Botswana Market Watch

25 February 2021

GMT		International and Local Data	Period	Exp	Previous
	BO	Benchmark Interest Rate	Feb 25		3.75%
10:00	EZ	Consumer confidence	Feb F		-14,80
13:30	US	Durable goods orders m/m	Jan P	1.30%	0.50%
13:30	US	GDP q/q annualised	4Q S	4.10%	4%
13:30	US	Personal consumption	4Q S		2.50%
13:30	US	Initial jobless claims	Feb 20		861k

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
Fedspeak – Powell	For a second day of testimony Fed Chairman Powell told Congress that the Fed would remain ultra-supportive until full employment and the inflation target had been achieved	He effectively confirmed that the Fed would remain ultra-accommodative for so long as inflation allows	**3/5** (economy, monetary policy)	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
G20	IMF Chief Georgieva has urged action on the part of the G20 to ensure that the disparities between rich and poor countries does not diverge further	The lack of resources means that some EMs and frontier countries may languish for years	**4/5** (economy, fiscal policy)	Georgieva has urged the G20 to take strong policy action to support these fragile countries and assist them to recover or will risk economically alienating more countries
US new home sales	New home sales rose 4.3% in Jan, while Dec's growth was revised up to 5.5% from 1.6%, with median house prices up 5.3% y/y	This is one more market that has enjoyed the benefits of low interest rates and QE	**3/5** (economy)	Home purchases are responding in much the same way as other asset prices. Distortions are not contained only to financial markets, but are evident in the real economy too

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2793	1.3955	1.3039	1.3821
BWPUSD	0.0882	0.0962	0.0899	0.0953
GBPBWP	16.0221	14.7085	15.6755	15.0150
BWPEUR	0.0725	0.0789	0.0742	0.0774
JPYBWP			9.5597	9.9613
USDZAR	13.9202	15.1020	14.2464	14.7753
EURUSD	1.1686	1.2664	1.1960	1.2390
GBPUSD	1.3591	1.4724	1.3909	1.4406

Benchmark Yield Curve

6m	1.1250
3y	3.8750
5y	5.1250
22y	6.2650

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-2.0963	0.0000
3m	-6.3570	0.0000
6m	-13.6988	0.0000
12m	-30.1616	0.0000

Equities		Economic Indicators			
BSE Domestic Index	6722.2	**GDP**	-6.0	**Bank Rate**	3.75
BSE Foreign Index	1550.93	**CPI**	2.3		

- It is all about the Bank of Botswana this week. The bank released the Monetary Policy Statement on Tuesday which provided us with the lens through which the bank is viewing the current macro backdrop both locally and globally and today we have the bank providing us with its verdict on rates.
- Regionally its been a tale of two halves. Zambia and Mozambique have hiked rates to rein in inflationary pressures while the likes of Namibia and South Africa are in no hurry to adjust rates just yet. We see Botswana is the latter pile with inflation contained and the bank likely to look through any short term spikes viewing them as transitory. The BoB will be equally mindful of tightening rates at a time when the economy is in need of all the support it can get.
- What will be interesting to see is what the bank views as a threat to the current status quo of a more accommodative monetary policy. Botswana remains fiscally prudent by running positive real rates while many frontier and emerging markets have cut into negative real rate territory to reflate their economies, however this renders the currency less resilient as a result.
- Moving over to the United States, Not much new in the guidance offered by Fed Chairman Powell who simply reiterated the Fed's commitment to keep policy loose for as long as it took to achieve full employment and achieve its inflation target. It once again confirms that the central bank will continue to support balance sheets through its asset purchase programme and ensure that government debt service costs will be kept in check. The downside is that there are distortions that arise, but for now, policy makers will feel that this is the lesser of two evils.
- Speaking of distortions, it has surprised people to see the strength of the US housing market. However, the pandemic has helped people realise the value of having a nice home and the low interest rates and QE renders loans very cheap and access to loans easy. Prices of homes are also rising enticing a speculative element and so it seems likely that the housing market will continue to benefit from the ultra-accommodative monetary policy that the Fed has committed itself to.
- The USD is once again looking vulnerable. Although it has not broken materially below the 90.0 index level on the USD index, it is trading heavy and the improved sentiment on stock markets may see the USD erode a little weaker through the course of the day, especially with the Fed having reaffirmed its commitment to loose monetary policy. Improved risk appetite is expected to weigh on the USD's safe-haven attraction and may trigger further gains on most currencies vs the USD.
- 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

- Finance Minister Tito Mboweni's budget speech led to a particularly volatile ZAR yesterday, with the unit trading to more than a one year high near 14.39/$ before giving up gains as it retraced moves to around the 14.65/$-handle. The market initially cheered the improvement in budget statistics, that National Treasury (NT) would collect R99.6 billion more in taxes than previously forecasted in October and that government had scrapped plans for tax hikes which would be growth-positive for the struggling economy. However, the subsequent realisation that projections were still dire for South Africa and that much is still needed to be done to halt rising debt levels drove a knee-jerk reaction in the market, causing a prompt retreat for the ZAR.
- As to fiscal projections announced at the budget, total debt to GDP is expected to peak at 88.9% in 2025-2026 compared to 95.3% forecasted in October's mid-term budget. Another improvement is that National Treasury is targeting a primary budget surplus in 2024-2025, a year earlier than previously forecasted, while the deficit for the current year is expected to be 14% of GDP compared to a prior estimate of 15.7%.
- However, narrowing the budget deficit and stabilising the debt-to-GDP ratio requires continued restraint in expenditure growth, a hard task for the current consumption driven budget. Current projections hinge on government's ability to commit to expenditure cuts, some of which hold political implications, and critical reforms to SOEs. While Mboweni stuck to NT's pledge to freeze state workers' wages, these negotiations are yet to be concluded and the better than expected experience since the mid-term budget allows labour unions some leverage to press for previously agreed wage hikes, as noted in a statement yesterday by Fitch Ratings. Furthermore, South Africa's structural challenges will continue to hinder growth and SOEs will remain a bugbear on the fiscus with many facing the risk of default due to the pandemic and lockdowns.
- Ultimately, however, it was Fed Chair Jerome Powell's second testimony yesterday post the domestic budget which allowed the ZAR some reprieve as the currency edged back towards the 14.50/$-handle. After a mixed day for the local unit, it managed to swing losses once more to close 0.5% stronger against the USD around 14.53/$.
- Looking ahead, there are risks both to the upside and downside for the USD-ZAR currency pair. South Africa's fiscal woes remain despite the improvement since last year's projections, while the USD is failing to hold onto any short-term rebounds. In the near term though, the USD remains vulnerable and is not being helped by continued dovish Fed communications. Powell's second testimony yesterday reaffirmed that interest rates would remain low until 2023, when the inflation target is likely to be met. The day has thus kicked off with EM-positive trade and the USD remains in the doldrums. The day ahead holds domestic data in the form of January's PPI release which is expected to remain largely unchanged despite rising commodity prices as producers are unlikely to transfer rising costs in a weak demand environment. Externally, Eurozone money supply data headlines the card this morning, while US durable goods orders and jobless claims data could add fresh impetus later in the day...

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