Botswana Market Watch 26 February 2021

GMT		International and Local Data	Period	Exp	Previous
	BO	Nothing on the cards			
13:30	US	Wholesale inventories m/m	Jan P		0.30%
13:30	US	PCE core y/y	Jan	1.40%	1.50%
13:30	US	Advance Goods Trade Balance	Jan	$-83bn	$-82,47bn
14:45	US	Chicago PMI	Feb	61	63.80
15:00	US	Michigan consumer confidence	Feb F	76.20	76.20

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
Africa vaccines	The African Union announced that they secured 300mn doses of Russia's Sputnik V COVID-19 vaccine. This deal adds to the 270mn doses that the group arranged to get from Pfizer Inc, Johnson & Johnson and Astra-Zeneca Plc earlier this year	Securing more vaccines will be welcomed as it prevents Africa from lagging in vaccinating its people and increases the prospect of a quicker economic recovery	4/5 (economy)	According to the AU, the Russian vaccine shots will be available for 12 months starting in May, and finance has also been arranged for countries that want to purchase the vaccine. While the AU has secured a large number of vaccines, it is only enough to vaccinate less than half the population

Global	What happened?	Relevance	Importance	Analysis
Stock market selloff	The recent rise in bond yields has taken its toll on stocks and they have sold off hard. Not only do they allude to monetary policy normalisation, but yields much dividend yields	Stocks have enjoyed a strong rally for months. A healthy correction is long overdue. Bonds may also recover	4/5 (market)	In a world dominated by so much monetary distortion and so much fiscal stimulus, there will be periods of strong volatility as realities and dislocations arise that need to be unwound and fresh balance found
USD recovery	Not surprising that the USD has staged a recovery as stock markets have corrected. Higher levels of risk aversion have raised its safe-haven status	For the time being, the rise in US bond yields will support the USD. There may be more to come	3/5 (market)	Given the magnitude of the sell-off in stocks which may extend, there is bound to be a short squeeze on the USD. Short speculative positions on the USD remain reasonably large
EZ Sentiment	EZ economic sentiment rose more than anticipated in Feb, rising to 93.4 from 91.5 in Feb. Industrial sentiment recovered to -3.3 in Feb from -6.1 in Jan	As investors look through the current pandemic, they look forward to economies reopening	3/5 (economy)	One should expect to see the rise in Feb extend through the months ahead as more vaccines are deployed and global infection rates continue to subside, allowing economic normalisation

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.3150	1.4426	1.3403	1.4287
BWPUSD	0.0876	0.0957	0.0893	0.0948
GBPBWP	15.9337	14.5456	15.5890	14.8487
BWPEUR	0.0721	0.0789	0.0738	0.0774
JPYBWP			9.5106	9.9613
USDZAR	14.4032	15.6290	14.7407	15.2909
EURUSD	1.1676	1.2650	1.1949	1.2376
GBPUSD	1.3426	1.4548	1.3740	1.4233

Benchmark Yield Curve

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

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-2.3498	0.0000
3m	-6.3473	0.0000
6m	-13.6354	0.0000
12m	-30.0593	0.0000

Equities

BSE Domestic Index	6689.74
BSE Foreign Index	1550.93

Economic Indicators

GDP	-6.0	**Bank Rate**	3.75
CPI	2.3		

- The Bank of Botswana left interest rates on hold yesterday at 3.75%. The inflation pressures seen in the short term was, as expected viewed by the bank as transitory leaving the bank with enough justification to keep monetary policy accommodative. Reuters reported - "Factors that will increase inflation this year are mainly ... transitory and once-off," Deputy Governor Kealeboga Masalila said. "Therefore we have decided not to respond to the higher inflation forecast with a tighter monetary policy stance as most of these factors will not have second-round effects on prices"
- Many central banks globally are currently looking through what they see as short-term inflationary pressures choosing instead to focus on longer term balance sheet repair and economic support. That said, the rising global bond yields are indicative of markets which may not concur with the transitory narrative being offered by many central banks.
- The global benchmark for bonds namely the US 10yr hit a 1yr high yesterday of 1.6140% before drifting lower however when looking at a chart the trend to the topside remains firmly intact. This has brought forward expectations of a Fed hike and this has sent equity markets into a spin this morning in Asia as thoughts of the end of super-cheap money drive risk off trading.
- Moving over to US politics, the Democrat push to have a minimum wage increase of $15 p/h included in the $1.9trln stimulus package cannot be passed without Republican votes. Given the partisan approach to this bill, it is likely that the Republicans would push back. The Democrats will not want to stop pushing for the stimulus package however and will therefore take up the fight through another initiative.
- Katherine Tai, President Biden's top trade nominee backed tariffs as a legitimate tool to counter China's state-driven economic model and vowed to hold China to its commitments. For all the complains about Trump's trade policy, it is interesting to see how the Biden administration is not rolling back on it. They concede that gains were made and will not want to easily give them back. Heading into any negotiations with China, the US will want to hold as much leverage as possible. Trump's trade policy stance offers them something to bargain with.
- A correction in equity markets coupled with the rise in bond yields recently has lent the USD some support. It has reclaimed its safe-haven status and if equities experience much more in the way of volatility, the USD will build on its base. Commodity prices have come under some pressure and technically speaking a short-term buy signal has been given which will give USD shorts something to think about. Given the size of the speculative net short position, a squeeze might emerge to see the USD popping higher through the week ahead if indeed equities continue to correct.
- 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. All eyes will be on the Central Bank Decision today.

ZAR and Associated Comments

- The USD-ZAR was on a tear yesterday, with the currency pair soaring from below the 14.5000-handle back towards 15.0000 alongside rising domestic government bond yields, as investors remain unconvinced post budget that National Treasury can as yet avert a fiscal crisis. Although post budget jitters exacerbated ZAR moves as the local unit led emerging market currencies weaker, this was not an idiosyncratic move as the USD posted gains against a host of commodity-exposed and major currencies.
- Domestic data yesterday did little to alter the ZAR's course too. January's producer price index (PPI) inflation came in at 3.5% compared to a prior reading of 3.0%. While the SARB is likely to tolerate an uptick in inflation for the time being, the central bank will be monitoring whether rising producer costs result in CPI inflation to aid its monetary policy revisions in the months ahead. Nevertheless, the ZAR continued its retreat and ultimately ended the day -2.90% weaker against the USD at 14.96/$. However the broader EM space experienced similar pressure with the Turkish Lira, Russian Ruble, Brazilian Real and Mexican Peso all falling in excess of 1.50% against the dollar.
- Although South Africa's relatively high real yields remain attractive to investors, which has led the ZAR to gain in prior months, the racking up of further fiscal deficits will continue to diminish confidence in government's ability to service its debt and will likely result in further credit rating downgrades in the future should government be unable to halt its current fiscal trajectory. Resultantly for the ZAR, this has eroded the currency's resilience to broader market sentiment and is the cause for heightened volatility as risk appetite sours as we saw yesterday.
- As to the day ahead, government budget balance data may add to the ZAR's woes at present should it put the fiscus in a more precarious position than it already is, as it might with January's balance expected to swing into deficit once again after posting the first surplus in 10 months in December. On the other hand, trade balance data scheduled for the same time could offer the local currency some support. Despite its recent narrowing, the trade balance remains in a healthy surplus given the resumption in exports due to the recovery in global demand while imports remain fairly weak. However, rising oil prices since last year will begin to apply some pressure on the trade balance given the contribution of oil-imports to the overall trade account.
- Prior to this though, money supply statistics grace the domestic data card this morning with M3 money supply growth and private sector credit growth. Externally, better than expected US data yesterday, including jobless claims, has offered the USD some support, while the continued rise in US Treasury yields is also invoking dollar bids and hurting risk assets on the session so far. For the local currency, the ZAR looks set to enter the weekend on the back foot alongside the broader EM sample, as it has traded back above the 15.00/$-handle. US personal consumption data later this afternoon, which includes one of the Fed's favoured inflation measures, may hold fresh market moving potential and hurt the Fed's continued dovish rhetoric should it corroborate market expectations for rising inflation

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