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Botswana Market Watch 4 February 2021

GMT		International and Local Data	Period	Exp	Previous
	BO	Nothing on the cards			
12:00	GB	BoE asset purchase target	Feb	875bn	875bn
12:00	GB	BoE bank rate	Feb 4	0.10%	0.10%
13:30	US	Initial jobless claims	Jan 30		847k
15:00	US	Durable goods orders m/m	Dec F		0.20%
15:00	US	Factory orders	Dec	0.80%	1.00%

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
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
US labour market	US private payrolls rebounded as they increased 174k in Jan. This is good news and a sign that the momentum of recovery in that market remains intact	Should jobless claims and payrolls data also improve, risk-on sentiment will boost stocks and EMs	3/5 (economy)	The impact of the lockdowns is always difficult to measure but any improvement in the labour stats this week will raise the prospect of a more sustained recovery through H1 2021
UK vaccinations	Britain is leading the way in terms of their vaccination programme and confirmed that more than 10mn people have now been vaccinated	Data reveals that the infection rate in the UK is now dropping extremely quickly to relieve pressure	3/5 (economy)	The combination of greater immunity following the recent spike, as well as the rapid distribution of vaccines means that the UK could very well sustain a dip in infections, barring another mutation
EZ economy	The latest IHS Markit, Jan Composite PMI fell to 47.8 from Dec's 49.1 to confirm that the economy's downturn had deepened as services were hit	A resurgence in infections and a stalled vaccine programme will suppress recovery	4/5 (economy)	Stricter lockdown measures in particular have been the main reason behind the slump which only serves to stall the broader economic recovery. New virus variants only complicate matters

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.3002	1.4221	1.3253	1.4084
BWPUSD	0.0869	0.0950	0.0886	0.0940
GBPBWP	15.6471	14.3159	15.3086	14.6142
BWPEUR	0.0723	0.0790	0.0740	0.0775
JPYBWP			9.3436	9.7680
USDZAR	14.3670	15.5763	14.7037	15.2393
EURUSD	1.1537	1.2502	1.1808	1.2231
GBPUSD	1.3070	1.4161	1.3377	1.3854

Benchmark Yield Curve

6m	1.1260
3y	3.8750
5y	4.9250
9y	5.4250
22y	6.0250

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-1.8233	0.0000
3m	-6.0791	0.0000
6m	-14.2399	0.0000
12m	-32.0190	0.0000

Equities		Economic Indicators			
BSE Domestic Index	6862.22	**GDP**	-6.00%	**Bank Rate**	3.75
BSE Foreign Index	1548.15	**CPI**	2.20%		

- Botswana is looking to diversify away from diamonds and has been focused on building a copper industry in what is termed the Kalahari copper belt. There have been several successful finds in the area and the expectation is that these mining endeavours will start to pay dividends in the next decade.
- In addition to copper we have the country looking at coal, it is estimated that Botswana has some 212 billion tonnes of coal in reserves. President Mokgweetsi Masisi stated yesterday that the government is in negotiations with neighbouring countries to develop infrastructure to access the seaborne coal markets. "*In an effort to develop the routes to seaborne markets, my government is working in close collaboration with neighbouring countries to put in place the necessary infrastructure to facilitate export of coal,*" *he said*.
- The state owned Morupule Coal Mine is currently developing a mine which will boost the annual output of coal from Botswana by some 35%.
- Moving over to the United States, Cleveland Fed President Mester joined the Fed chorus to keep Fed policy unchanged until there were clear signs of improved economic activity. She however also argued in favour of the targeted stimulus package which could direct funds to those that needed it the most in a way that monetary policy cannot do. This reflects the view of most of her colleagues, although there is some debate around the distortionary effects of QE that allude to potential volatility in the future. However, as Treasury Secretary Yellen highlighted recently, it is important to get the economy on a sustainable growth path before worrying about the consequences thereof. She and others are convinced that the benefits of current policy more than outweigh the risks.
- In terms of the FX markets, emerging market currencies and higher-beta assets were underpinned yesterday on global growth prospects being boosted by the next round of US stimulus. The Democrat-controlled US Congress pushed ahead yesterday with steps to pass a $1.9 trillion stimulus package without bipartisan support. This failed to weigh on the US dollar too heavily yesterday with the greenback able to hold steady near two-month highs on a trade-weighted basis. The USD has notched gains over the last week against major currencies on signs that the US economic recovery may be outperforming that of the Eurozone area. The ZAR, meanwhile, fluctuated in a tight range yesterday but ultimately held below the 15.0000/$-handle. The local unit added another 0.28% gain against the dollar owing to improved sentiment since the beginning of the week with the announcement of eased lockdown restrictions, the arrival of vaccines and the currency remaining bid by yield-starved foreign investors.
- At the risk of sounding like a broken record, 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

- On the data front, the economy-wide Standard Bank PMI surprised to the upside as it rose to 50.8 in January from 50.2 in December. Although a marginal rise, this comes against the backdrop of tightened lockdown restrictions at the end of 2020 which persisted into the New Year. The upswing was driven by an increase in output, which grew at the fastest pace since December 2016 according to IHS Markit. However, continuing to weigh on the index was a further decline in employment, while a reduction in purchasing activity similarly detracted from the overall improvement in private sector activity. Looking head, we may see further improvement in the PMI gauge following the easing of restrictions and rising optimism as vaccine rollout hopefully marks the beginning of the end of the pandemic.
- Unfortunately, the country and economy will likely be left with permanent damage due to the pandemic and lockdowns and, adding existing structural challenges to the mix, total output will be weak compared to pre-pandemic levels for some time still. Remedies to alleviate the virus' impact have been largely unused and, thus, unhelpful. Part of the government's R500 billion response package to the pandemic last year included a R200 billion loan program backed by government which, according to Banking Association of South Africa, has not reached 10% of its target lending since it was started in May last year. Domestic demand cratered in the wake of lockdowns, while households and businesses have been unwilling to take on more debt given economic uncertainty. Furthermore, lack of reform on government's part has meant non-inclusive policies persist alongside other structural challenges which will continue to hinder potential economic growth.
- A weak economic environment has concurrent fiscal implications too and the ZAR's recent strength ahead of fiscal events this month speaks to demand and inflows coming from yield-starved developed markets. The ZAR thus has some scope for short-term gains, but rising fiscal risks will ensure heightened volatility for the unit and detract from its ability to withstand external shocks.
- For the day ahead, the BoE will convene for its policy announcement. The central bank is not expected to changes rates or quantitative easing measures but will publish findings on the feasibility of negative rates, with hints of this being used in the future likely to pressure the GBP and provide a greater tailwind to the USD's recent rally. Later in the day, the market will look to US jobless claims for an insight into the health of the US labour market ahead of the official US employment report tomorrow.

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