

Botswana Market Watch

24 February 2021

GMT		International and Local Data	Period	Exp	Previous
07:00	BO	Nothing on the cards			
10:00	GB	ILO unemployment rate (3mths)	Dec	5.20%	5.00%
14:00	EZ	CPI y/y	Jan F		-0.30%
14:00	US	House price index m/m	Dec		1.00%
14:00	US	S&P CoreLogic Case-Shiller house price composite-20 y/y	Dec		9.08%
15:00	US	Consumer confidence	Feb	90	89.30
15:00	US	Richmond Fed manufacturing index	Feb		14

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 AstraZeneca 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
Fedspeak - Powell	Fed Chair Powell pushed back on suggestions that loose monetary policy would cause inflation and financial market volatility, stating that the Fed would continue to target full employment	He effectively confirmed that the Fed would remain ultra-accommodative for so long as inflation allows	3/5 (economy)	Policy will remain extremely loose and the Fed's priorities are clear. It will be tougher to argue this line in a few months' time when growth is accelerating quickly, but then the Fed will default to unemployment to justify
Vaccine latest	Pfizer, Moderna and J&J told the House that they would supply enough vaccines to inoculate 130mn people in the US. In the EU, AstraZeneca missed targets	Vaccine supply is set to ramp up and it will be a similar picture in most countries in the months ahead	4/5 (economy)	Vaccine supplies will start to flood the globe and will soon cease to be the constraint to the vaccination drives. It paves the way for stimulus fuelled growth to be unleashed in H2 2021
UK unemployment	The UK's unemployment rate has ticked up to 5.1%, the highest reading since Jan-Mar 2016. Had it not been for the government's Job Retention Scheme, the number would've looked worse	The scheme will likely be extended next week, but there are signs of real improvement in the employment stats	4/5 (economy)	The Job Retention Scheme has cost the government a staggering £70bn and could still be extended a little further. Despite this, more than 700k jobs have been lost. That will likely reverse through H2 2021

Local FX Opening Rates and Comment

	CUSTOMER BUY		CUSTOMER SELL		Benchmark Yield Curve		Forward Foreign Exchange			
	CASH	CASH	TT	TT						
BWPZAR	1.2759	1.3983	1.3005	1.3848	6m	1.1240	1m	BWPUSD	BWPZAR	
BWPUSD	0.0885	0.0969	0.0902	0.0960	3y	3.8750	3m	-5.9085	0.0000	
GBPGBP	15.7185	14.3506	15.3784	14.6495	5y	5.1250	6m	-13.6890	0.0000	
BWPEUR	0.0730	0.0799	0.0747	0.0783	22y	6.2650	12m	-31.0830	0.0000	
JPYBWP			9.5597	10.0020						
USDZAR	13.8389	15.0025	14.1632	14.6779						
EURUSD	1.1651	1.2624	1.1924	1.2350						
GBPUSD	1.3375	1.4492	1.3688	1.4179						
					Equities		Economic Indicators			
					BSE Domestic Index	6740.7	GDP	-6.0	Bank Rate	3.75
					BSE Foreign Index	1550.7	CPI	2.3		

- The Bank of Botswana released the Monetary Policy Statement yesterday. This document is the main medium through which the bank informs stakeholders about the framework for the formation and implementation of monetary policy. The bank set out its expectations for 2021 with its first statement being that it expects global economic growth in 2021 to be faster than originally anticipated, albeit uneven across the regions. We concur with this view, those countries that have access to vaccines and have implemented a vigorous campaign are likely to come out the pandemic induced conditions sooner. Countries who have raw materials and the necessary supply chain will also benefit from the upswing in global economic growth.
- The Bank is predicting growth of some 8.8% in 2021 which will be driven by a recovery in the mining sector and an anticipated improvement in global output. This is achievable but will require the stars to align with both mining and other sectors such as tourism to recover in unison. We remain concerned about industries that require extensive human interaction such as tourism and hospitality and see these sectors as the last to emerge from the downturn.
- The government faces a large budget deficit which will be funded through domestic and external credit. We also envisage some deep cuts in budgets of what are deemed less than essential government services.
- Inflation is likely to enter the bank's 3-6% range during the second half of 2021. We suggest that readers keep a close eye out on global food inflation as a barometer for what may filter through to local markets.
- As we approach the end of the week, the focus is turning squarely on to the US stimulus package that will be voted on by the House of Representatives. Given the Democrat majority, the bill will pass and head to the Senate for the next round of approvals. That means that the bill could be ready for implementation by the end of next week, after which it will rapidly be deployed. March will therefore be a powerful growth month which set the stage for a strong economic performance through Q2 and into H2. The upside to this is that it will bolster the economic recovery. The downside is that it imposes a higher debt burden that will at some point need to be paid back down.
- Although the USD has paused its slide, it remains on the defensive for the time being. The bias remains to the downside as Fed Chairman Powell is set to testify before the House Financial Services Committee in the second of his testimonies. Barring the Q&A which may force some comments out of him, the message will be the same and the USD is therefore unlikely to experience much of a sell-off on the back of his comments. Furthermore, with stock markets looking a little less positive this morning, the potential for some rotation to safety could provide a backstop to the USD that might've otherwise eroded a little weaker.
- 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.
- The Central Bank confirmed its downward crawl to enhance the domestic industry competitiveness in response to the adverse impact of COVID-19 on the economy.

ZAR and Associated Comments

- The USD-ZAR shrugged off domestic data yesterday which pointed to further economic hardship as a result of pandemic-induced restrictions and rather took cues from external developments driving the dollar-leg. Fed Chairman Jerome Powell's testimony yesterday drove some dollar weakness as he indicated the central bank was nowhere close to pulling back on monetary support for the US economy and only expected a return to normal and improved activity later in the year. Loose monetary and fiscal policy in the US will continue to stoke market concerns of currency debasement in the future, while also bringing the potential of an overheating economy and a breakout in inflation, concerns of which Powell did well to play down.
- Nevertheless, this surprisingly allowed the ZAR some room for gains ahead of Finance Minister Tito Mboweni's tabling of the budget later today. The local unit ultimately closed amongst the top gainers in the EM sample as it strengthened 0.95% against the USD to end domestic hours around the 14.54/\$-handle.
- In terms of data yesterday, the SARB's leading indicator rose to a fresh record high of 115.1 in December from 114.5 in November, beating consensus expectations of a decline to 110. While the indicator continues to improve, it is worth noting that record highs in the indicator are a function of base effects and not a representation of improving growth dynamics. Growth in South Africa remains constrained by deep-seated structural problems which have been magnified by the coronavirus pandemic. Unfortunately, better at representing South Africa's economic woes was the official unemployment rate yesterday. The ZAR, meanwhile, reacted little to the official unemployment rate reaching a record high of 32.5% in Q4 last year. According to the expanded definition, which includes discouraged job seekers, unemployment sits more than 10% higher than the prior figure at 42.6%.
- High unemployment will only add to challenges for an upcoming budget which needs to make accommodations for reviving the economy, while at the same time implement means for fiscal consolidation. With all eyes will turning to the budget speech later today, attention may be brought to an improving fiscal deficit due to the expected economic rebound underfoot. However, the need to fund continual deficits with more debt will likely keep the longer term trend of rising debt levels intact, and National Treasury has the arduous task of convincing market participants and the broader economy that a fiscal crisis will be averted. While COVID-19 has exacerbated the pressure on public finances, years of bailing out SOEs and consumption spending of government's part has taken its toll. Arguably, the commitment to critical reforms, including those to SOEs, need to come from other arms of the government, but it will still be noteworthy the directives Treasury may set today and whether plans for fiscal consolidation will be followed through.
- For the day ahead, not too much positive impetus can be expected for the ZAR ahead of the budget speech, while the local unit has already kicked off early morning trade in the red as it has traded up towards the 14.60/\$-handle. However, the tide may

change later in the day for risk assets in general as Fed Chair Jerome Powell gears up for his second testimony before the House Financial Services Committee..

Contacts

Mogamisi Nkate	+267 3674335	email: mnkate@bancabc.com
Phillip Masalila	+267 3674621	email: pmasalila@bancabc.com
Kefentse Kebaetse	+267 3674336	email: kkebaetse@bancabc.com
Maungo Sebonego	+267 3674338	email: msebonego@bancabc.com

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