

Botswana Market Watch

1 February 2021

GMT	International and Local Data			Period	Exp	Previous
	BO	Budget to be presented to Parliament				
09:00	EZ	Markit/BME manufacturing PMI			Jan F	54.70
14:45	US	Markit PMI manufacturing			Jan F	59.10
15:00	US	ISM manufacturing PMI			Jan	59.90
						60.70
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		
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		
Japanese PMI	Rising viral infections and the subsequent lockdowns impacted on manufacturers through Jan as the PMI dipped into contraction territory with a print of 49.8	Although this was a final reading and revised up, it still reflects a weak economic climate	3/5 (economy)	Domestic demand disruption will influence the PMI negatively, but in Japan's case it is also a useful barometer for international demand given the strong trade linkages		
Chinese PMI	Factory output, even in China dipped to the lowest reading in five months through Jan, as the effects of the global lockdowns impacted on demand	PMI remained above 50 at 51.3, but was moderating to highlight a difficult trading environment	3/5 (economy)	During the month of Jan, several large cities were locked down due to a rise in infections that had the authorities concerned about a wider spread, especially ahead of the Lunar New Year		
EU Vaccine Curbs	The EU faced a fierce backlash for restricting exports of vaccines produced in the EU, with the EU implementing damage control after failing to secure enough vaccines	AstraZeneca has offered to deliver 9mn more vials of vaccine to try and defuse the pressure from Brussels	4/5 (economy, politics)	Astra-Zeneca will argue that it is using "best reasonable efforts" to deliver on the vaccine production, and this is ultimately about dialling up political pressure to encourage AstraZeneca to produce more for the bloc		

Local FX Opening Rates and Comment

CUSTOMER				CUSTOMER				CUSTOMER				CUSTOMER			
BUY		SELL		BUY		SELL									
CASH		CASH		TT		TT		Benchmark Yield Curve				Forward Foreign Exchange			
BWPZAR	1.3124	1.4376	1.3377	1.4238		6m	1.1760			BWPUSD	BWPZAR				
BWPUSD	0.0869	0.0951	0.0886	0.0941		3y	3.9150			1m	-1.8233	0.0000			
GBPBWP	15.7873	14.4283	15.4458	14.7289		5y	5.1250			3m	-5.9963	0.0000			
BWPEUR	0.0716	0.0783	0.0733	0.0768		9y	5.2150			6m	-14.1570	0.0000			
JPYBWP			9.3043	9.7375		22y	5.9250			12m	-31.6144	0.0000			
USDZAR	14.5017	15.7280	14.8415	15.3878											
EURUSD	1.1646	1.2617	1.1919	1.2344											
GBPUSD	1.3188	1.4288	1.3497	1.3978											

- Increased COVID-19 risks in Botswana have resulted in the government extending the curfew until the 28th February 2021. Curfew remains from 20:00pm until 04:00am and anyone moving during this time will be required to carry a permit. The sale and consumption of liquor in public places remains suspended.
- These restrictions are undoubtedly going to have a negative impact on the leisure and tourism sector which is currently under massive pressure given the lack of international visitors. What is certain is that these industries will emerge from this vastly different with different target markets and revenue lines.
- This backdrop sets the tone for the Minister of Finance and Economic Development who will be presenting the 2021-2022 budget to parliament today. There is an expectation of a massive deficit given the impact of COVID-19 on the economy. Equally, market commentators will be waiting eagerly to see what the minister has planned to revive those sectors hardest hit by the pandemic. Undoubtedly, there should be a shift of funds to the healthcare sector which is going to need additional support in order to roll-out the vaccine.
- As always, the question is how will the deficit be funded. Spending will be cut in non-essential areas, increase taxes, reduce subsidies and potentially draw on the debt capital markets.
- Moving over to the US, Politics remain central to developments occupying the headlines this morning. The Biden administration would like to press ahead with its massive \$1.9trln stimulus package. Republicans within the Senate have their misgivings and ten of them urged Biden to scale it back, out of concern for the longer-term consequences. In response, Biden has invited them for discussions at the White House in a bid to be inclusive. It is however doubtful that Biden will back down. With people like Treasury Secretary Yellen who will be advising Biden to bolster the stimulus package, any moderation in the size of the deal will be marginal. Talks will likely unfold in the coming weeks.
- Former President Trump's impeachment trial will begin next week. Ahead of the trial, a group of Republicans led by Rand Paul tried to get the impeachment trial ruled unconstitutional. They lost that effort, but the voting split of 55-45 against suggests that there are still many Republicans that will not vote in favour of convicting Trump. It is looking highly improbable that the Democrat effort to convict Trump of impeachment will succeed. It requires a two-thirds majority which does not look like it exists at the moment, which could mean that Trump would once again be free to contest the 2024 elections.
- Beyond the usual PMI data at the start of each month, this week will see some focus return to the labour market with the ADP, jobless claims and non-farm payrolls data all scheduled for release. From a data perspective, these will offer good context as a backdrop to the stimulus discussions. Further indications that the labour market is struggling to gain much traction would only further build the argument for a strong stimulus package to build the exit velocity of the economic recovery.
- In terms of the FX markets, not much to report back on concerning the performance of the USD which for the time being remains largely rangebound. Stocks had a volatile week last week which kept the USD underpinned but most of that volatility was due to transitory factors. This week and next, there will be some key risk events concerning the US stimulus discussions, Trump's impeachment trial and some key data in the form of the latest non-farm payrolls data that will keep investors relatively conservative in their position taking. Technically speaking, there is very little in the way of directional momentum to speak of.

ZAR and Associated Comments

- Risk aversion has been providing support to haven assets as traders remain wary of an ongoing battle between retail and institutional investors on Wall Street which has roiled global equity markets over the last week. As a result, the US dollar went on to weekly gain just shy of 0.5% as demand kept the greenback buoyed into the end of the month.
- Volatility in global equity markets evidently spilled over into FX markets last week as can be seen in heightened intraday price volatility. With the local currency lacking resilience to broader market sentiment, the ZAR was not spared, while Friday saw the unit continue to swing between gains and losses. Ultimately, the ZAR added to its monthly decline at the end of last week as the unit ended January 3.25% weaker against the US dollar.
- Positive domestic data helped the ZAR to a one-week best, however, at the end of a turbulent week. Private sector credit growth rebounded in December, while both the government budget and trade balances surprised to the upside. However, credit growth is still heavily suppressed as it remains near its decadal lows and suggests the economy and domestic demand is still struggling to regain traction amidst ongoing restrictions. Although, weak demand will keep upside inflation pressures muted despite interest rate cuts by the SARB over the past year, the knock-on effect on government's tax intake will continue to raise the fiscal alarms. December's budget balance swung into a R5.1 billion surplus from -R21.4 billion in the month prior. However, the cumulative budget deficit for the year widened further to R433 billion, compared to R249.7 billion at the same time the year before.
- South Africa's increasingly precarious fiscal position will remain front and centre for the month ahead. The upcoming budget announcement will be one of the more important ones in recent history and goes hand in hand with an ongoing public sector wage dispute. Last week, unions filed applications to the Constitutional Court to appeal a recent Labour Appeals Court ruling which sided with government after it reneged on the last annual increase of a three-year deal. With public sector wages being the largest line item on the national budget, this is crucial to National Treasury's plan to rein in debt and bring about fiscal consolidation over the next two years.
- Although the month ahead will have longer term implications for the ZAR, the short-term outlook depends much on risk appetite out of developed nations, vaccine rollout and US fiscal stimulus plans. On the US stimulus front, Republicans are calling for a significantly downsized stimulus package than the \$1.9 trillion the Biden administration and other democrats are proposing. However, the ZAR may yet have further upside potential thanks to continued loose monetary policy globally while South Africa's trade surplus, as shown in Friday's data, will continue to support the currency through the current account.

- The new week kicks off with domestic manufacturing PMI data and Naamsa vehicle sales for January, both of which are likely to show the effect of tightened restrictions. The week ahead will see central bank rate decisions out of Australia and England, while the end of the week will see the official US employment report giving an update of the health of the US labour market.

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Report produced by ETM Analytics for BancABC Botswana.

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