

Botswana Market Watch

3 March 2021

GMT		International and Local Data	Period	Exp	Previous
	BO	Nothing out this morning			
09:00	EZ	Markit composite PMI	Feb F	48.10	48.10
09:30	GB	Markit composite PMI	Feb F	49.80	49.80
10:00	EZ	PPI y/y	Jan		-1.10%
13:15	US	ADP employment change	Feb	165k	174k
14:45	US	Markit composite PMI	Feb F		58.80
15:00	US	ISM non-manufacturing composite 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
China debt relief for Africa	A research piece published by Johns Hopkins University showed that China has played a significant role in helping African countries manage their debts in recent months as the COVID-19 pandemic continues to take its toll on public finances	Due to the coronavirus pandemic, many low-income African countries have been left in a precarious fiscal state and in desperate need of debt relief and will continue to require fiscal aid	4/5 (fiscal)	The researchers reported 16 cases of debt restructuring worth \$7.5bn in 10 African countries between 2000 and 2019, and found that China wrote off the accumulated arrears of at least 94 interest-free loans amounting to over \$3.4. Chinese lenders have not pursued lawsuits in cases of debt default or asset seizures
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
Russia Sanctions	The US and the EU acted in unison to impose largely symbolic sanctions on four top officials close to Putin for the poisoning of opposition leader Navalny	Geopolitically this is unlikely to generate much change in the political status quo but sends a message	2/5 (geopolitics)	It highlights the difficulties inherent in the relationship between the US and EU vs Russia. Cooperation remains at a minimum and more would need to be done to make the sanctions meaningful
Japanese Services	The services PMI for Feb remained in contraction territory with a print of 46.3, marking the 13 th consecutive month of contraction	The economy remains under considerable pressure and the recovery constrained for most of H1 2021	4/5 (economy)	Not surprising given the state of emergency in Tokyo and three nearby prefectures. These will ease up through Q2 and the data will improve, but more patience is needed
Chinese services	China's services sector grew through Feb, but at the slowest pace in ten months as it recorded a dip to 51.5, the weakest since April 2020	Some weakness was evident, especially in the employment sub-component which slipped to 47.9	3/5 (economy)	With the initial bounce back now behind us and with global growth more subdued, the data out of China reflects the reality of a sluggish global economy. Expect a fuller recovery in H2 2021.

Local FX Opening Rates and Comment

	CUSTOMER				CUSTOMER				CUSTOMER				CUSTOMER			
	BUY		SELL		BUY		SELL		BUY		SELL		BUY		SELL	
	CASH	CASH	TT	TT	CASH	CASH	TT	TT	CASH	CASH	TT	TT	CASH	CASH	TT	TT
BWPZAR	1.2974	1.4177	1.3224	1.4041	Benchmark Yield Curve				Forward Foreign Exchange							
BWPUSD	0.0869	0.0948	0.0886	0.0939	6m	1.1240			1m	-2.1645	0.0000	BWPZAR				
GBPZAR	16.0470	14.6979	15.6998	15.0041	3y	3.8750			3m	-6.3765	0.0000					
BWPEUR	0.0719	0.0785	0.0736	0.0770	5y	5.1250			6m	-13.4453	0.0000					
JPYZAR			9.5008	9.9206	22y	6.2650			12m	-30.0008	0.0000					
USDZAR	14.3359	15.5450	14.6719	15.2087												
EURUSD	1.1603	1.2574	1.1874	1.2302	Equities				Economic Indicators							
GBPUSD	1.3404	1.4523	1.3719	1.4208	BSE Domestic Index	6670.1	GDP	-6.0	Bank Rate	3.75						
					BSE Foreign Index	1550.93	CPI	2.3								

- The Bank of Botswana will submit a formal policy document to government on how to protect the BWP46bn Pula fund, the sovereign wealth fund set up in 1994 to house the country's savings from decades of budget surpluses and diamond revenues. Currently the fund is a soft target with the government often dipping into the Pula Fund for various funding requirements such as the Economic Stimulus Plan or to support budget and import bills.
- The latest figure from the Bank of Botswana confirm the trend of a fall in the Pula Fund as well as foreign exchange reserves which have been hit by rising imports against declining exports. This has been exacerbated by the COVID-19 pandemic over 2020-2021. The Pula Fund fell from P55.6 billion in November 2019 to P45.9 billion in November 2020.
- Readers are reminded that the Bank of Botswana executive team told cabinet in July that the Pula Fund should be managed in such a way that "future generations do not curse us for not managing them well"
- Internationally, the market will be digesting the release of the Chinese services sector PMI first off. The reading came in at a 10 month low in February with firms said to be struggling with higher costs and sluggish demand. The Caixin/Markit services Purchasing Managers' Index (PMI) fell to 51.5 from 52.0 in January however it remains in expansionary territory with above 50 indicating an expanding sector. The analytical and economic community are laying the blame for the poor performance at COVID-19 flare ups in China at the start of the year coupled with hard lockdowns in many parts of the EU. Added to that we had the Chinese Lunar New Year celebrations which traditionally takes all activity off the boil in China.
- Taking a look at global macro, Fed officials have again reiterated their position that they will be patient in how they manage monetary policy through the remainder of the year. Most believe that the economy is far from reaching full employment and the economy needs all the assistance it can get. With the Fed's mandate now allowing for greater flexibility in responding to inflation, a temporary breach of inflation will not necessarily encourage the Fed to start tightening unless it appears that the inflation episode could undermine the economic recovery.
- In terms of the FX markets, as risk appetite has steadily recovered, so the USD has found resistance to tracking stronger. On the contrary, it has backed away from the highs seen yesterday and technically, indications are that it will retreat still further through the course of the next few trading sessions to settle back in its well-worn range which began at the start of the year. All eyes will now be on the labour data through the back-end of this week and developments in the Senate to drive some market reaction through the next week.
- The BWP has held above the 0.0900 mark as the week matures. Not much to report back on with the market well contained at present.

ZAR and Associated Comments

- The USD-ZAR held within its narrow range around the 15.00/\$-handle yesterday despite upwards pressure from a strengthening dollar through most of the domestic trading session. Ultimately, dollar gains were reversed later in the day as US markets opened, allowing the ZAR some reprieve as the greenback fell against most majors, while the broader EM FX space was unable to swing losses.
- With markets seeming to stabilise after last week's rout, the ZAR bulls are looking to retrace last week's move which saw the unit jump from approximately 14.50/\$ to 15.00/\$ in little over a day. Yesterday, the unit managed to gain 0.30% against the USD as it closed around 14.96/\$. However, this downplays the intraday moves weaker alongside other EM currencies, where the ZAR fell to a low of 15.11/\$, as the local unit remains pegged to broader risk appetite and USD moves. The ZAR may well repeat early February's moves back towards the 14.50/\$-handle in the near term, but given the weak domestic backdrop, the currency remains vulnerable to external developments and souring risk appetite.
- An update to the domestic economic backdrop comes this morning though, with the economy-wide Standard Bank PMI for February. While structural challenges persist and are expected to weigh on businesses and production levels in the foreseeable future, the relaxation of virus-related restrictions and low interest rates have helped boost economic activity. Furthermore, the rollout of vaccines in February will likely underpin business confidence going forward, at least in the short-term, and keep the gauge above the 50-neutral mark.
- The market moving potential on the ZAR, however, is to be limited as a slate of US economic prints will likely drive trade later in the day. For the day thus far, the USD has continued to face resistance to stronger moves as risk appetite recovers, allowing EM currencies to trade broadly in the green. However, the market remains tetchy and developments on the US stimulus front could derail sentiment once again and invoke dollar bids. Regarding President Biden's fiscal relief package, the US Senate may pass the bill this week, in which case the final signing off by the House and enactment into law by Biden could occur as early as next week, suggesting some near-term volatility may be on the cards. As to the day ahead, ADP employment change data kicks off the US data card and is likely to set the tone for the official labour report and non-farm payrolls print due Friday.

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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