Botswana Market Watch 2 February 2021

GMT		International and Local Data	Period	Exp	Previous
	BO	Nothing on the cards			
10:00	EZ	GDP sa y/y	4Q A	-6.10%	-4.30%
19:00	US	Fed's Mester to Give Remarks on Labor Market			

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
RBA	The RBA set the cash rate at 0.1% and will not raise it until inflation is sustainably within 2-3% band. Will also purchase a further A$100bn worth of bonds	RBA remains ultra-accommodative until it is clear that the economy has recovered	3/5 (economy, monetary policy)	The RBA is not leaving anything to chance. Despite their description of the recovery as being well under way and stronger than expected, the RBA has committed to remaining supportive
US PMI	ISM's manufacturing PMI fell to 58.7 in Jan from 60.5 in Dec as new orders slip. Although a retreat, the data remains in expansive territory	The employment component is still improving and suggests that the recovery is intact	3/5 (economy)	Jan's data was also affected by Covid-19 related disruptions, but the data still remains strong. The recovery remains intact, especially with the Fed and the govt stimulating aggressively
EZ inflation	An ECB study has concluded that inflation was likely kept higher than it might've been through the scarcity of products that was common through the lockdown	It suggests that inflation might be lower than first though needing more ECB stimulus	3/5 (economy)	It would appear that there is very little chance that the ECB will scale back on its monetary stimulus effort any time soon. Low inflation prospects will serve to keep the ECB ultra-accommodative

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.3033	1.4241	1.3284	1.4104
BWPUSD	0.0869	0.0948	0.0886	0.0939
GBPBWP	15.7390	14.4127	15.3985	14.7129
BWPEUR	0.0719	0.0785	0.0736	0.0770
JPYBWP			9.3239	9.7375
USDZAR	14.4011	15.6148	14.7386	15.2769
EURUSD	1.1598	1.2565	1.1870	1.2293
GBPUSD	1.3144	1.4244	1.3452	1.3936

Benchmark Yield Curve

6m	1.1770
3y	3.9150
5y	5.1250
9y	5.2150
22y	5.9250

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-1.8233	0.0000
3m	-5.9475	0.0000
6m	-14.1911	0.0000
12m	-31.6729	0.0000

Equities

BSE Domestic Index	6861.73
BSE Foreign Index	1548.15

Economic Indicators

GDP	-6.00%	Bank Rate	3.75
CPI	2.20%		

Morning note produced by ETM Analytics (Pty) Ltd for BancABC Botswana

- The local markets concentrated on the Finance Minister Mr Thapelo Matsheka yesterday as he presented the 2021-2022 budget to parliament. As expected most of the message was not good and centred around the damage done by the COVID-19 pandemic and how the government needs to curtail spending and boost revenue so that it is able to support the recovery effort through 2021-2022.
- The biggest adjustment came in the form of an increase in Vat. Vat will be adjusted upwards to 14% from 12% in April, while there will also be a tax on sugar sweetened beverages.
- The government is predicting a budget deficit of some 11.6% of GDP for 2020, which is higher than earlier estimates, they do however expect this to narrow to 2.87% of GDP in 2021 as the diamond industry gets back on its feet while expenditure is contained. In addition there is a strong rebound in the economy expected by policymakers. *"We however expect a robust recovery in 2021 to a growth of 8.8% mainly on the back the expected recovery in the global economy as well as successful implementation of the policies we have put in place," Matsheka said.*
- Moving offshore we had the US in focus once again.
- US factory activity cooled slightly in the ISM data released yesterday, although the data was still deep in expansion territory to confirm that the recovery remains intact, despite the Covid-related disruptions. The employment sub-component has continued to expand, even as new orders suffered a slip. Any slip is likely to prove temporary as investors focus on the global economy expanding and opening up as more and more people get vaccinated.
- From a fiscal point of view, it appears as though the Biden administration is set to use its majority in the House and Senate very soon to pass his bumper $1.9trln fiscal stimulus package. Despite meeting with Senate Republicans who urged Biden to scale back the size of the fiscal stimulus package out of concern for the future consequences it might hold, Biden will be taking counsel from Treasury Secretary Yellen who is known for her commitment to full employment and the use of policy to achieve that. Within the next week or two, it is likely that the Senate will be asked to vote on the package.
- Interestingly, the Senate might be divided on the size of the fiscal stimulus package, but so too are Fed policymakers. While some like Dallas Fed President Kaplan believe that the US remains "in the teeth of this pandemic," but will still grow at 5% and drop unemployment to 4.5%, others such as Minneapolis Fed President Kashkari believe that "wartime spending" was justified and that the authorities had scope to tap into such resources to deploy them.
- In terms of the FX markets, a EUR sell-off has sparked a strong rally in the USD, following some particularly weak German retail sales data, and a study from the ECB that suggests that inflation in the EZ might be softer than the headline numbers suggest. It points to an ECB that will likely persist with ultra-accommodative monetary policy for longer, which would naturally count against the performance of the single currency. Whether the move in the USD will be sustained given the backdrop of huge deficits even before another $1.9trln stimulus package has been announced and implemented is debatable. For now, it appears as though speculators remain comfortable persisting with their large net short, speculative positions on the USD.
- The local unit remains anchored for now above the 0.0900 mark with 0.0905 the pivot in the interbank market. No much to report back on.

ZAR and Associated Comments

- The ZAR began the month on the front foot, following on from last week's intermittent risk appetite which will likely be the status quo for the event-driven month ahead. The local unit was initially boosted by the Absa manufacturing PMI print which unexpectedly rose in January to 50.9 from 50.3 in December. The index was propped up by a surge in the subcomponent measuring confidence in future business conditions, which was likely linked to global recovery prospects in H2 boosting expectations for exports. However, the recovery remains fragile at present, with the PMI's current business activity subcomponent falling for the fourth consecutive month.
- Evidently, risks do remain from the pandemic while South Africa's economy faces threat from ongoing structural challenges. A continued sign of this is seen in Naamsa vehicle sales which has shown an uneven recovery in vehicle sales to date and with further signs of a stalling recovery in January. Looking further out, the recovery can only depend on government's commitment to reforms post immediate pandemic risks, in order to inspire business and consumer confidence.
- Nevertheless, the ZAR shrugged off the latter data release as the market anticipated an address from President Ramaphosa where he would announced the easing of certain restrictions. These expectations were ultimately met last night as the President announced the reopening of public spaces, curfew hours to be shortened, that alcohol sales would be allowed from Monday to Thursday while restaurants and bars will be allowed to serve until 10pm. Ramaphosa also welcomed the arrival of vaccines yesterday and announced a phased rollout plan to deliver these vaccines to the population over the course of the year.
- While a great deal of uncertainty remains, the easing of restrictions will lessen the strain currently on certain sectors and help the economy regain its footing. As a result, the ZAR was able to test the 15.0000/$-handle, but settled for a 0.58% gain against the USD yesterday as the unit closed around 15.07/$. Other emerging market currencies were mixed on the day, while the dollar rallied on aggregate due to a slump in the euro, suggesting traders favoured the ZAR's carry appeal and rally prospects amid the reports of eased restrictions. The local unit ultimately finished third amongst the EM gainers, bested only by Mexican Peso and Turkish Lira, where the latter unit outperformed on hawkish comments from Turkey's central bank.
- Yesterday's momentum has followed through overnight with the ZAR bulls continuing to test the unit's 50-day moving average against the dollar, which is closing in on the key 15.0000/$-level. Risk appetite has broadly improved overnight and during the Asian session, with Asian equity markets posting gains and the US dollar coming off yesterday's highs. Stateside developments appear to have boosted market sentiment as well, as Democrats have reportedly filed a $1.9 trillion budget measure, attempting

to bypass Republicans who have rather been in favour of a substantially smaller relief package. Further supporting risk appetite, the RBA held rates constant earlier this morning, announced increased bond buying and pledged to keep rate hikes on hold until at least 2024, while for the day ahead Eurozone Q4 GDP headlines the data card which will likely underscore the need for continued fiscal and monetary support in the event of a second dip in output…

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