

Botswana Market Watch

18 February 2021

GMT		International and Local Data	Period	Exp	Previous
09:00	BO	Nothing on the cards			
13:30	US	Import price index y/y	Jan		-0.30%
13:30	US	Initial jobless claims	Feb 13		793k
13:30	US	Building permits	Jan	1670k	1709k
13:30	US	Housing Starts	Jan	1651k	1669k
13:30	US	Philadelphia Fed index	Feb	19.80	26.50
15:00	EZ	Consumer confidence	Feb A	-15	-15,50

Africa	What happened?	Relevance	Importance	Analysis
Oil surge	International oil prices have continued to surge with the front month Brent contract reaching a 13-month high as market dynamics continue to tighten on the back of the OPEC production cuts and extreme weather in the US	The sharp rise in oil prices has provided a strong headwind for oil-producing countries' assets. Moreover, the rise in oil is also providing a boost to government revenues	3/5 (commodities)	After underperforming for most of 2020, oil-producing nations' currencies and bonds have kicked off the new year amongst the top performers. With demand dynamics improving and dollar weakness likely to be sustained, we expect that oil prices will remain buoyed in the coming weeks
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
Fed minutes	Fed minutes revealed a Fed that is willing to persist with its ultra-accommodative monetary policy despite the asset price bubbles and inflation it may cause	Fed actively looking at how to manage the perceptions of inflation so as not to have to react	4/5 (economy, monetary policy)	The Fed appears to be dropping its discipline in so far as its inflation mandate is concerned. It has the potential to debase the USD more long-term and create more volatility
Bitcoin	As Bitcoin continues to surge from record to record, questions are being asked about its sustainability and about the policies that may be fuelling it	The volatility of Bitcoin is what has many people concerned and may result in a reversal	4/5 (market)	The argument in favour of Bitcoin is the unwillingness of those who hold Bitcoin to sell, while there are some coins that have been lost, severely constraining supply and helping drive up prices
IIF- Debt explosion	An IIF study shows that debt levels as a result of the pandemic have risen by a staggering \$24trln in the past year, taking the debt/GDP ratio up to 355% and total debt to \$281trln	Such massive increases in debt leave the global economy more vulnerable and may prompt austerity	5/5 (economy, markets, fiscal policy)	Emerging from this pandemic, many economies around the world will be forced into some radical reforms and the implementation of policies that will make their government positions more sustainable

Local FX Opening Rates and Comment

	CUSTOMER BUY		CUSTOMER SELL		Benchmark Yield Curve		Forward Foreign Exchange			
	CASH	CASH	TT	TT						
BWPZAR	1.2865	1.4025	1.3113	1.3891	6m	1.1260		BWPUSD	BWPZAR	
BWPUSD	0.0878	0.0962	0.0895	0.0953	3y	3.8750	1m	-1.9110	0.0000	
GBPWP	15.7444	14.4532	15.4037	14.7543	5y	5.1250	3m	-6.0158	0.0000	
BWPEUR	0.0730	0.0795	0.0747	0.0779	9y	5.2350	6m	-13.7378	0.0000	
JPYBWP			9.5106	9.9105	22y	6.2650	12m	-30.6101	0.0000	
USDZAR	14.0602	15.2454	14.3897	14.9155						
EURUSD	1.1556	1.2523	1.1826	1.2252						
GBPUSD	1.3296	1.4407	1.3608	1.4095						
					Equities		Economic Indicators			
					BSE Domestic Index	6719.2	GDP	-6.00%	Bank Rate	3.75
					BSE Foreign Index	1550.7	CPI	2.20%		

- The Health Minister Edwin Dikoloti yesterday confirmed that Botswana will start COVID-19 vaccinations in March. The Minister addressed the nation on national television saying that the government had already paid some \$10 million to secure vaccines through various channels. The first batch of COVAX is expected to arrive in late February or early March with the vaccine roll out pencilled in for the 17th March 2021.
- Moving over to agriculture, the government has asked farmers in the northern region to extend their planting season as a result of the continuous rains that have befallen the country. Xinhua reported earlier in the week - *Boikhutso Rabasha, the chief agricultural information and public relations officer on Tuesday said the planting period has been extended from the February 16 to the February 28 for the northern part of the country. "Farmers are encouraged to plough and plant when there is adequate moisture in the soil and appropriate varieties which can withstand the expected weather conditions," said Rabasha. Meanwhile farmers across the country who took advantage of early rains in November last year are harvesting this February*
- In terms of international developments, the FED minutes held focus overnight. The minutes confirmed that Fed officials see the economy as being far from the point where it needs to be, to warrant the reduction in stimulus efforts. Loose monetary policy is therefore unlikely to be rolled back any time soon. On the contrary, the Fed is actively looking at how it will communicate its intentions of looking through any short to medium-term spike in inflation which will likely arise out of the strong acceleration in money supply. Already there is much speculation of asset bubbles building which are a form of inflation, but the rapid rise in fuel prices in such a loose monetary environment could see it manifest at a consumer basket level as well. The flexibility in the Fed's mandate will likely prove useful.
- US retail sales data yesterday served to highlight the impact that fiscal stimulus can exert on an economy with the data showing the effects of the additional pandemic relief cheques that were distributed. Retail sales climbed by the most in seven months and helped reverse three consecutive months of contraction. Sales surged 5.3% on the month and 7.4% y/y. With more stimulus to come in the form of Biden's stimulus package that looks set to pass in the upcoming weeks.
- The USD has enjoyed further support as it appears as though the economic picture has brightened following the better-than-expected retail sales data released yesterday. There was also a retreat in global equity markets that will lift overall levels of risk aversion and further support the safe-haven USD. Technically, more gains are now possible, especially if a short squeeze unfolds with recent CFTC data highlighting how speculators retain a large net-short position on the USD.
- The BWP-USD remains anchored around the 0.0920 level. No real interest to push the local unit in either direction at present.

ZAR and Associated Comments

- Strong data out of the US yesterday, accompanied by persistent expectations of a rise in inflation in the near-term, saw the US dollar remain on the front foot. US retail sales figures surged in January, providing further evidence of recovering demand and an improving economic outlook. Ultimately, the USD strengthened 0.5% on a trade-weighted basis and emerging market currencies were weaker in general as demand for riskier assets subsided.
- The ZAR, however, was able to limit losses yesterday alongside only a handful of EM currencies. This was after remaining on the back foot for most of the day as it retreated to 14.82/\$ and subsequently reversing losses in late afternoon trade to post a 0.4% gain on the day as it closed around the 14.63/\$-handle.
- In terms of data, January's CPI print ticked higher as inflation rose marginally to 3.2% y/y from 3.1% in December. This remains anchored well below the 4.5% midpoint of the SARB's target range, but there is a risk we see rising inflation in the coming months due to base effects of low oil prices last year and the recent announcement that Eskom will implement higher electricity tariffs. Depending on the extent of the rise and the SARB's willingness to tolerate higher inflation, this may lead to rate hikes sooner than expected. Additionally, this can be seen in market expectations with break-even rates and the FRA market pointing to rising inflation and subsequent rate hikes.
- However, as has been the case since the pandemic began, inflation pressures from the demand side will remain contained. Despite retail sales figures yesterday suggesting an improvement in December, this is unlikely to have continued into January amidst tightened COVID-19 restrictions. The SARB will likely continue its data dependent stance in its decisions, but will be factoring in a weak macroeconomic backdrop alongside cost-push inflation, as well as the timeline for tightening of monetary policy in major developed economies.
- On that front, minimal surprises came from the US Fed's last FOMC meeting in January with the committee remaining highly dovish in communication, doing little to stop the dollar's advance yesterday, however. The Fed reaffirmed its commitment to maintain policy to support the labour market, and noted that focus shouldn't be given to temporary factors causing a change in price levels such as oil price inflation.
- Thus, as stated by the Fed, it will likely tolerate higher inflation for some time still, continuing its extremely accommodative monetary policy stance. It remains to be seen how long the US dollar can thus enjoy its current support, with the market remaining largely net-short on the greenback. For the day thus far, the USD has held steady with the DXY (dollar trade-weighted index) just shy of the 91-level. The ZAR, meanwhile, has equally treaded water overnight after trading stronger yesterday afternoon, while it may receive a temporary boost on positive vaccine developments after the first shots of the Johnson & Johnson COVID-19 vaccine were administered to health-care workers and politicians yesterday. For the day ahead, the high-frequency jobless claims data out of the US headlines the data card and could provide a further tailwind for the dollar should the data show a stronger improvement in labour market conditions.

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