

Botswana Market Watch

1 March 2021

GMT		International and Local Data	Period	Exp	Previous
08:55	BO	Nothing on the cards	Feb F	60.60	60.60
09:00	GE	Markit/BME manufacturing PMI	Feb F	57.70	57.70
09:30	EZ	Markit/BME manufacturing PMI	Feb F	54.90	54.90
14:45	GB	Markit manufacturing PMI	Feb F	58.50	58.50
15:00	US	Markit PMI manufacturing	Feb	58.70	58.70
15:00	US	ISM manufacturing PMI	Feb	58.70	58.70

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
US Stimulus package	President Biden recorded his first legislative win when the House of Representatives passed his \$1.9tn stimulus package	Its deployment will offer a significant boost to the economy and bolster growth	4/5 (economy)	The problem that Republicans have with the bill is that it is not targeted enough and includes expenditure on matters unrelated to the pandemic
Aussie recovery	Aussie house prices rose at their fastest pace since August 2003, and jobs surged at the fastest pace since Oct 2018. Despite this the RBA boosted QE by A\$4.0bn	Early success in curbing infections has allowed the stimulus to be fully unleashed	3/5 (economy)	Australia's economy is primed for a strong boom period and rapidly rising asset prices. Unemployment is set to drop and the economy set to outperform many others through 2021
China house price growth	Growth in new home prices in China eased in Feb, as demand slowed over the Lunar New Year and some cities tightened up credit extension rules	Such strong growth in China will not stop prices from rising, but they may curb the trajectory	2/5 (economy)	Housing supply is expected to accelerate through the coming weeks as people return from their Lunar holidays and productivity normalises. The market will quickly revert back to earlier trends

Local FX Opening Rates and Comment

	CUSTOMER BUY	CUSTOMER SELL	CUSTOMER BUY	CUSTOMER SELL	Benchmark Yield Curve		Forward Foreign Exchange			
	CASH	CASH	TT	TT				BWPUSD	BWPZAR	
BWPZAR	1.3050	1.4272	1.3302	1.4135	6m	1.1230				
BWPUUSD	0.0869	0.0950	0.0886	0.0940	3y	3.8750	1m	-2.3303	0.0000	
GBP/BWP	16.0631	14.6944	15.7156	15.0006	5y	5.1250	3m	-6.2790	0.0000	
BW/PEUR	0.0719	0.0786	0.0736	0.0771	22y	6.2650	6m	-13.3965	0.0000	
JPY/BWP			9.4713	9.9003			12m	-33.4913	0.0000	
USDZAR	14.4201	15.6323	14.7580	15.2941						
EURUSD	1.1596	1.2563	1.1868	1.2291						
GBPUSD	1.3416	1.4537	1.3730	1.4223						
					Equities		Economic Indicators			
					BSE Domestic Index	6670.1	GDP	-6.0	Bank Rate	3.75
					BSE Foreign Index	1550.93	CPI	2.3		

- Following developments in its Eastern neighbour, the government announced that it would be easing COVID-19 restrictions despite there being an increase in the number of fatalities attributed to the virus. Botswana has lifted the ban on alcohol sales and eased curfew restrictions from 9 hours to 6 hours per night. The curfew will however continue until the end of March when conditions will be reassessed once more. *"The curfew period restricting the movement of people will be extended from the 1st to the 31st of March 2021 and will begin at 10 p.m. to 4 a.m. daily. The government has decided to lift the suspension of the sale of alcohol with effect from 1st March, 2021. Alcohol will be sold to consumers on weekdays only," he said.*
- The government also announced a programme whereby multiple vaccines will be brought into the country in accordance with the Public Health Act. "We have opted for a multiple-vaccine approach to ensure that we do not put the entire population at risk in the event that one of the vaccines underperforms," President Mokgweetsi Masisi was quoted as saying on national television.
- The latest developments opens up a glimmer of hope for an economy which has been ravaged by a hard lockdown in order to prevent the spread of the virus. We have seen the impact on the fiscal position of government and on the corporate sector, while predictions exist for a quick rebound, there will be dislocations and potentially an uneven distribution in the the recovery. Some sectors may never recover to previous highs and will look to reinvent their business models to take into account lower demand.
- Internationally, Much of the focus at the moment remains on the Biden administration's stimulus package. It has effectively made its way through the House of Representatives and will next need to overcome the Senate hurdle. It pushing the bill through the Senate, VP Harris may be called on to use her casting vote if the outcome is split. Given the support seen in the first round of voting however, the bill is expected to pass. The biggest criticism of the bill is that only a small percentage of it is being used to combat the pandemic, while there are other expenditures which have been included that are infrastructural related, but have little to do with the country's response to the pandemic other than through indirect economic stimulation.
- Moving over to FX, risk currencies appear to have staged a modest recovery and the USD has stabilised, pausing its bullish trend. A bout of risk aversion assisted the USD, but that appears to have dissipated through the weekend and sentiment at the start of the week looks a little more robust. As a result, the USD has stopped its bull run and investors appear to be trading cautiously ahead of the Senate vote on the \$1.9trln stimulus package that will see its deployment through the next two weeks. It is a mammoth stimulus package and although it will build debt levels enormously, it will boost the economy in the short-term. That boost, will come at the expense of the twin deficits which is arguably the strongest reason to remain bearish the USD over the medium to longer-term.
- The BWP has held above the 0.0900 mark with month end flows as well as risk off a feature into the back end of last week. The local unit is expected to find support around current levels and potentially appreciate as the week unfolds.

ZAR and Associated Comments

- The ZAR bulls and bears fought it out at the end of last week following Thursday's market rout which affected a host of commodity-exposed and emerging market currencies. Friday saw the ZAR pare weekly losses by as much as 1% but failed to hold onto intraday gains as the US dollar remained bid alongside rising US Treasury yields. Meanwhile, domestic data failed to help the local currency as trade balance data came out below expectations and January's budget balance failed to instil confidence in National Treasuries plans for fiscal consolidation. Ultimately, risk assets took another knock into the weekend and the USD-ZAR jumped 1% higher from the previous day's close back above the 15.00-handle.
- As of mid-week last week, the ZAR was some 4% stronger for the month. However, heightened volatility surrounding the budget speech in the remainder of the week wiped out the majority of gains, resulting in the ZAR yielding only a 0.3% gain against the USD for February. Post budget jitters evident in the market through higher volatility suggests investors are seeing a greater probability of SA's debt pile continuing to grow in coming years. Additionally, several reports from ratings agencies have emphasized doubt that National Treasury can achieve its goal of trimming the public sector wage bill and reducing spending. Specifically, Moody's highlighted that interest payments and support to SOEs are likely to remain elevated for some time and, thus, expects a slower pace of fiscal consolidation than what government has planned for. Moody's still sees debt rising to 100% of GDP by 2024-2025, compared to budget estimates last week where debt is seen to peak at 88.9% in 2025-2026.
- Nevertheless, the ZAR's performance for February still stands in stark contrast to the rest of the emerging market currency basket which broadly weakened against the USD. This positive trade for the ZAR in the face of rising fiscal risks is only a result of flush market liquidity from major monetary easing over the past year, which brings with it the risk of further depreciation once yield differentials begin to compress.
- In the short term, it seems some calm has returned to financial markets at the start of the week with stock markets posting gains during the Asian session and the USD broadly weaker given optimism surrounding the next US fiscal stimulus package, which now heads to the Senate after being passed by the House of Representatives. Domestically, President Ramaphosa announced further easing of restrictions last night, scrapping limitations on alcohol purchases and shortening curfew hours, and provided updates on government's vaccine acquisition plans. The ZAR has subsequently led emerging market currencies stronger this morning as it tests the 15.00/\$-handle once again. The day ahead sees the releases of Naamsa vehicle sales and Absa manufacturing PMI for February. Although unlikely to hold much market moving potential at present, these data prints hold insight into the current domestic economic recovery and how these sectors have fared with ongoing restrictions.

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