

## Botswana Market Watch

## 5 March 2021

GMT		International and Local Data	Period	Exp	Previous
07:00	BO	Nothing out this morning	Jan		6.40%
13:30	GE	Factory orders y/y	Feb	133k	49k
13:30	US	Change in nonfarm payrolls	Jan	\$-67,50bn	\$-66,60bn
13:30	US	Trade balance	Feb	6.40%	6.30%
14:00	US	Unemployment rate	Jan	\$13,50bn	\$9,73bn
20:00	UK	BOE's Haskel Speaks on a Panel			
	US	Consumer credit			

Africa	What happened?	Relevance	Importance	Analysis
<b>Oil surge</b>	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	<b>3/5</b> (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
<b>China debt relief for Africa</b>	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	<b>4/5</b> (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
<b>Africa vaccines</b>	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	<b>4/5</b> (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
<b>European double dip</b>	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	<b>4/5</b> (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
<b>US labour market</b>	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	<b>3/5</b> (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%
<b>UK Budget</b>	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	<b>5/5</b> (economy, fiscal policy)	The budget is made up of two halves. One of ongoing 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	CUSTOMER SELL	CUSTOMER BUY	CUSTOMER SELL	Benchmark Yield Curve		Forward Foreign Exchange			
	CASH	CASH	TT	TT				BWPUSD	BWPZAR	
BWPZAR	1.3307	1.4517	1.3563	1.4378	6m	1.2220				
BWPUSD	0.0869	0.0946	0.0886	0.0937	3y	3.8750	1m	-2.0865	0.0000	
GBPBWP	15.9562	14.6436	15.6110	14.9487	5y	5.1250	3m	-6.2303	0.0000	
BWPEUR	0.0727	0.0791	0.0744	0.0776	22y	6.3550	6m	-13.5135	0.0000	
JPYBWP			9.6089	10.0020			12m	-29.7668	0.0000	
USDZAR	14.7038	15.9531	15.0485	15.6079						
EURUSD	1.1479	1.2436	1.1748	1.2167						
GBPUSD	1.3326	1.4440	1.3638	1.4128						
					<b>Equities</b>		<b>Economic Indicators</b>			
					BSE Domestic Index	6647.47	GDP	-6.0	Bank Rate	3.75
					BSE Foreign Index	1550.93	CPI	2.3		

- The President has urged those that have tested positive for COVID-19 to self isolate at home due to the fact that the nation's health facilities are struggling under the weight of rising infections. *"Our hospitals and health care facilities are overwhelmed due to COVID-19 and, as such, the government has secured the services of private facilities to assist. As those private facilities are costly for the government, many of those infected are requested to now stay at their own homes on self-isolation after being assessed by health professionals," Masisi said. "This development makes it difficult to effectively monitor the situation. Therefore, I urge people on self-isolation to fully comply with the health protocols."*
- On the international front, China has been the focal point for the session thus far. Beijing set an annual economic growth target of above 6% and vowed to create more jobs in cities than it did in 2020. *"As a general target, China's growth rate has been set at over 6% for this year," Premier Li Keqiang said in his 2021 work report. "In setting this target, we have taken into account the recovery of economic activity."* This growth target is seen as erring on the side of caution with some in the analytical community pencilling in growth north of 8% in 2021 as the country recovers from the COVID-19 pandemic. Should the market expectations be realized we can expect the narrative of the global economy entering a commodity super cycle to gain traction.
- Moving over to the United States, Democrats in the Senate used their simple majority to take up Biden's \$1.9trln stimulus aid bill. All 628-pages are now being read out aloud, after which final passage will be assured. That will likely take place over the weekend, after which Biden will sign it into law and the disbursements can begin. It offers a significant boost to the economy and will only serve to strengthen the current business cycle which was already on a steady upswing.
- This raises some interesting questions about the Fed's stance. The Fed is choosing to reiterate its commitment to remaining ultra-accommodative for the foreseeable future as it seeks to help reflate the economy. The problem, is that the massive amount of monetary and fiscal stimulus threatens to undermine the recovery by virtue of the impact it has had on bond yields that have continued to surge higher. This poses a risk both to the government as well as the private sector and might ironically induce further intervention from the Fed despite the expectation of an inflation episode as the authorities seek ways to control the yield curve and keep funding costs low.
- While that will hold implications for the economy more broadly, today will see the latest iteration of the non-farm payrolls released. All eyes are on the US jobs report today as investors look to gauge if labour market dynamics are improving to see if demand-side inflationary pressures are likely to build. While the January NFPR reading came in well below consensus expectations, we expect to see a notable recovery in the coming months after stagnating at the end of last year, with another massive stimulus package on the brink of being passed and the vaccine rollout making ground. Against the backdrop of rising bond yields, a stronger than expected print would bolster inflation expectations and raise some concerns over the longevity of the Fed's ultra-accommodative policy stance.
- In terms of the FX markets, the USD has surged again with the rise in bond yields the catalyst. Compared to its DM peers, the USD will now attract further interest by virtue of the yield attraction which is growing. Add to that the rise in risk aversion and rotation from higher beta currencies and the shift back into the USD has been significant enough to help boost it past the prior high seen in early Feb. All eyes will be on the US labour data this afternoon. If it surprises in its strength, the USD could extend its surge.
- The BWP has held above the 0.0900 mark as we enter the final trading session for the week. Investors will be keeping a close eye on USD movements given the strength seen of late. For now a cautious stance is favoured.

## ZAR and Associated Comments

- The ZAR swung between gains and losses in a narrow range yesterday, holding between 15.00/\$ and 15.14/\$ during domestic trading as market participants awaited an external catalyst in the form of a speech from Fed Chair Jerome Powell. Recall the recent sell-off in US Treasuries, driving yields higher, has been caused by investors pre-emptively pricing in the future tapering of the Fed's massive asset purchase program, which is currently expected to remain unchanged until at least 2023. While the sell-off has invoked some market risk aversion, the leg higher in US Treasury yields could also trigger outflows from emerging markets, similar to the "taper tantrum" of 2013.
- However, the Fed Chairman stuck to verbal intervention in his speech last night, noting that the sell-off in Treasuries caught his attention but long-term rates were not prohibitively high to interfere with the central bank's goals or so that the Fed may have to intervene. While maintaining a dovish tone, the market expected a greater pushback which has resulted in Treasury yields extending their recent moves higher while the USD surged overnight.
- The ZAR ultimately ended domestic hours weaker against the USD following Powell's speech, spiking to the 15.30/\$-handle and settling to close 1.40% weaker at 15.26/\$. Domestically, given the fiscal fragility which is set to be the main focus for investors in the years to come, the ZAR will likely become even less resilient to broader sentiment and endure a greater degree of volatility which was observed overnight as the local unit led the EM basket of currencies lower. While the fiscal outlook may have improved since last year's mid-term budget and funding provisions have been made for vaccines which will be the biggest boost to near-term growth, as noted by NT's acting chief director for fiscal policy yesterday, the public sector wage dispute is yet to be concluded and could still upend the current year's fiscus, sacrificing the increased fiscal credibility NT has gained from the December ruling affirming the state-worker wage freeze.
- Following on from yesterday, the overnight surge in the dollar has pressured emerging market currencies broadly, with the ZAR faring amongst the worst thus far as early morning trade has put the unit around the 15.3400/\$-handle. Looking ahead, the dollar seems to have found support in the near term from rising UST yields. Whether this translates into longer term support remains to be seen, as speculative positioning remains net short USD with further weakness seen to accompany the massive ongoing fiscal and monetary stimulus stateside. The day ahead will see an insight into US labour market dynamics with the monthly employment report, which could potentially bolster views for demand-side inflationary beginning to build. On the domestic front this morning,

the SARB's gross and net reserves grace the domestic data card which are expected to remain largely unchanged, only driven by oscillations in the price of gold and the USD.

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