BancABC part of atlasmara

Botswana Market Watch

11 March 2021

GMT		International and Local Data	Period	Exp	Previous
		Nothing on the cards			
12:45	EZ	ECB deposit facility rate	Mar 11	-0.50%	-0.50%
12:45	EZ	ECB rate announcement	Mar 11	0.00%	0.00%
13:30	US	Initial jobless claims	Mar 6		745k
13:30	EC	ECB President Christine Lagarde Holds Press Conference			

Africa	What happened?	Relevance	Importance	Analysis
Long-lasting fiscal impact of COVID	Pandemic containment measures have driven fiscal trajectories significantly higher in Sub-Saharan Africa as government revenues cratered and spending spiked as policymakers deployed a raft of fiscal stimulus measures aimed at cushioning the economic blow of the pandemic	Public finances on the continent for the most part were already weak prior to the global outbreak of the coronavirus. The pandemic amplified the fiscal problems on the continent	5/5 (fiscal)	Africa's major economies are expected to be 5% smaller by 2030 than they would have been if the pandemic never occurred as the impact of the pandemic on investment and productivity weighs on long-term growth prospects. Lingering effects of the pandemic suggest that the riskiest period for Africa's fiscal challenges is still ahead
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
SNB on CHF	The SNB has welcomed the recent depreciation in the CHF, highlighting how it reflects improvement in global sentiment	The SNB was clear that this does not mean that policy will be normalised soon	4/5 (economy)	On the contrary, the SNB will retain its ultra-accommodative position to guard against any unwelcome CHF strength so as to protect its export base
RBA guidance	Australia's central bank this morning poured cold water on any talk of rate hikes, even though economic activity was close to pre-covid levels	RBA remains cautious in its expectations of global growth and will not tighten pre-emptively	3/5 (economy, monetary policy)	Once full employment has been achieved, the successful deployment of vaccines has reduced global risk and economic activity levels are self-sustainable, policy will tighten
China Feb factory prices	China's Feb PPI rose 1.7% y/y, while CPI contracted by 0.2%. Both readings were higher than expected. PPI was the fastest growth since Nov 2018	Consumer price deflation will be temporary but PPI speaks to building price pressures	3/5 (economy, monetary policy)	If consumer prices start to accelerate once more, the likelihood increases that the PBoC will seek to embark on a very slow but gradual tightening in monetary policy

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.3001	1.4187	1.3252	1.4050
BWPUSD	0.0863	0.0940	0.0880	0.0931
GBPBWP	16.1182	14.7919	15.7695	15.1000
BWPEUR	0.0724	0.0788	0.0741	0.0773
JPYBWP			9.5794	9.9817
USDZAR	14.4616	15.6928	14.8006	15.3533
EURUSD	1.1450	1.2405	1.1718	1.2137
GBPUSD	1.3372	1.4490	1.3685	1.4177

Benchmark Yield Curve

6m	1.2250
3y	3.8750
5y	5.1250
22y	6.3550

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-2.0768	0.0000
3m	-6.2010	0.0000
6m	-13.2015	0.0000
12m	-32.9940	0.0000

Equities

BSE Domestic Index	6604.38
BSE Foreign Index	1550.93

Economic Indicators

GDP		Bank Rate	3.75
CPI	2.3		

- There has been some good news and that is the announcement by De Beers that the second diamond sale of 2021 achieved some $550m which is well above the $362m realised a year earlier. Business Day reported - *In the first two sales of the year, De Beers has notched up $1.21bn, which is just shy of the $1.24bn of 2018. In 2019 and 2020, sales fell to $996m and $913m respectively with bigger falls coming in subsequent sales during the latter year as governments shut down their economies and barred international travel to curtail the pandemic. "While the year has started positively, we recognise ongoing near-term uncertainty in the pace and shape of the recovery," said De Beers CEO Bruce Cleaver.*
- Equally important longer term is copper given the growth in this part of the minging sector and thus we would from time to time like to draw the readers attention to developments in the price of the metal. Copper received a shot in the arm yesterday with a number of factors supportive of the metal. The big macro event was the approval by the US House of Representatives of the $1.9trn stimulus package which is expected to underpin the recovery of the world's largest economy. The US and China are the largest consumers of the red metal and thus the bid tone is fully justified.
- Further good news from the United States was the inflation data released yesterday. Although rising, the data was slightly softer than expected which effectively helps the Fed keep the monetary taps open for longer to further bolster GDP growth. That will build the pressure for an inflation episode later this year, as the effects of such powerful monetary stimulus eventually finds expression in rising prices. However, until those pressures come through, the authorities will remain accommodative of growth.
- The USD has retreated off its recent best levels, with yesterday's softer than expected inflation data taking the shine off the bullish bias in the USD. After running hard in a short space of time, the USD was ripe for a breather and the inflation data provided the perfect catalyst for this to take place. Technically, the trade weighted USD can now retreat a little further before it stabilises, coinciding with a recovery in equity markets and a general recovery in risk appetite.
- Given this backdrop we expect the BWP to regain the 0.0900 level potentially as early as today should the weakening bias in the USD be maintained.

ZAR and Associated Comments

- The USD-ZAR continued to trade down from Monday's highs yesterday as US dollar demand eased alongside US Treasury yields. As a result of improving risk appetite, the trade-weighted USD index (DXY) pulled back for a second day, while emerging market currencies traded broadly stronger. As to the ZAR, the local unit ultimately ended domestic hours at the 15.1100/$-handle, closing 1.50% stronger against the USD as the ZAR-bulls set their sights on the key 15.0000/$-level.
- Given the fragile domestic economic recovery and weak fiscus, the ZAR's idiosyncratic positive drivers remain muted. South Africa's positive trade balance has offered some support to the local currency since the latter half of last year, but this has been falling as economic activity normalises and has largely been a function of subdued imports. This is to say that the USD-ZAR's movements remain highly dollar-dependent and a further recovery for the ZAR is unlikely to occur in the absence of a weakening USD.
- The weak economic backdrop was highlighted in yesterday's domestic data as the RMB/BER Business Confidence Index showed a drop in Q1 to 35 from 40 in Q4 2020. Although it remains higher than the same period last year, likely due to the SARB's interest rate cuts over the course of 2020, the slump highlights the fragility of the economic recovery given that the survey was conducted after restrictions were eased and the second wave of Covid-19 infections had passed. Rising inflation expectations globally may see tightening financing conditions going forward, while structural challenges in the form of fresh load shedding from Eskom will continue to keep business confidence and investment subdued.
- Nevertheless, the lack of cover from broader risk appetite means the ZAR continues to act as a bellwether of emerging market sentiment. Resultantly, the ZAR remained amongst the leaders of the EM pack yesterday as the dollar scales back from recent heights, bested only by the volatile Brazilian Real and Turkish Lira as they too look to recover after some heavy losses. However, EM strength is heavily reliant on US inflation expectations and the resultant impact on Treasury yields. Yesterday, US inflation data failed to inspire confidence in the reflation trade, despite inflation ticking higher and coming out as expected.
- For the dollar to extend its correction, sure signs of the US economy heating up needs to become evident, however the Fed has reiterated its tolerance to rising inflation until its employment targets have been met. Likely to encourage bets of an inflationary episode, the US House gave final approval of the $1.9 trillion stimulus plan yesterday with the White House saying Biden plans to sign the bill on Friday. For the day thus far, the USD has failed to stem losses as risk appetite has remained firmly intact. The day ahead sees a slate of local data, kicking off with the domestic current account balance for Q4 2020, followed by mining and manufacturing production data. External focus will fall on the ECB's rate announcement later in the day where some intervention to prevent bond yields rising further is expected to be announced. If the ECB intends to avert rising yields, this should support risk appetite and bolster relatively higher yielding EM currencies.

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