

Botswana Market Watch

11 February 2021

GMT		International and Local Data	Period	Exp	Previous
	BO	Nothing on the cards			
10:00	EC	European Commission publishes Economic Forecasts			
11:00	EC	ECB's Knot Speaks			
13:30	US	Initial jobless claims	Feb 6	775k	779k

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 Ojokol, 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
Chinese factory prices	Chinese factory gate prices have risen in annual terms through the Jan data for the first time in a year. Strong demand for products boosted inflation	It will be treated as a barometer for the normalisation of global growth which is recovering	3/5 (economy)	Although the pandemic is not over and more disruptions are possible, the evidence available suggests a general improvement in economic activity and a rise in price pressures
US-China relations	The Biden administration may be more diplomatic than the Trump administration but they will not seek to lose any of the ground gained by Trump's administration	US-Chinese relations may be more cordial but will likely be just as tough under a Biden administration	4/5 (politics)	Biden formed a task-force on China filled with Chinese experts to ensure that they consolidate gains made by Trump and secure more, especially on geopolitical issues
Global Trade	Maersk, the world's largest container shipping firm reported resurgent demand in Q4 2020 that has resulted in significant bottlenecks at the ports	Maersk would be a barometer for global trade and such indications imply that demand is returning	4/5 (economy)	Maersk has confirmed that they have full container capacity filled once more. This is great news in that it reflects recovering global activity and improvement in demand conditions

Local FX Opening Rates and Comment

	CUSTOMER				Benchmark Yield Curve		Forward Foreign Exchange		
	BUY	SELL	BUY	SELL	6m	3y	1m	BWPUSD	BWPZAR
	CASH	CASH	TT	TT					
BWPZAR	1.3003	1.4173	1.3254	1.4037					
BWPUSD	0.0883	0.0958	0.0900	0.0949					
GBP/BWP	15.6576	14.3741	15.3189	14.6735					
BW/PEUR	0.0729	0.0794	0.0746	0.0778					
JPY/BWP			9.4517	9.8392					
USD/ZAR	14.1343	15.3225	14.4655	14.9910					
EUR/USD	1.1638	1.2612	1.1911	1.2339					
GBP/USD	1.3296	1.4405	1.3608	1.4093					
		Equities			Economic Indicators				
BSE Domestic Index	6860.02	GDP	-6.0	Bank Rate	3.75				
BSE Foreign Index	1548.3	CPI	2.2						

- Local news flow is exceptionally thin at the moment with most of the news vendors reporting either on the COVID-19 pandemic or the heavy rains that have plagued the country, especially in the south, eastern and central districts. The rain has been relentless across much of Southern Africa and started initially as a result of the cyclone Eloise which made landfall in Mozambique earlier in 2021.
- The consistent rain has made it difficult for the government to assess the impact as many roads have become waterlogged so getting a full breakdown of the financial and social cost may be sometime away.
- On the international geopolitical front, the Biden administration does not appear to be ready to hand back any hard-fought gains achieved by the Trump administration. Quite the opposite in fact, with Biden choosing to set up a China task force which will be filled with Chinese experts that will seek to further US interests in any trade negotiations. There is growing realisation that China left unchecked could change geopolitical relations quite substantially and at the pace of current growth, China is set to overtake the US in terms of size sooner than expected. The news flow remains focused on the how the country is dealing with the pandemic and many boardroom meetings are focused on what the business landscape will look like in the future. Certain realities are without question, technology will substitute business travel in many cases with online calls becoming the norm. Governments will be rallying to invest in telco infrastructure and this is where Botswana is well ahead of the regional pack in its strategy.
- In terms of global macro, the Fed was a focal point yesterday. Fed Chairman Powell has again reiterated the need for fiscal policy to help reflate the US economy. Fiscal policy by its very nature, is more targeted and can achieve more direct results that monetary policy simply cannot. One could argue that fiscal policy is also less distortive of asset prices given that it typically does not change money supply in the way that QE does. That being said, QE is in full-swing and there is unlikely to be any significant change to this for the foreseeable future.
- Botswana will also focus on energy, it is in the process of creating its own structures for energy delivery which will further remove it from the regional risks. This can be seen in the coal sector as Mining MX reports - *UNLISTED Maatla Resources which is developing the Mmamabula coal project in Botswana has received its mining licence and is looking to start construction of the mine by June once it has achieved financial close on the project. CEO, Jacques Badenhorst, said the project is "... construction ready. All going to plan the first phase of the mine will be in production by June 2022 ramping up towards production of 100,000 tons/month of sized coal which will be sold to customers in South Africa. Badenhorst told Miningmx there were no plans to list Maatla, commenting that most listed coal companies had suffered significant value destruction for their shareholders because of the drops in their share prices.*
- Internationally, more colour was made public on what the makeup of the US Stimulus might look like when Biden engaged stakeholders to paint the picture of who would qualify. Those Americans earning up to \$75k per annum or a household that earned up to \$150k would qualify. This implies a reduction in the upper limits to ensure that the poorest households receive the most amount of support. It amounts to very real stimulation which would explain the positive market reaction to this.
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- Shifting to the FX markets, The USD appears to have consolidated its retreat. Soft inflation data and the lack of directional activity through the Asian session on account of holidays, means that the USD will likely remain consolidative. The fact that stock markets are keeping their gains means that risk appetite remains buoyant and that the need to rotate into USDs remains absent for now. Given the lack of data and thinned out Asian trade, there is unlikely to be a catalyst that will drive the USD one way or another.
- The BWP-USD has closed at the 0.0920 mark yesterday with risk on sentiment supporting the local unit. We expect a measured start given the thinner liquidity conditions seen in Asia.

ZAR and Associated Comments

- The USD-ZAR tracked other EM crosses lower yesterday, declining 0.25% as the USD's broader retreat continued. Soft inflation data out of the US and more dovish signalling from the Fed fuelled the reflation trade and drove the USD down to two-week lows. The ZAR was able to capitalise on this USD weakness even as stage three load-shedding through the day served as a reminder of SA's structural economic woes, with the market instead directing its focus outwards towards global recovery efforts.
- A relatively strong local business confidence print also ensured the market's focus didn't shift back to SA's structural constraints. The January edition of the SACCI business confidence index (BCI) rose from 94.3 to 94.5, beating consensus expectations for a decline to 93.0. Note that while the BCI ticked higher in January, prospects for sentiment to improve significantly from current levels appear limited as much-needed structural economic reforms remain elusive. Furthermore, with the country's COVID-19 vaccination plans hitting a snag, risks persist that an economically-devastating third wave of infections could be on the horizon before herd immunity is achieved.
- Investors will have more economic data out of SA to digest today, with mining and manufacturing production stats for December headlining the local data card. Both sectors are expected to show a continued improvement in output, as improving demand despite the second wave of COVID-19 infections at the end of last year likely boosted production efforts. While these sectors face persistent structural headwinds in the form of unstable electricity supply, excessive red tape, and restrictive trade and labour policies, the ongoing global economic recovery will likely continue to offer support in the months ahead.

- The main event on the local calendar today, however, is President Ramaphosa's annual State of the Nation Address (SONA). Though primarily a political event, SONA will attract plenty of attention today as the country looks to gauge whether the Ramaphosa administration is ready to make the shift from promises to implementation. Particular focus will be on any talk of structural social and economic reforms, the pandemic and vaccinations efforts, and near-term economic relief schemes. The COVID-19 pandemic highlighted SA's social and economic problems, and one can be forgiven for hoping this crisis leads to a new determination to solve these issues that are holding the country back. Unfortunately, it is more likely that today yields nothing more than the annual round of promise-making while implementation remains elusive..

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Report produced by ETM Analytics for BancABC Botswana.

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