Botswana Market Watch

9 March 2021

GMT		International and Local Data	Period	Exp	Previous
09:00	BO	BWP10bn worth of 7-Day Certificates on offer			
07:00	GE	Trade balance	Jan		14,80bn
10:00	EZ	GDP sa y/y	4Q F	-5.00%	-5.00%
10:00	IT	Istat Releases the Monthly Economic Note			
10:00	EC	OECD Publishes Interim Economic Outlook			

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
ECB bond buying	The ECB did not increase its bond buying last week missing expectations. It blamed the miss on large-scale bond redemptions	The timing of this is poor given the rise in bond yields, but it will be temporary	4/5 (market)	The ECB remains committed to reflating and will resume strong builds in their balance sheet once the redemptions have passed
US wholesale inventories	Inventories rose 1.3% through Jan even as sales surged. It's taking wholesales the shortest amount of time to clear stock in six years	This suggests that the economic rebound is gathering momentum and will extend as demand rebounds	3/5 (economy)	There may be some pent-up demand given the recent lack of mobility and the lockdown restrictions, but it is good news this is unfolding even before the stimulus package is implemented
UK consumer spending	According to data released by Barclaycard, consumer spending was some 13.8% lower y/y in Feb, a slight improvement on Jan's 16% contraction	The effects of the lockdown are ongoing, but as infections plummet spending will bounce	3/5 (economy)	Lockdowns and loss of mobility have a devastating effect on economic activity and that is again reflected through the UK's most recent lockdowns. These are however temporary.

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.3255	1.4536	1.3510	1.4396
BWPUSD	0.0855	0.0937	0.0872	0.0928
GBPBWP	16.1614	14.7516	15.8117	15.0590
BWPEUR	0.0721	0.0790	0.0738	0.0775
JPYBWP			9.5499	10.0020
USDZAR	14.8764	16.1332	15.2251	15.7842
EURUSD	1.1382	1.2334	1.1649	1.2068
GBPUSD	1.3291	1.4400	1.3603	1.4088

Benchmark Yield Curve

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

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-1.8281	0.0000
3m	-5.8549	0.0000
6m	-13.4258	0.0000
12m	-29.1964	0.0000

Equities		Economic Indicators			
BSE Domestic Index	6647.47	**GDP**	-6.0	**Bank Rate**	3.75
BSE Foreign Index	1550.93	**CPI**	2.3		

- News on the local news wires yesterday centred around the bi-lateral talks that took place between President Mokgweetsi Masisi and his Malawian counterpart Lazarus Chakwera on a raft of issues of mutual interest, including cooperation and deepening of bilateral relations. The two met at the the Kamuzu Place in the Malawian capital of Lilongwe where President Masisi also introduced Botswana's candidate for Executive Secretary of the Southern African Development Community (SADC), Mr Elias Magosi, and asked Malawi to extend their support for their candidate.
- On the regional front, there has been data released by China Africa Research Initiative (CARI) at the Johns Hopkins School of Advanced International Studies which showed that Chinese lenders have provided at least $7.6bn in debt relief mainly to African countries struggling under the weight of the COVID-19 pandemic. The study found some most of that relief, some $6.2bn went to Angola and was provided by the China Development Bank (CDB) and Industrial and Commercial Bank of China (ICBC). The data showed that Angola has received almost 1/3 of all loans provided to African nations over the past two decades. The South China Post added - *In addition to the CDB and ICBC, Beijing's two officially designated bilateral creditors – Export-Import Bank of China (Eximbank) and the China International Development Cooperation Agency (CIDCA) – also provided debt relief. Beijing has said China Eximbank and the CIDCA extended G20 DSSI relief to 23 countries worldwide, including 16 African nations, during the pandemic*.
- Moving over to the US, the House of Representatives will be taking up the Senate's version of the Stimulus plan on Wed and is expected to pass it as they did the original version. That will simply pave the way for its implementation. The stocks markets have responded positively to the news and await the effects of the stimulus on earnings. Full implementation is therefore set to take place around mid-month after President Biden has signed off which will just be a formality. The US business cycle is already showing signs of improvement. This latest stimulus package will turbo-charge growth through the remainder of the year.
- Slowly, the US is coming out of lockdown and the pace of vaccinations is rising impressively. It is emboldening calls for masks to be abandoned and for states to loosen the restrictions that have restricted economic activity. Although travel is still discouraged, all signs show that a pick-up in travel activity has begun and will likely extend through the remainder of the year. Fully vaccinated people will be granted greater freedom to gather indoors. This is just a sign of things to come and bodes well for Q2 GDP growth.
- In terms of the FX markets, the USD has continued to surge and the short squeeze is now becoming painful for many speculators that had banked on the USD coming under considerable pressure. After all, the fundamentals are very significantly tilted against the USD given the twin deficits and the massive amount of monetary stimulus. That may indeed still precipitate a weaker USD over time, but for now, the USD is capitalising on the one-sided positioning across EMs and other DMs and in the near-term has the potential to extend a bit further, this will undoubtedly keep the pressure on the local unit and we expect a very measured start to todays open.

ZAR and Associated Comments

- The ZAR sunk for the fourth consecutive day at the start of the new week, while the dollar remained buoyed on rising US Treasury yields and the passing of the Biden administration's $1.9 trillion relief package by the US Senate over the weekend. This led to a broad emerging market currency decline on the day as investors continue to see greater US growth as a precursor that the US Fed will not need to hold its extremely accommodative monetary policy for as long as initially predicted.
- The local unit ultimately ended the day 1.0% weaker as a combination of deteriorating risk asset sentiment and falling yield differentials between domestic bonds and US Treasuries pressured the currency as well as local bond markets. Following the higher volatility of late for the local currency, the ZAR fared slightly better within the EM currency sample though, with the Brazilian Real and Turkish Lira falling 2.30% and 2.75%, respectively.
- However, this is likely a result of the currency's swift decline since late February following the budget announcement, which had it close slightly higher than the 15.50/$-handle yesterday. The past two weeks have thus wiped out almost all of the past two months' gains from the low of 15.66/$ hit early January.
- In the near term, the case for the ZAR remains clouded by ongoing fiscal and monetary stimulus in developed nations as well as the pricing in of sooner than expected monetary tightening. Domestically though, bond outflows are likely to continue for as long as developed world yields rise, limiting the ability of domestic yields to bolster the currency. Looking further out, fiscal risks will begin to play a bigger role in investors' decisions and will likely result in exacerbated currency moves in risk-off conditions.
- For the day thus far, the USD extended gains in early morning trade but has since taken a breather as dollar bids cool off. The ZAR, meanwhile, has treaded water ahead of notable domestic data releases. Later this morning domestic Q4 GDP data will be released and is expected to show the economic recovery persisted in the three months up to December. Following the sharp recovery in Q3 (66.1% q/q annualised), these subsequent releases will begin showing the more permanent effects of lockdowns and the uneven pace of recoveries between different sectors. A positive reading may avert further downwards pressure on the ZAR for the day ahead, but may not trigger gains in the current climate. Especially as this GDP print may not be too indicative of the recovery at the start of 2021 where December's tightening of restrictions carried over into the New Year.

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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