Botswana Market Watch 5 February 2021

GMT		International and Local Data	Period	Exp	Previous
	BO	Nothing on the cards			
13:30	US	Change in nonfarm payrolls	Jan	50k	-140k
13:30	US	Trade balance	Dec	$-66bn	$-68,10bn
13:30	US	Unemployment rate	Jan	6.70%	6.70%
13:30	UK	BOE's Bailey, ECB's Guindos Speak on Post Covid Recovery			
20:00	US	Consumer credit	Dec	$12bn	$15,27bn

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
BoE guidance	The BoE has told banks they should prepare for the possibility of negative rates. That should not be treated as an imminent signal of further easing	Given the state of the UK economy, more easing options are being seriously considered	3/5 (monetary policy, economy)	That being said, the BoE is also anticipating a vaccine fuelled recovery in H2 2021, when the economy is allowed to open up on a sustained basis, where businesses can normalise operations
EZ retail sales	December's retail sales numbers jumped more than expected by 2.0% m/m and 0.6% y/y, despite the pandemic and lockdowns	Online sales and savings from lower monthly expenditure helped boost demand	3/5 (economy)	It is fascinating to see just how significant the impact of broad-based savings have been given the amount of people working from home
UK car sales	New car registrations in Britain slumped to their lowest level since 1970 amid the introduction of lockdown measures that shut showrooms. Sales fell 39.5% to just 90,249 vehicles	Vehicle sales are often used as a barometer for the credit cycle and the demand dynamics within the economy	4/5 (economy)	The impact will be temporary and given the efficient roll-out of vaccines in the UK, these data will normalise quickly through Q2 2021. But it does reflect the interim impact of the lockdowns on the economy and the hit to tax revenues

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.3070	1.4251	1.3322	1.4114
BWPUSD	0.0871	0.0946	0.0887	0.0937
GBPBWP	15.6791	14.3926	15.3399	14.6925
BWPEUR	0.0729	0.0794	0.0746	0.0778
JPYBWP			9.4025	9.7985
USDZAR	14.4108	15.6257	14.7485	15.2876
EURUSD	1.1478	1.2435	1.1747	1.2166
GBPUSD	1.3126	1.4221	1.3434	1.3913

Benchmark Yield Curve

6m	1.1970
3y	3.8750
5y	4.8250
22y	6.1850

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-1.8525	0.0000
3m	-6.1279	0.0000
6m	-14.1765	0.0000
12m	-32.4821	0.0000

Equities		Economic Indicators			
BSE Domestic Index	6862.22	GDP	-6.0	Bank Rate	3.75
BSE Foreign Index	1548.15	CPI	2.2		

- Botswana is currently being ravages by incessant rain at present which is caused by the remnants of Cyclone Eloise which hit Mozambique in January. Flash flooding has been recorded in many parts of the country including the capital Garabone. As it stands authories are having a difficult time compiling a plan of action to assess the impact because to date, the rain has yet to let up and there is more predicted for next week.
- On a more upbeat note, Xinhua has reported the following - *Botswana has approved an economic response plan which is targeted at addressing short-term working capital requirements for businesses, National Development Bank (NDB) relationship manager Kesego Mokgetse was quoted as saying Thursday. Speaking during the Industry Support fund (ISF) presentation in Gaborone, Mokgetse mentioned that the government has allocated NDB 600 million pula (about 54.6 million U.S. dollars) to lend out to businesses in agriculture, tourism and general industry that have faced COVID-19 pandemic effects. "The intention is to jumpstart the economic activity through businesses and ensure that those businesses keep their employees. The money will be split three ways with 100 million pula allocated to agriculture, 200 million pula to tourism and 300 million pula for general industry," said Mokgetse.*
- Moving over to the United States, There are strong signs that the US economy is about to enter a boom phase. Once the vaccines have rolled out and the economy allowed to reopen unhindered, the normalisation that will follow, as well as the more efficient way of doing business will allow the economy to capitalise on stimulus efforts. The full effects of stimulus will likely be captured in data scheduled for release later this year. The latest steepening of the yield curve reflects just this and portends a strong phase of economic expansion, to begin through H2 2021.
- Driving the steepening will be the stimulus package that the Biden administration plans on implementing. Over and above the ultra-expansive monetary policy that the Fed is persisting with, the stimulus cheques to struggling households will directly boost consumption as well as retail business revenues. The credit cycle is already swinging strongly higher with very strong growth in money supply already under way. In one sense, the stimulus that the Biden administration plans to implement is coming rather late in the pandemic and although it will boost economic activity, it also comes attached with a debt burden that might ultimately prove a noose around the fiscal authorities' neck.
- Today will see investors turn their attention to the labour market. The last, but arguably the most important of three key data releases will be the non-farm payrolls figures. Any stronger than expected result will see risk-on behaviour resume, the yield curve steepen even further and financial market confidence rise. The global economy is set to embark on a strong boom cycle once this pandemic is over, with huge amounts of stimulus expected to bolster the broader business cycle.
- In terms of the FX markets, USD short positions are being squeezed, and the latest move on the USD appears to be driven by some shorts capitulating. It therefore has further to run, even though the move does not hold fundamental justification. The catalyst has been the collapse of the EUR which has prompted a rotation back towards the USD. The shambles that has been the vaccine roll-out across the EU has investors delaying the anticipated recovery and that has also worked in the USD's favour. Investors are however cautioned. The USD remains a fragile currency, rendered so by the ultra-accommodative monetary and fiscal policies and the likelihood of even wider twin deficits. Once the current clear-out has passed, the USD stands to resume its steady depreciation..
- 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

- Emerging market currencies were broadly under pressure yesterday owing to a US dollar rebound which has been unimpeded this week. The ZAR slid 0.56% yesterday against the greenback as it snapped its own rally, ultimately closing at the 15.02/$-handle.
- The dollar's rally of late has seen it rise over 1% this week on a trade weighted basis and almost 2.5% off January lows, with the dollar index (DXY) now sitting near early December highs. The pace of the US' economic recovery has offered the dollar some reprieve following its broad decline in the last quarter, and this has been driving some dollar short covering as the outlook appears to be less clear than what the Fed's extremely easy monetary policy may suggest. Whether this is enough to change the overall bearish outlook on the dollar remains to be seen, while the length of this apparent reversal in trend depends on the eventual passing of the Biden's $1.9 trillion stimulus package, as well as economic recoveries elsewhere, notably in Europe. The US economy looks set to come out of the pandemic on a stronger footing than most other nations, however the scale of the Fed's quantitative easing and low policy rates will keep the rally in check.
- The stateside recovery in the coming years will in all likelihood outweigh that of South Africa's too, given the country's structural challenges and lack of fiscal firepower. Thus the USD-ZAR pair may succumb to pressure from the USD-leg in the context of the dollar remaining bid. However, at present and into the medium-term, SA's relatively high real yields will offer the ZAR some stability against broader dollar moves. Thus, in the short-term, the ZAR is likely to stay put in its recent narrow range around the 15.0000/$-level and would need a strong catalyst for a breaker higher given the fiscal events looming at the end of the month.
- Heading into the weekend, the SARB will publish data on its government bond purchases last month alongside gross and net reserves in January. Given the SARB is not actively building reserves, the value of gold and the USD remain key drivers of changes in the level of reserves and are thus expected to have moderated slightly in January.

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