

Botswana Market Watch

22 February 2021

GMT	International and Local Data		Period	Exp	Previous
09:00	BO	Nothing on the cards			
09:00	GE	IFO business climate	Feb	89.70	90.10
13:30	US	Chicago Fed activity index	Jan		0,52
13:45	EC	ECB's Lagarde Gives Keynote			
15:00	US	Leading Indicators	Jan	0.30%	0.30%

Africa	What happened?	Relevance	Importance	Analysis
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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 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
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US-Sino relations
 Senior Chinese diplomat Wang Yi said on Monday that he hoped the US and China could repair their relationship and work together on climate change and the pandemic
 Although the US does not plan on easing tariffs at this point, improving bi-lateral relations will boost global sentiment
3/5
 (economy, politics)
 It is not the case of the US and China suddenly becoming close allies, so much as it will start with a relationship that encourages dialogue and is less fractious than it was when President Trump was in power

Fed insight
 According to a Fed survey, business borrowing stands at near-historic highs, implying that insolvency risks at SMEs remains significant
 The Fed is acutely aware of the distortions and consequences of ultra-loose policy
3/5
 (economy, monetary policy)
 For now, there is unlikely to be much of a change to Fed policy as the central bank seeks to remain supportive. However, the moral hazard of persisting with unnaturally low rates is rising

Chinese monetary policy
 China chose to leave its benchmark lending rate for corporate and household loans unchanged for the 10th straight month in Feb, marching market expectations
 So long as inflation remains benign or under control, rates will remain flat as the PBoC remains supportive of growth
2/5
 (economy, monetary policy)
 Just as it may be for many economies around the world, 2021 may be too soon for a normalisation of monetary policy. China will not want to lift rates when its not necessary, although they will be mindful of boosting debt levels

Local FX Opening Rates and Comment

	CUSTOMER BUY		CUSTOMER SELL		CUSTOMER BUY		CUSTOMER SELL		Benchmark Yield Curve		Forward Foreign Exchange		
	CASH	CASH	TT	TT									
BWPZAR	1.2964	1.4167	1.3214	1.4031	6m	1.1230			1m	-1.6575	BWPUSD BWPZAR		
BWPUSD	0.0881	0.0962	0.0898	0.0953	3y	3.8750			3m	-5.9670	0.0000		
GBPBWP	15.8832	14.5495	15.5396	14.8526	5y	5.1250			6m	-13.6744	0.0000		
BWPEUR	0.0727	0.0794	0.0744	0.0778	9y	5.2350			12m	-30.5906	0.0000		
JPYBWP			9.5303	9.9410	22y	6.2650							
USDZAR	14.1218	15.3155	14.4528	14.9841									
EURUSD	1.1634	1.2608	1.1907	1.2335									
GBPUSD	1.3458	1.4581	1.3774	1.4265									
					Equities				Economic Indicators				
					BSE Domestic Index	6714.86	GDP	-6.00%	Bank Rate	3.75			
					BSE Foreign Index	1550.93	CPI	2.30%					

- The Patriot reported late last week that the tyhe Minister of Finance and Economic Development Dr Thapelo Matsheka promised to submit to Parliament the financial audit of the controversial Covid-19 national relief fund. Opposition parties have suggested that there has been corruption as the minister announced a fall of some BWP12bn in reserves, however the government maintains that the funds have been used to finance imports and other government obligations during the period covering the COVID-19 pandemic.
- South Africa has been plagued by massive irregularities in the procurement process of services related to COVID-19 tenders, corruption is seen as endemic in Botswana's Eastern neighbour and thus it is not surprising to see questions raised regarding local spending given the regional backdrop.
- Internationally there have been some developments in the Sino-US relations that we need to be aware of. A Senior Chinese diplomat, Wang Yi stated this morning that both countries could work together on issues like climate change and the COVID-19 pandemic if they repaired their damaged bilateral relationship. The minister added that Beijing is ready to reopen constructive dialogue with Washington following relations falling to their lowest level in decades under the Trump administration. Reuters reported the following - *Wang urged Washington to respect China's core interests, stop "smearing" the ruling Communist Party, stop interfering in Beijing's internal affairs and stop "conniving" with separatist forces for Taiwan's independence. "Over the past few years, the United States basically cut off bilateral dialogue at all levels," Wang said in prepared remarks translated into English. "We stand ready to have candid communication with the U.S. side, and engage in dialogues aimed at solving problems."*
- All of that said, the Biden administration has given no indication that it will roll back on the tariff increases imposed by Trump or that the agreed upon phase 1 of the trade deal would be unwound, it is more likely that the Biden administration will seek to cooperate more with China. Matters related to the pandemic and the stimulus efforts, coupled with a renewed commitment to a climate change agenda may form a good foundational starting point.
- The USD has yet to gain material directional momentum. Reflation expectations and positioning for the anticipated recovery means that the USD remains on the defensive as a safe-haven asset. Any data that disappoints, equally implies that the Fed will retain its ultra-loose monetary policy stance for the foreseeable future. The next result is that the USD is simply not gaining much in the way of traction, with the common perception ongoing that it will loose more ground as the year unfolds.
- 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

- Last week saw the ZAR suffer its worst week in a month as the local currency fell 1% against a broadly flat US dollar. Driven in part by a short-lived blip in the USD, investors appeared to turn increasingly wary of the ZAR ahead of the budget speech which Finance Minister Tito Mboweni will deliver on Wednesday. Ultimately, the ZAR ended the week with a 0.30% decline against the greenback as the local unit closed just shy of the 14.70/\$-handle, despite pressure remaining on the dollar from the day prior.
- Disappointing labour market data out of the US last Thursday drove dollar weakness into the weekend, while talk of the need for more stimulus from both Fed and Treasury officials continue to favour the dollar-bears. Despite the vast fiscal and monetary stimulus to date since the onset of the pandemic, the US labour market remains far from pre-crisis employment levels. With plans for more fiscal support still underway for the Biden administration and the Fed still extremely dovish in policy communication, this raises the risk we see higher inflation before a full recovery in the labour market. As a result, this should keep the market positioned for a weaker USD in the coming months as vaccine rollout picks up around the world.
- Depending on how the US recovery plays out going forward, this presents the potential for further emerging market currency gains. For the ZAR, however, the local unit is not without its own idiosyncratic factors. On that note, the ZAR will trade on domestic developments this week as all eyes turn to the budget speech, which is viewed as vitally important in orchestrating South Africa's turnaround from a potential fiscal crisis in the coming years. Should we not see any meaningful reform action, SA may be hit by further ratings downgrades in the future associated with higher debt levels. The knock-on effects of which will be a weakening exchange rate, and further risks to sectors closely linked to sovereign ratings.
- It is a difficult task at present though, with National Treasury needing to bring down debt levels by reducing expenditure, but also revive an economy still suffering from the effects of the pandemic. However, these challenges were already apparent and were arguably only exacerbated by the pandemic. Nevertheless, the budget speech will be one of the most important in recent history and will likely keep the market cautious of any short-term gains. The week ahead sees additional domestic data releases starting tomorrow with SARB's leading indicator and the unemployment rate, and further monetary and government budget balance statistics following the budget speech to end the week. Externally, the week starts with German business sentiment data and the US leading indicator release today, while the market will be looking forward to Fed Chair Jerome Powell's delivery of the Fed's semi-annual monetary policy report tomorrow.

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