Botswana Market Watch 19 February 2021

GMT		International and Local Data	Period	Exp	Previous
09:00	BO	Nothing on the cards			
08:30	GE	Markit/BME manufacturing PMI	Feb P	56.60	57.10
09:00	EZ	Markit/BME manufacturing PMI	Feb P	54.30	54.80
09:30	GB	Markit manufacturing PMI	Feb P	53	54.10
14:45	US	Markit PMI manufacturing	Feb P	58.50	59.20
15:00	US	Existing home sales	Jan	6,56mn	6,76mn

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
US Stimulus	US Treasury Secretary Janet Yellen told CNBC yesterday that a "big package" of stimulus is necessary to reflate the economy and achieve full employment	Her comments confirm the strong push by the fiscal authorities in the coming weeks	4/5 (economy, fiscal policy)	Yellen has always been partial to stimulus for the sake of achieving full employment. She was that way at the Fed and is adopting a similar stance as Treasury Secretary
Global equities	The combination of rapidly rising bond yields recently and the disappointing labour data yesterday has triggered some profit taking on stocks	A healthy correction is long overdue given the persistent records that have been achieved in recently	2/5 (market)	Any retreat is likely to prove temporary. With so much monetary and fiscal stimulation taking place, global equities look set to achieve more gains through the months ahead
UK consumer confidence	GfK data this morning showed that British consumers are the most confidence since the outbreak of the pandemic, naturally boosted by the vaccination programme	The UK has led the world in vaccinations and shows the benefits of focusing on efficient deployment	4/5 (economy)	It also goes to show how quickly the global economy could revert to some normality once these vaccines have been rolled out in a wholesale fashion. The UK will recover swiftly, but has sustained some permanent damage

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2861	1.4066	1.3109	1.3931
BWPUSD	0.0879	0.0957	0.0896	0.0948
GBPBWP	15.8429	14.4966	15.5002	14.7986
BWPEUR	0.0728	0.0796	0.0745	0.0780
JPYBWP			9.5106	9.9410
USDZAR	14.0406	15.2226	14.3697	14.8932
EURUSD	1.1601	1.2568	1.1873	1.2296
GBPUSD	1.3395	1.4512	1.3709	1.4198

Benchmark Yield Curve

6m	1.1260
3y	3.8750
5y	5.1250
9y	5.2350
22y	6.2650

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-1.9110	0.0000
3m	-5.9524	0.0000
6m	-13.6451	0.0000
12m	-30.5711	0.0000

Equities / **Economic Indicators**

BSE Domestic Index	6719.77	GDP	-6.00%	Bank Rate	3.75
BSE Foreign Index	1550.93	CPI	2.20%		

- News flow remains centred around the COVID-19 pandemic and the vaccine roll out which is due to start in March 2021. Undoubtedly this will come as a relief for many as it will allow for the opening of the economy and the repairing of both corporate and personal balance sheets.
- The fact of the matter is that we are unlikely to see pre-COVID-19 economic activity levels in 2021, with 2022 pencilled in as the year for strong growth. Many businesses will be adapting to the change of business conditions throughout 2021 after 2022. Tourism and travel will be reassessing their business models while the telecommunications sector is likely to experience strong growth. The IT sector is likely to outperform given its ability to provide tech solutions that enable businesses during times of crisis.
- The prospects for the country do however look strong, the government is actively encouraging investment in a number of sectors and the mining industry is diversifying from diamonds with copper a focal point.
- Given this backdrop its worth taking a look at what has been happening in the copper market of late.
- Copper remains on the front foot as we enter the final trading session for the week. The copper price was up by as much as 1.1% this morning in Asia with the benchmark LME 3m contract hitting $8646/tonne marking a fresh 9 year high. Drivers of the gains include a weaker USD, strong hopes of an economic rebound, and falling inventories. LME copper inventories are currently sitting at 76025/tonnes while the premium for spot over forward copper is rising showing tighter near-term supplies.
- Internationally, Stimulus appears to be the major theme through 2021 even though the economy looks set to stage a solid recovery through 2021. On the one hand, the authorities both fiscal and monetary like to look past the current pandemic to better times ahead. On the other, they draw attention to the weak state of the economy and are seeking for all ways to justify persisting with currently expansive policies or injecting more stimulus. US Treasury Secretary Yellen has again reiterated the need to unleash more stimulus to help the economy back to a full recovery and full employment, while the Fed's Brainard has similarly confirmed that the Fed will remain equally supportive of the economy.
- Yesterday's weekly jobless claims data disappointed and in the process strengthened the arguments for more stimulus. The data will be used to justify the strong fiscal stimulus that the Biden administration is seeking to implement, with the latest data confirming that the recovery in the labour market is stalling. Looking forward, the infection and death rate numbers have improved, while the vaccination drive is unfolding with increasing momentum. Although the economy will likely recover to boost overall jobs regardless of the stimulus efforts, the window of opportunity to use weak data to justify the stimulus is closing fast. Expect the Biden administration to announce the stimulus measures soon.
- Some weaker than expected jobless claims data and talk of the need for more stimulus from both the Treasury Secretary and Fed speakers has the USD on the back foot once more. This is not surprising given that such stimulus will serve to further widen the budget and trade deficits through the coming months, while elevating the risk of an inflation episode. Money supply growth has been extreme creating the space for inflation to take hold and the USD to once again erode weaker. The combination is likely to keep the speculative element in the market positioned for more USD weakness through the months ahead.
- The BWP-USD continues to pivot around the 0.0920 level with the 0.0910 seen as the bottom while probes of the 0.0925 level are quickly pared. No real interest to push the local unit in either direction at present.

ZAR and Associated Comments

- The ZAR strengthened throughout the domestic session yesterday, with directional impetus spilling over from Wednesday's gains. Recall earlier in the week the ZAR hit a one-year high of 14.40/$ after which a bout of profit taking saw the local unit retreat. This was almost undone yesterday as the ZAR made a dart back towards the 14.50/$-handle. However, this was unable to be sustained as risk aversion began to creep into some markets, with both domestic bonds and stocks weaker on the day.
- The ZAR ultimately ended the day relatively flat at 14.64/$, falling 0.07% against the US dollar, apt for the known bellwether of emerging market sentiment as the EM sample of currencies ended domestic hours mixed. Looking further out, the ZAR and domestic assets are likely to face more headwinds in the event of a slow vaccination drive. Officials in the health minster's advisory committee on covid-19 have recently come out saying government's target to vaccinate 67% of the population this year may be too ambitious and could face setbacks, while recent studies have also shown the AstraZeneca vaccine to be less effective against the virus variant identified locally late last year. The economic and fiscal ramifications of enduring a third wave of the virus and more economic-related restrictions, should the vaccine drive prove to be less effective than anticipated, provide substantial downside risks to the ZAR and may limit gains in any EM-bullish scenario.
- The USD, meanwhile, was broadly weaker on the day as losses against the pound and euro drove DXY (dollar trade-weighted index) to fall 0.4%, returning the index near the 90.4-90.6 range as investors await a catalyst to give direction. Weak data out of the US yesterday pointed to an uneven recovery underway, with the labour market struggling to gather pace. Initial jobless claims rose where a decline was expected according to Bloomberg survey expectations, while continuing claims also came out higher than anticipated.
- Despite recent strength in retail sales data, a slow labour market recovery continues to cloud the outlook for the USD. As such, yesterday's sentiment has spilled over into early morning trade with the dollar broadly on the defensive once again. The ZAR has managed to capitalise in early trade, however the scope for further gains in the next week may be limited with investors likely to turn more cautious ahead of the all-important budget speech. For the day ahead, manufacturing PMIs out of Europe headline the data card this morning, with the US release scheduled for later in the day. The dollar may thus find some support heading into the weekend, should we see a deterioration in the PMI data out of Europe as restrictions have remained mostly unchanged since January, while recent US economic strength suggests February's US PMI print may not deviate too much from the month prior..

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