As the second wave of the pandemic emerges, fiscally constrained sovereigns have less room to provide stimulus than other economies	4/5 (Fiscal)	Fitch said that the fiscal constraints would weigh on the region's economic recovery as governments are unable to offer additional support to cushion the economic blow of the second wave of the coronavirus
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
Japan factories	Feb's manufacturers' sentiment turns positive for the first time since mid-2019 as it recovers to +3 from Jan's -1 according to the Reuters Tankan. Services came in at -7 in Feb from -11 in Jan	A good barometer for international demand and bodes well for a stronger recovery through H2 2021 as pandemic wanes	3/5 (economy)	A leading driver of the increased demand throughout Asia is the strong recovery in the Chinese economy that is spilling over into many manufactured goods. This will become more entrenched through H2 2021
Bitcoin	Bitcoin continues to surge through one record after the next as the cryptocurrency gains more universal, main stream acceptance	Reflects improved risk appetite, but also reflects a desire to rotate away from FIAT currencies	3/5 (market)	As cryptocurrencies gain prominence, the probability that they will be regulated also grows exponentially. They hold the potential to become a real threat to existing central banks
Italian yields	Despite record debt levels, Italy still managed to issue at near record-low interest rates on Tue, following Draghi's ascension to Prime Minister	Quite aside from optimism concerning Draghi, this also highlights the power of the ECB's QE	4/5 (economy, market)	Investors are banking on the ECB and the EZ as a whole backstopping Italy and will therefore continue to support Italian auctions, even though the debt/GDP ratio is rising towards 150%

Local FX Opening Rates and Comment

	CUSTOMER BUY		CUSTOMER SELL		Benchmark Yield Curve		Forward Foreign Exchange			
	CASH	CASH	TT	TT						
BWPZAR	1.2927	1.4155	1.3176	1.4019	6m	1.1250		BWPUSD	BWPZAR	
BWPUSD	0.0880	0.0963	0.0897	0.0954	3y	3.8750	1m	-1.6624	0.0000	
GBPWP	15.7554	14.3979	15.4145	14.6978	5y	5.1250	3m	-5.8695	0.0000	
BWPEUR	0.0728	0.0797	0.0745	0.0781	22y	6.2650	6m	-13.5866	0.0000	
JPYBWP			9.5401	9.9817			12m	-30.6881	0.0000	
USDZAR	14.0971	15.2863	14.4275	14.9556						
EURUSD	1.1606	1.2577	1.1878	1.2305						
GBPUSD	1.3332	1.4448	1.3645	1.4135						
					Equities		Economic Indicators			
					BSE Domestic Index	6740.7	GDP	-6.0	Bank Rate	3.75
					BSE Foreign Index	1550.7	CPI	2.3		

- Botswana Diamonds has signed a strategic agreement with Diamexstrat Botswana to fund exploration of its prospecting license assets in the country. Mining Review reported that *Botswana Diamonds (BOD)'s prospecting assets comprise the recently acquired Sekaka Diamonds Exploration database and Prospecting Licences, as well as the Prospecting Licences held by BOD's subsidiary, Sunland Minerals.*
- COVID-19 remains front and centre for the government at the moment given the fact that the coronavirus fatality rate has risen to 1% from 0.3% last year. The country has registered some 25802 cases with 226 deaths, while some 21893 people have fully recovered and are considered noninfectious. As it stands there is no firm date as to when the COVID-19 vaccine will be available in Botswana, but hopes are pinned on a date towards the end of March.
- Given the rise in inflation earlier in the week its worth keeping an eye out for developments in the energy sector. Oil is buoyed at a 13-month high this morning as freezing weather conditions, and a power crisis in the US wiped out around a third of the country's crude production. The extreme weather in the US has triggered a wave of power outages across central US, halting 3.5mn barrels per day or more of output according to industry executives. The supply crisis in the US has spurred a buying frenzy for fuels with US gasoline futures gaining as much as 5% yesterday.
- Moving over to the fixed income markets we need to focus closely on developments in the US Treasury market. US Treasury yields are rising steadily in what reflects growing optimism about prospects for the US economy. However, as they do they also ensure that the business cycle does not overheat. It is the market seeking to rebalance, although it is clear that the Fed's large QE efforts are still playing a significant distortionary role in stock markets and other asset prices. Rising bond yields are something for investors to keep a close watch on as it may have implications for longer term growth prospects, may signal an inflation episode despite the Fed's more sanguine guidance and could change perceptions on the USD.
- Yesterday the USD bounced off its recent lows. The rise in US bond yields and expectations of an inflation episode as a result of the sharp acceleration in money supply means that the USD has found some support for now. Recent trading sessions have shown a reluctance on the part of the USD to weaken further, with investors clearly waiting for a catalyst to help the USD stage a mini-recovery. With the Biden stimulus effort also waiting in the wings, investors will continue pricing in a stronger GDP boost.
- The BWP-USD remains anchored around the 0.0920 level. No real interest to push the local unit in either direction at present.

ZAR and Associated Comments

- The ZAR led EM currencies lower yesterday as the unit fell from a one-year high reached earlier in the session. Given the local unit's recent five-day rally against the USD, this was in part driven by some profit taking with the upcoming budget speech now one week away. Losses across the EM spectrum were, however, driven mainly by the dollar-leg with the greenback rising alongside US Treasury yields. As it stands, the market is favouring the US economic recovery to outpace that of other major developed economies. This has led US Treasury yields higher on expectations of rising inflation, prompting rate hikes and a tapering of Fed easing sooner than expected.
- However, some Fed officials have reiterated that inflation is unlikely to run away in the medium term, which should see the Fed maintaining policy for at least the next few years. Furthermore, the Fed's average inflation targeting approach will allow higher rates of inflation to be tolerated, while the US labour market still has further room to recover. Thus, it seems bets that the dollar's decline has bottomed out may be premature, but these have still been enough to provide some support to the USD, minimising any clear-cut direction.
- For the ZAR, this will provide some additional volatility in the short term. Although the currency has been bolstered in recent months by strong terms of trade and investors favouring South Africa's higher real yields, the ZAR remains subject to broader EM sentiment and less resilient to USD moves. As such, yesterday saw the unit decline 1.6% against the USD, the most among emerging market currencies. Ultimately, ZAR retreated to the 14.70/\$-dollar after reaching 14.40/\$ earlier in the session.
- For the day ahead, in addition to news on domestic vaccine rollout, the market will have January's CPI and retail sales data for December on the cards. On the inflation front, it is expected to have accelerated to 3.3% in January from 3.1% in December, still well below the midpoint of the SARB's target 3-6% range. In the coming months, we may see inflation spike due to base effects of low oil prices last year and rising commodity prices, which should keep the SARB from easing policy any further.
- Later in the day, there will be a host of US data to digest with US retail sales, industrial and manufacturing data and Fed FOMC minutes from January's meeting. Stronger data here should add to current impetus for the USD, while the market will look to the FOMC minutes to justify yesterday's moves in US Treasuries which arguably could have been positioning ahead of the release..

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