Botswana Market Watch

12 March 2021

GMT		International and Local Data	Period	Exp	Previous
		Nothing on the cards			
10:00	EZ	Industrial production (wda) y/y	Jan	-2.70%	-0.80%
13:30	US	PPI final demand y/y	Feb	2.70%	1.70%
15:00	US	Michigan consumer confidence	Mar P	78	76.80

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
ECB	The ECB indicated on Thu that it would accelerate its asset purchases in order to ensure that EZ borrowing costs are kept contained to assist the recovery	Yield curve control of sorts is now implicit in the way that the ECB will manage interest rates	4/5 (monetary policy)	The irony is that the stronger the business cycle, the more the ECB will need to buy to try and limit the degree to which bond yields might rise and undermine their stimulus efforts
Stimulus package	President Biden signed the $1.9trln coronavirus relief package on Thursday afternoon boosting prospects for the US economy through Q2 and beyond	Biden has now released up to $1,400 cheques, $300 unemployment supplement	5/5 (economy, fiscal policy)	Aside from alleviating household finances, much of the funds will also be used to accelerate vaccine distribution. It is a significant boost and will help the US economy rebound from pandemic
Vaccine update	While J&J's vaccine has been cleared by the EU for emergency distribution, Denmark Norway and Iceland have suspended use of AstraZeneca's vaccine due to reports of resulting blood clots	Overall, progress is being made and more vaccines will be available for distribution as the year unfolds	3/5 (economy)	J&J's vaccine is a significant turning point, not just because J&J is a massive company with the ability to mass produce, but also because the vaccine is reasonably priced and only requires one injection to speed up inoculations

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2935	1.4114	1.3184	1.3978
BWPUSD	0.0870	0.0947	0.0887	0.0938
GBPBWP	16.0534	14.7341	15.7061	15.0410
BWPEUR	0.0727	0.0791	0.0744	0.0776
JPYBWP			9.6776	10.0733
USDZAR	14.2776	15.4931	14.6122	15.1579
EURUSD	1.1486	1.2448	1.1756	1.2178
GBPUSD	1.3422	1.4544	1.3736	1.4230

Benchmark Yield Curve

6m	1.2280
3y	3.8750
5y	5.1250
22y	6.3550

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-2.0865	0.0000
3m	-5.8500	0.0000
6m	-13.2746	0.0000
12m	-29.1818	0.0000

Equities

BSE Domestic Index	6602.96
BSE Foreign Index	1550.93

Economic Indicators

GDP	-6	**Bank Rate**	3.75
CPI	2.3		

- Locally news is on the thin side as we head into the final day of trade for the week. Concerns remain as to the spread of the COVID-19 virus is certain parts of the country while citizens await clarity regarding the vaccination programme.
- The international landscape is busy following the announcement by the ECB yesterday that they would raise Quantitative Easing to suppress the rise in bond yields across the region. The reflation trade has been the big macro event over the past couple of weeks which has led to rising yields across many fixed income markets. This has pressured costs of funding in numerous areas of the economies in question and thus threatened to derail any economic recovery.
- Emerging and frontier markets have been keeping a close eye on developments here as any threat to the economic recovery would have a direct impact on them given that most of suppliers of raw materials into the developed world.
- China has set its growth targets for 2021 at a very modest 6%. This is a number that is viewed by many as easily achieved and thus the demand out of China for raw materials is likely to remain robust. China is also in the process of restocking following a break in supply lines as a result of COVID-19 and this is not expected to end any time soon.
- Moving over to the US, top of the list of important developments was news that President Biden signed off on the $1.9trln coronavirus relief package. It allows the authorities to distribute up to $1,400 to deserving households, extends the $300 unemployment supplement, assists states fund themselves through the pandemic and allows for the acceleration of vaccinations across the country. It will offer a tremendous boost to the underlying economy and will ensure that GDP is boosted significantly through Q2 and into H2 2021. The downside is that it also builds up a massive amount of debt that will render the US economy less sustainable, although it does have the exorbitant privilege of the USD and the Fed that will ensure that QE can be deployed for a long time to ensure that the government remains comfortably funded
- As bond yields have ticked slightly higher, the USD has paused its slide ahead of the weekend. Ahead of the FOMC meeting next week, the USD will likely feel comfortable with the pause as investors wait for the Fed to offer some clear guidance on how monetary policy is likely to cope with higher yields going forward. Just like the ECB did yesterday, the Fed might also want to communicate that stronger QE will be used if necessary to contain medium to longer-term yields from rising too aggressively and undermining the business cycle.
- The weaker USD has allowed the local unit to regain the 0.0900 mark yesterday. The market is however expected to open with a mildly cautious tone given the rebound in the USD witnessed in the Asian session.

ZAR and Associated Comments

- The ZAR secured its third consecutive daily gain on the back of a weaker USD yesterday as the dollar’s bullish bias takes a breather in light of recent inflation data. While expectations of earlier Fed tightening may not be dead, Wednesday’s inflation data suggests upwards price pressures may be contained for now, rising in the coming months largely due to base effects which the central bank will look through.
- The ZAR went on to a 1.85% gain yesterday as it broke through its 50-day moving average which is currently converging on 15.0000/$.
- Domestic data yesterday showcased the current climate the ZAR is contending with and explains a large part of the currency’s bi-directional volatility of late. Although the current account balance in the final three months of 2020 fell from the third quarter due to a compressing trade surplus, it was still the second largest on record and resulted in an annual surplus of 2.2% of GDP, the first in 18 years. While South Africa’s strong external position will continue to support the ZAR, the weak fiscal backdrop will offset this unless we start to see concrete signs of consolidation. January’s mining and manufacturing data recorded heavier than expected yearly contractions, highlighting the effects of ongoing lockdown restrictions as well as structural challenges for the sectors. This will continue to weigh on the fiscal outlook going forward, especially the weakness in the mining sector where mining activity has played a great role in supporting tax revenue.
- With the fragile fiscal backdrop for an economy with pre-pandemic weaknesses, a subdued recovery will begin to raise investor alarm bells given South Africa’s reliance of debt. As noted in comments by S&P Global yesterday, a large amount of short-term debt rollover due this year could be a cause for concern if domestic borrowing costs rise substantially. Ultimately, any changes to the growth outlook or rising yields in developed nations, this could trigger disproportionate changes in domestic borrowing costs.
- Looking to the day ahead, after ending yesterday around the 14.83/$-handle, the USD-ZAR has begun the day in a more consolidatory fashion as it has traded higher overnight towards 14.90/$. US yields are showing some signs of rebounding, proving some support to the dollar, while lower jobless claims data yesterday and the signing into law of the $1.9 trillion stimulus bill by President Biden yesterday may provide fresh impetus for the dollar-bulls. Specifically, the jobless claims data will be bolstering views for strong employment gains in March, and comes ahead of the Fed rate decision next week, which will be dollar-positive heading into the weekend as investors await Fed guidance..

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