Botswana Market Watch 3 February 2021

GMT		International and Local Data	Period	Exp	Previous
	BO	Nothing on the cards			
09:00	EZ	Markit composite PMI	Jan F	47.50	47.50
09:30	GB	Markit composite PMI	Jan F	40.60	40.60
10:00	EZ	CPI estimate y/y	Jan	0.50%	-0.30%
10:00	EZ	PPI y/y	Dec		-1.90%
12:00	US	MBA mortgage applications	Jan 29		-4.10%
13:15	US	ADP employment change	Jan	50k	-123k
14:45	US	Markit composite PMI	Jan F		58
15:00	US	ISM non-manufacturing composite PMI	Jan	56.80	57.20

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
Vaccine latest	Above and beyond the Pfizer-BioNtech, Moderna and J&J vaccines, Russia's Sputnik V vaccine has been shown to be 91.6% effective according to a peer review study	The number of viable vaccines is steadily increasing, and the current shortage of successful vaccines will be temporary	3/5 (economy)	Although there are always the logistics of delivery and distribution to contend with, the prospect of mass rollout through Q2 across the globe is now rising by the day to render H2 2021, a strong recovery period
US Earnings	Amazon and Alphabet both reported strong earnings, which together with the unwind of the Reddit mania has helped stock futures rise overnight	A risk-on tone is likely to permeate most markets this morning especially with stimulus still to come	3/5 (economy, markets)	Stock markets bulls will be emboldened by the strong earnings as well as the anticipation for the full $1.9trln economic stimulus package the Biden administration wants to pass
Japanese service sector	Japan's services sector shrank at the fastest pace in five months with the sector taking a big knock from the resurgence of COvid-19 and the lockdowns that followed	Escape from the pandemic induced lockdowns amid high indebtedness will take some time	4/5 (economy)	This data comes on the back of a dip in export performance, lockdowns in Japan's major trading partners and local restrictions, all of which kept new orders suppressed

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.3146	1.4412	1.3400	1.4274
BWPUSD	0.0870	0.0953	0.0887	0.0943
GBPBWP	15.7285	14.3591	15.3883	14.6583
BWPEUR	0.0714	0.0782	0.0731	0.0767
JPYBWP			9.2355	9.6663
USDZAR	14.5107	15.7338	14.8508	15.3935
EURUSD	1.1690	1.2665	1.1964	1.2391
GBPUSD	1.3153	1.4250	1.3461	1.3942

Benchmark Yield Curve

6m	1.1760
3y	3.8750
5y	4.9250
9y	5.2150
22y	5.9250

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-2.0573	0.0000
3m	-6.2108	0.0000
6m	-13.2795	0.0000
12m	-29.4401	0.0000

Equities / **Economic Indicators**

BSE Domestic Index	6883.38	GDP	-6.00%	Bank Rate	3.75
BSE Foreign Index	1547.28	CPI	2.20%		

- Botswana Oil Limited's board has been asked by the Minister of Mineral Resources, Green Technology and Energy Security Lefoko Moagi to put more effort and commitment into delivering the Tshele Hills project timeously. The Daily News reported the minister as saying the following "*As a landlocked country, we get our fuel supplies from other countries. If we continue to see threats from our sources and their refineries going down, it is a sign that very soon they are going to be servicing their own first, therefore there must be something we are sure of in terms of our own supply," he said, adding with borders closing easily nowadays, the same would go for factories soon. "It is within our scope and control to deliver this project in the earliest time possible. We really need to be talking time because the more we continue to extend, the more the cost escalates. It is better to make mistakes along the way than to want to be perfect until we have run out of time," he added.*
- While the global economy strains under the pandemic of COVID-19 certain industries have fared particularly well. Telecommunications and information technology firms have experienced growth in many areas but the outperformer in the near future is most certainly going to be the pharmaceutical companies. Pfizer stated yesterday that it expects to generate some $15bn or ¼ of its total revenue this year from its COVID-19 vaccine which it developed with BioNTECH. The company is planning to make some 2bn doses in 2021. Similar numbers are expected from the other manufacturers such as AstraZeneca and SinoVAC.
- Moving over to the US, Republicans are getting a taste of their own medicine. In the same way they used their majority in the Senate to pass sweeping tax changes through Trump's presidency, the Democrats are using the same tactic to press ahead with the enactment of the stimulus package of $1.9trln. This comes over and above the $4.0trln already injected into the US economy last year and reflects a massive stimulus boost.
- Remaining the prevailing politics, it is interesting to note that the Biden administration does not appear to be in any hurry to engage with China. Biden will not want to give back any of the concessions achieved by Trump, but will want to ensure that the US policy stance towards China is more aligned with that of its global trading partners and allies. Biden would like to leverage up the pressure by including more multilateral support from more countries before engaging China.
- Locally the data calendar remains thin, there is however PMI and inflation data out of the Eurozone this morning before we shift focus to the US calendar this afternoon.
- Focus from today starts to shift to the labour market with the release of the private sector ADP data. Thereafter, the weekly jobless claims will be released tomorrow and will paint the backdrop to the non-farm payrolls on Friday. Although much focus rests on US corporate earnings at the moment, these data are equally market moving.
- In terms of the FX markets, the USD appears to be on a recovery path for now. The anticipated strength of the US recovery appears to have emboldened USD bulls, while there is some reported squaring-off of short USD positions also taking place. Interestingly, there is also a risk-on tone now which is detracting from the strength of the USD that might have performed even better had it not been for the stronger corporate earnings. Whether the USD can sustain these gains is the key question. For now, it seems unlikely, given the size of the twin deficits. No doubt the EUR's slide has promoted some of the USD's performance in the near-term..
- 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 strengthened for a second day yesterday following Monday's address by President Ramaphosa where he announced the easing of restrictions, while confidence in vaccine rollout also added to improved sentiment towards the local unit. Broadly, however, emerging market currencies were mixed on the day and the US dollar remained bid. Although strengthening alongside several other EM currencies, it is evident that investors continue to favour SA's relatively high real yields which is offering the ZAR some resilience to broader USD moves.
- Given the low rate environment globally, this is expected to continue for some time, should South Africa be able to weather the seemingly imminent fiscal storm ahead. This was corroborated by record demand at yesterday's vanilla government bond auction, which suggests demand for carry trades is to remain elevated, providing some stability to the ZAR in the months ahead. This was surprising, however, in the context of potential budget risks to be faced towards the end of the month.
- As to yesterday, the ZAR continued to edge up and ultimately gained 0.6% against the USD as it closed below the 15.0000/$-handle for the first time in almost two weeks. On the dollar-leg, the greenback firmed on a trade-weighted basis to more than two month highs. The USD's recovery of late has largely been spurred on by gains against the euro and other European currencies, with a deteriorating outlook for the Eurozone area weighing on the bloc's currency. Despite being in line with expectations, yesterday's weak Eurozone Q4 GDP data underscores risks currently being faced and sets the European economy up for a second dip should lockdowns persist for longer than expected. However, the dollar's recent correction seems unlikely to persist as the Fed's FOMC members have repeatedly made it clear they are nowhere near talking of scaling back bond purchases, while the passing of an additional fiscal stimulus package will similarly weigh on the USD going forward.
- For the day thus far, vaccine rollout progress and US stimulus proceedings have boosted risk appetite in early trade. With Democrats seeing a $618 billion counterproposal from a group of Republicans as too small a relief package for the US economy, the Senate has pushed ahead to allow Democrats to pass President Biden's $1.9 trillion relief package without Republican support. With risky assets trading stronger as a result, the day ahead may hold further gains for EM currencies as the dollar looks to pare some of yesterday's gains. Domestically, the ZAR will have to contend with the economy-wide Standard Bank PMI which will be released later this morning and is expected to moderate further due to a worsening domestic outlook and underlying structural damage from lockdowns becoming evident...

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