

Botswana Market Watch

9 February 2021

GMT	International and Local Data			Period	Exp	Previous	
	BO	Botswana to sell BWP10.4bn 7-Day Certificates					
13:30	US	CPI y/y			Jan	1.50%	1.40%
13:30	US	Real ave weekly earnings y/y			Jan		4.90%
15:00	US	Wholesale inventories m/m			Dec F	0.10%	0.10%
15:00	US	Wholesale sales m/m			Dec		0.20%
19:00	US	Monthly budget statement			Jan		\$-143.6bn
19:00	US	Fed Chair Powell speaks to the Economic Club of New York					

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
UK consumer spending	Data from Barclaycard yesterday showed that consumer spending in Jan contracted 16.3% y/y as a fresh round of lockdowns hit the economy hard	Spending in the hospitality industry was impacted the most with pubs and restaurants shuttered	4/5 (economy)	Essential non-durable retailers experienced a boom in sales, while online retailers also benefited greatly. They ensured that overall consumption had not contracted even more
US equity market	Wall St reached fresh record highs yesterday with the Nasdaq up a further 1%, while the S&P 500 and the Dow Jones up 0.75%	The wave of QE money continues to distort highly liquid financial asset prices	3/5 (markets, economy)	The global reflation trade is firmly under way. Focus on the post-pandemic recovery is driving markets with the distribution of vaccines the enabler
Cryptocurrency	Bitcoin remains in the headlines as it notches up more impressive gains after Tesla announced that it was planning on accepting it as payment and bought \$1.5bn of it	The more Bitcoin is adopted by larger corporates, the more likely it is that govts will want to regulate	4/5 (markets)	How they regulate will be difficult given that Bitcoin has no jurisdictional base. It does however hold the potential to undermine FIAT currencies. Apple reportedly next on the list to adopt

Local FX Opening Rates and Comment

CUSTOMER											
BUY		SELL		BUY		SELL					
CASH		CASH		TT		TT		Benchmark Yield Curve		Forward Foreign Exchange	
BWPZAR	1.2861	1.4144	1.3109	1.4008	6m	1.1250			BWPUSD	BWPZAR	
BWPUSD	0.0869	0.0955	0.0886	0.0946	3y	3.8750			1m	-1.9939	0.0000
GBPGBP	15.8344	14.4021	15.4918	14.7022	5y	5.1250			3m	-6.4886	0.0000
BWPEUR	0.0719	0.0790	0.0736	0.0775	22y	6.2650			6m	-14.6299	0.0000
JPYBWP			9.3239	9.7985					12m	-32.9550	0.0000
USDZAR	14.2107	15.4076	14.5438	15.0743							
EURUSD	1.1593	1.2561	1.1865	1.2289							
GBPUSD	1.3221	1.4330	1.3531	1.4020							
Equities											
BSE Domestic Index		6861.98		GDP		-6.0		Bank Rate		3.75	
BSE Foreign Index		1548.3		CPI		2.2					

- The start of the week was quiet on the news front with just the spill over from the weekend newspapers which remained focused on the COVID-19 pandemic to keep investors occupied.
- The hospitality industry is currently weighing up its options with many saying that the latest ban on alcohol sales will be the death blow. Tourism has been hit hard and there does not seem to be any relief in the pipeline given that the most lucrative markets, namely the international contingent have yet to return.
- One positive point to note is that Botswana is well on its way to creating a diversified mining sector with copper discoveries in the Kalahari a focal area of development. Coal is also a government priority with policymakers discussing sea-access for shipping of these commodities with its neighbours.
- Given this backdrop we will from time to time be including some information on base metals in the morning note. 3m LME Copper has climbed for the second day as investors hang their hopes on the Democrats passing the \$1.9trn stimulus package which aims to reignite the US economy. Treasury Secretary Yellen spoke on Sunday saying that the full employment can return by 2022 if the stimulus package is large enough. This really does set the tone for how the current US administration is thinking, they will be reinflating the economy, whatever the cost.
- The Shanghai Metals Market reported that refined copper output in the country dropped in January as smelters slowed after finishing their annual quotas and supply disruptions from South America pressured margins.
- On the international political front, the US always provides an interesting stage. On the eve of Trump's impeachment trial and investors are getting ready for what could amount to little more than political theatre. The Democrats are adamant about making their point, while the Republicans view the action as deliberate point-scoring and inconsequential given that Trump is no longer in office. Worse still, is that all this will amount to very little if indeed the two parties vote broadly along party lines and don't create room for the two-thirds majority needed to convict Trump. Moreover, this action might prove more divisive than unifying given that the Trump defence will also seek to highlight the double standards being applied by the Democrats following comments some made during the BLM protests.
- The USD has retreated a little further. The bullish undertone appears to have left the market with investors once again focusing on the stalling economy. That stall might however be little more than a convenient excuse for now. Most investors acknowledge that the stall in the US economy will be temporary. Looking through the stall, investors also acknowledge that the actions of the Fed and the Federal government through their stimulus efforts will debase the USD, but virtue of the amount of USD's being created in an environment where the twin deficits are being fuelled.
- In terms of the FX markets, some disappointing labour data on Friday triggered investors to rethink their USD recovery views. If there was ever any doubt on the need for more stimulus, the latest data tilted the scales more squarely in favour of ongoing monetary support and galvanised Democrat efforts to pursue their \$1.9trn stimulus package. Such stimulus efforts may be aimed at supporting GDP growth, but they have the effect of steadily debasing the underlying value of the USD through the promotion of massive twin deficits. Technically, the USD now looks set to lose more ground this week.
- The BWP-USD remains anchored above the 0.0905 mark as we enter the second day of trade for the week. The range of daily trade has been tight with the pair pivoting around the 0.0905 level.

ZAR and Associated Comments

- The ZAR was unable to fully capitalise on broad-based USD weakness at the start of the new week, closing yesterday's session 0.20% softer at R14.8700/\$. Not too much can be read into yesterday's net decline, however, as the local unit recovered strongly from earlier losses towards the end of the session after rejecting a break above R15.0000/\$ during intraday trade. Local equities also traded bullishly on the day to once again test record highs. This suggests the market by and large shrugged off new concerns over SA's vaccination drive, instead focussing on growing hopes for massive US fiscal stimulus in the weeks ahead.
- The US fiscal stimulus narrative has been a key theme in the financial markets for most of 2021, with investors positioned for a massive \$1.9trn COVID-19 aid package in the weeks ahead after President Joe Biden made it a key priority at the beginning of his term in office. A disappointing January employment report on Friday emboldened the Biden administration to urgently roll out fiscal support. It is for this reason that the USD suffered losses yesterday, while SA equities extended a bull run to close the session at all-time highs.
- Note, however, that the market will be keeping an eye on recent news that SA's vaccination plans may need to be revised after a study showed the AstraZeneca/Oxford vaccine is ineffective in protecting against mild to moderate disease caused by the 501Y.V2 coronavirus variant currently spreading through SA. Recall that the AstraZeneca/Oxford jab was a cornerstone of the first phase of SA's immunisation strategy, with delays to the country's vaccine rollout risking a potential third wave of infections and a longer pandemic. This may have kept the market slightly cautious towards SA yesterday, especially in the early stages of the session, which is why the ZAR traded amongst a handful of losers in the EM currency basket through the session. This morning, however, the picture looks somewhat different.
- Looking at the day ahead, we have a spattering of data across the globe but nothing of particular significance. Emerging markets are on the front foot in the Asian session and this has spilled over into the local session and we have the ZAR knocking on the door of the R14.80 level once again.

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