Botswana Market Watch

8 March 2021

GMT		International and Local Data	Period	Exp	Previous
	BO	Nothing out this morning			
07:00	GE	Industrial production wda y/y	Jan	-4.40%	-1.00%
09:30	EZ	Sentix investor confidence index	Mar		-0,2
10:00	UK	BOE Governor Bailey Speaks on Economic Outlook			
15:00	US	Wholesale inventories m/m	Jan F		1.30%
15:00	US	Wholesale sales m/m	Jan		1.20%

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
Chinese trade	Feb trade data reveals that Jan-Feb exports were up 60.6% y/y, much stronger than the 38.9% forecast. Imports were also stronger up 22.2% y/y	This growth is a record pace and to some degree reflects the effects of China's lockdown	3/5 (economy)	Although part of the normalisation, this data is still extremely strong and more robust than first anticipated. It bodes well for a strong global recovery theme through 2021
US Relief Bill	Democrats in the Senate passed the $1.9trln economic relief and stimulus bill, paving the way for unemployment benefits and stimulus cheques	This will come as a huge near-term boost to US and indeed global growth, but at the cost of debt	4/5 (economy, fiscal policy)	Although well telegraphed, the news has still boosted Wall St futures that have positioned for the prospect of further gains and strong growth. This will strengthen the business cycle
Oil prices	Brent oil futures surged above $70pb on Monday after Saudi oil fields were targeted by missiles and drones on Sunday, with the Houthis claiming responsibility	A troubling development for the global growth dynamic and can boost inflation	5/5 (markets, economy)	Given the fragile state of the global recovery that relies on stimulus, the rise in oil prices holds the potential to trouble global equity markets already worried about rising yields

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.3205	1.4384	1.3459	1.4246
BWPUSD	0.0859	0.0935	0.0876	0.0926
GBPBWP	16.0544	14.7524	15.7070	15.0598
BWPEUR	0.0722	0.0786	0.0739	0.0771
JPYBWP			9.5303	9.9206
USDZAR	14.7536	16.0008	15.0994	15.6546
EURUSD	1.1421	1.2377	1.1689	1.2109
GBPUSD	1.3260	1.4370	1.3571	1.4059

Benchmark Yield Curve

6m	1.2230
3y	3.8750
5y	5.1250
22y	6.3550

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-2.0670	0.0000
3m	-6.1718	0.0000
6m	-13.5038	0.0000
12m	-29.7326	0.0000

Equities

BSE Domestic Index	6647.47
BSE Foreign Index	1550.93

Economic Indicators

GDP	-6.0	Bank Rate	3.75
CPI	2.3		

- The breaking news into the close of the week was the fact that BURS was activily persuing COVID-19 cheats. There have been overwhelming reports of companies and individuals defrauding the government through the subsidy scheme meant to support the economy through the economic hardship brought about due to COVID-19. So far the Ministry of Finance and Economic Development has recovered some BWP20m. MMEGI reported the following - *MFED spokesperson, Fenny Letshwiti said reconciliation of the wage subsidy payments is still ongoing and it is expected to be completed by March 31, 2021. "The total amount that has been paid out by government as COVID-19 Wage Subsidy Support to 20, 701 Batswana-owned companies from April to December 2020 is P933 million. Of this amount, P127 million was paid to 922 tourism industry companies during the period July to December 2020. To date, about 856 companies were found to have attempted to obtain the COVID-19 Wage Subsidy Support through fraudulent means. The Botswana Unified Revenue Service (BURS) has since recovered an amount slightly above P20 million from the companies and recovery measures continue. Most of the companies have been handed over to the Botswana Police Service for investigations and possible criminal prosecution,"*
- Internationally, the US-Sino relations were in the spotlight once again over the weekend. Chinese senior diplomat Wang Yi has reiterated that areas for co-operation exist, but that countries such as the US should remove unreasonable curbs on co-operation. China is hoping that under the Biden administration, stronger relations can be fostered to ease tensions for both. However, the US sees China's growing influence as a threat to its role in the global economy and will seek to impose as much influence as it can up front. China in return is learning that it has enough influence to push back as hard.
- Finally, the Democrats succeeded in passing the $1.9trln economic stimulus bill over the weekend. Unemployment benefits and assistance for pandemic-hit households and states will be received and will offer material relief. The short-term benefits of this will undoubtedly be positive from a growth perspective. What is less certain, are the longer-term ramifications of the bill, given the enormous impact on the fiscus. As Treasury Secretary Yellen has indicated, the US will stimulate now and worry about the consequences later. Whether those consequences will be acceptable, time will tell. Future generations will however be saddled with exceedingly high debt levels.
- In terms of the FX markets, USD shorts have continued to get squeezed and the USD index has persisted with its rally. Although the USD may have performed less well against commodity currencies, it has nonetheless gained against most majors with the trade weighted USD rising a little further. Technically, the signals on the weekly chart are now looking relatively strong and a further 1-2% gain in the USD can be anticipated this week. The general bias in the market, at least for now has shifted higher with a combination of risk aversion coupled with rising bond yields assisting the USD make back more ground.
- The BWP settled below the 0.0900 mark into the close last week as the stronger USD filtered through the market. This level will become the first point of resistance as we start the week, however we expect a measured open given the current mild emerging market FX weakness noted this morning

ZAR and Associated Comments

- The USD-ZAR ultimately held onto its upswing into the end of last week following a speech from US Fed Chairman Jerome Powell where the market expected greater pushback on rising Treasury yields. The dollar has since remained buoyed, pressuring emerging market currencies broadly, whereas the US nonfarm payrolls print on Friday further encouraged the dollar-bulls later in the session. The ZAR fell 0.60% against the USD on Friday as it closed at the 15.35/$ handle, while last week's string of losses totalled to a 1.55% decline against the greenback from the prior week's close.
- Risks to emerging markets are beginning to develop as rising US yields are likely to trigger further bond outflows as yield differentials compress. Although sizeable deficits continue to be recorded stateside as massive fiscal and monetary stimulus remains, which should play a part in USD debasement over time, the market has been trimming net short positions on the greenback for the past several weeks. Last week speculators trimmed the net short position on the dollar to the lowest since December 15, suggesting the market is beginning to price in higher US growth and inflation given the vast stimulus to date.
- However, this may be pre-empting Fed action too soon which is expected to maintain near-zero rates until at least 2023 and until the still-sizeable slack in the labour market has abated. Nevertheless, rising yields in developed markets will still sap demand from emerging markets where pre-existing risks have only been exacerbated by the pandemic. Domestically, the fiscal situation remains dire as the government can ill-afford to impose further restrictions on an economy attempting to revive itself and already struggling with structural constraints. The domestic recovery is highly dependent on efficient rollout of vaccines to avert a second wave of the virus while, on that front, the deputy health minister has announced the target of inoculating 1.5 million people by the end of the month is unlikely to be met due to insufficient number of vaccine shots.
- Given the damage to the economy over the last year, the USD-ZAR is thus likely to remain at the mercy of the dollar-leg in the short-term until at least the domestic picture substantially improves or incoming US data adds some resistance to the dollar's surge of late. Later this week, US inflation data may provide this fresh impetus, however it could also spur on further bets and the covering of shorts in the case of a strong reading. Prior to this though, an update on domestic economic activity comes with GDP data for the last quarter of last year which graces the domestic data card tomorrow. As to the day ahead, sentiment is likely to remain in favour of the USD after Senate Democrats passed the $1.9 trillion relief bill, which will offer a huge boost to US growth in the near-term.

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