BancABC part of atlasmara

Botswana Market Watch 4 March 2021

GMT		International and Local Data	Period	Exp	Previous
	BO	Nothing out this morning			
10:00	EZ	Retail sales y/y	Jan	-1.50%	0.60%
10:00	EZ	Unemployment rate	Jan	8.30%	8.30%
13:30	US	Initial jobless claims	Feb 27		730k
15:00	US	Durable goods orders m/m	Jan F		3.40%
15:00	US	Factory orders	Jan	1.00%	1.10%

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
Chine 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 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
European double dip	Lockdowns through Q1 have almost certainly resulted in a double dip recession in the EZ as restricted economic activity is evident in the latest PMI data	This will be a shallow recession, but with vaccines being rolled out, economies will soon open up	4/5 (market)	IHS Markit's composite PMI recovered to 48.8 from Jan's 47.8 but it remains in contraction territory. Optimism for the future is improving as investors position for a resumption of normal activity
US labour market	Private sector payrolls as reflected in the private sector ADP data increased 117k in Feb. Services rose 131k although goods producing jobs fell 14k	The data increased less than expected, due to productive sectors. Underlying demand is weak	3/5 (economy)	Although a sign of further improvement, the labour market looks set to still take some time before it normalises. That being said, the data on Friday will show that unemployment is dipping to 6%
UK Budget	Fin Min Sunak announced a continuation of emergency support for the economy despite the pandemic nearing an end as infections continue plunging	Borrowing forecasts have been adjusted upwards sharply and will need to be addressed	5/5 (economy, fiscal policy)	The budget is made up of two halves. One of ongong stimulation until the economy can stand on its own, and the next where tax revenues and spending cuts will be needed to pay down debt

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.3124	1.4358	1.3377	1.4220
BWPUSD	0.0869	0.0950	0.0886	0.0940
GBPBWP	16.0160	14.6534	15.6695	14.9587
BWPEUR	0.0721	0.0788	0.0738	0.0773
JPYBWP			9.5204	9.9410
USDZAR	14.5023	15.7259	14.8422	15.3857
EURUSD	1.1564	1.2530	1.1835	1.2259
GBPUSD	1.3379	1.4494	1.3692	1.4181

Benchmark Yield Curve

6m	1.2260
3y	3.8750
5y	5.1250
22y	6.3550

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-2.0963	0.0000
3m	-6.2498	0.0000
6m	-13.4940	0.0000
12m	-29.7326	0.0000

Equities

BSE Domestic Index	6653.65
BSE Foreign Index	1550.93

Economic Indicators

GDP	-6.0	Bank Rate	3.75
CPI	2.3		

- Local news flow is on the thin side this morning. There is however some positive news out of the tourism sector where we are seeing government take an active role in supporting local companies by reserving some 45 wilderness campsites for local companies. *"The process of allocation of the campsites is at an advanced stage and evaluation of the bids will start soon," said Onalenna Mokgachane, spokesperson for Ministry of Environment, Natural Resources Conservation and Tourism on Wednesday.* The campsites are in some of the country's prime tourism destinations which include Khutse, Central Kgalagadi Game Reserves and Kgalagadi TransFrontier Park.
- From a macro perspective, the focus for now is on the United States and the stimulus plan. All still looks on track for the Senate to vote on the stimulus plan next week. Votes will follow party lines and VP Harris will likely draw on her casting vote to pass the bill. Republicans still hold the view that it is outsized and holds many negative consequences, but those consequences are worth the risk. They have the support of Fed Chairman Powell, although the Fed may soon have a headache of its own to contend with, as bond yields continue to rise and raise speculation of the need for yield curve control.
- Later today, Fed Chairman Powell will take to the podium and speak about the US economy and its outlook. Expectations are that he will hold the Fed's narrative of needing to reflate the economy while being mindful of the impact on inflation. By the Fed's own account, the US economy has gotten off to a sluggish start this year and still requires some assistance. That assistance is however evident and powerful. The Federal government will very soon announce the $1.9trln stimulus plan, while the Fed continues with its ultra-loose monetary policy.
- In terms of the FX markets, a modest recovery overnight has accompanied a rise in bond yields and a wobble across equity markets. As sentiment oscillates, so too does the performance of the USD. There is no clear medium-term direction on the USD that has been trading in a broader range since the start of the year. There simply is not enough underlying directional momentum to drive the USD one way or another. The upper limit on the topside of the USD Index is at 91.5 and on the bottom around 90.0, offering a 2% range. It is unclear what the catalyst for a breakout will be, but fundamentally speaking, the probability is higher that the break will be to the downside given the massive twin deficits being fuelled by US policy. Speculative positioning in the futures market remains overwhelmingly against the USD.
- 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 ZAR treaded water for most of the day and was marginally stronger against the US dollar heading into the afternoon as it reached an intraday low around the 14.85/$-handle. This was until resumed pressure in US bond markets drove Treasury yields higher, prompting the USD to reignite some of its momentum of last week. Investors are forecasting heightened inflation from an improving global growth outlook, now being called the reflation trade, while yesterday's moves occurred despite US data pointing to the opposite. ADP employment change data showed private payrolls increased far less than expected and ISM non-manufacturing PMI came out weaker than the month prior, albeit still in expansionary territory.
- Rising yields in developed nations reduces the attractiveness of the relatively higher yields in emerging markets as yield differentials compress while the degree of risk associated with the investments remain unchanged. This has been the general theme since the start of the year, while data form the Institute of International Finance confirms this as EM portfolio continued to compress in February. For South Africa, bond outflows have too been gathering pace, even after Finance Minister Mboweni's budget speech where daily outflows have averaged R3.5 billion over the past 10 days, a rate last seen during March 2020.
- Should this continue, it would spell weakness for the ZAR into the medium to longer term. However, in the near term, a weak domestic economic backdrop remains, resulting in sustained positive terms of trade as domestic imports have yet to catch up, allowing the ZAR to garner some resilience. The picture is improving though as shown yesterday with the Standard Bank PMI which remained above the 50-neutral level, however the pace of SA's recovery is coming under pressure. The PMI declined to 50.20 in February from 50.80 in the month prior, marking a slowdown in economic activity as subdued demand conditions and structural challenges prevail.
- Almost expectedly, the ZAR shrugged off this local data and took cues from external developments which ultimately resulted in a 0.60% loss against the USD as the local unit closed at 15.05/$. The day thus far has kicked off where yesterday ended, with risk assets under pressure and the USD buoyed as US Treasury yields hold near recent peaks. Investors will have the latest US jobless claims to digest later in the day, however this may be overlooked as the market turns to an address by Fed Chair Jerome Powell. Market participants will look for any hints which would help gauge under which scenarios the Fed may turn more hawkish and if rising yields are a cause for concern for the central bank. Since US Treasury yields form a base reference for bank lending rates, the Fed may see growth consequences due to the future inflation being forecasted in rising yields. However, if the Fed remains relaxed on rising yields as it has been, the USD is likely to remain supported in the near term.

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

Report produced by ETM Analytics for BancABC Botswana.
Disclaimer