

Botswana Market Watch

15 March 2021

GMT	International and Local Data		Period	Exp	Previous
12:30	BO	CPI y/y	Feb		2.3%
20:00	US	Empire manufacturing	Mar	14	12.10
	US	Net long term TIC flows	Jan		\$121bn
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	
China 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 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	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	
China factory activity	Data from the National Bureau of Statistics showed that factory activity in Jan-Feb rose 35.1% y/y, up from the 7.3% y/y growth in Dec. Low base factors a feature	The Chinese economy is recovering strongly and will provide a strong stimulus to global growth	4/5 (economy)	The pace at which the Chinese economy is recovering will give investors hope that global growth can power ahead through H2 2021. There is much stimulus that will filter through	
German politics	Ahead of the national elections in Sep, it is notable that the CDU has suffered historic defeats in two regional elections as voters hold them accountable for a bungled vaccine rollout	Without Angela Merkel at the helm, this will almost certainly translate into a change of the political guard	3/5 (politics)	Angela Merkel is a highly respected leader whose popularity ensured that the CDU enjoyed strong support. Without her running for the elections, German politics may well change with the SPD party showing signs of promise	
Japan Machinery orders	Pandemic curbs have reduced spending in the economy and that has translated into Jan's core orders falling 4.5%. That being said, the data was better than expected	Core machinery orders fell for the first time in four months due to a drop in the demand from the services sector	2/5 (economy)	The effects of the curbs will be temporary and better times will manifest later this year. Much will depend on how long the pandemic restrictions are kept in place. Like all other countries, restrictions have severely affected GDP	

Local FX Opening Rates and Comment

	CUSTOMER BUY		CUSTOMER SELL		Benchmark Yield Curve	Forward Foreign Exchange			
	CASH	CASH	TT	TT			BWPUSD	BWPZAR	
BWPZAR	1.2934	1.4166	1.3183	1.4030	6m	1.2225			
BWPUSD	0.0865	0.0946	0.0882	0.0937	3y	3.8750	1m	-2.0865 0.0000	
GBP/BWP	16.0744	14.6869	15.7267	14.9929	5y	5.1250	3m	-6.2498 0.0000	
BWPEUR	0.0724	0.0791	0.0741	0.0776	22y	6.3550	6m	-13.2893 0.0000	
JPY/BWP			9.6580	10.1038			12m	-33.2085 0.0000	
USDZAR	14.3553	15.5671	14.6917	15.2303					
EURUSD	1.1473	1.2430	1.1742	1.2161					
GBPUSD	1.3365	1.4483	1.3678	1.4170					
				Equities		Economic Indicators			
				BSE Domestic Index	6602.96	GDP	-6	Bank Rate	3.75
				BSE Foreign Index	1550.93	CPI	2.3		

- The Southern African region is expected to have a bumper crop driven by strong rainfall during the 2020/2021 agricultural season. According to the a report released at the end of Feb by Agromet crops between vegetative and maturing stages in Botswana, Eswatini, Lesotho, Malawi, South Africa, Zambia and Zimbabwe, as well as the southern, central and western parts of the United Republic of Tanzania. Livestock have also benefitted as the rains have improved grazing conditions and water availability.
- This will gain additional significance as the crops are coming at a time when China is restocking and is on a buying spree. Thus the region could well see additional inflows of export revenue as surpluses are shipped abroad.
- Internationally there has been an interesting development out of India. There is a proposed bill which will ban cryptocurrencies, including the mining, trading and holding of these digital assets. If the bill becomes law it would make India the first major economy to ban cryptocurrencies, even China which is known for its strict rules has only banned mining and trading, holding the currency is not illegal. Reuters reported - In India, despite government threats of a ban, transaction volumes are swelling and 8 million investors now hold 100 billion rupees (\$1.4 billion) in crypto-investments, according to industry estimates. No official data is available. "The money is multiplying rapidly every month and you don't want to be sitting on the sidelines," said Sumnesh Salodkar, a crypto-investor. "Even though people are panicking due to the potential ban, greed is driving these choices."
- Bitcoin hit a record of \$60 000 a coin on Saturday, and its adoption across Africa is growing. Governments across the continent are engaging with the stakeholders, however a coordinated effort may be required to understand the full impact longer term.
- Looking at the week ahead, the main event will undoubtedly be the FOMC decision and statement. No change is anticipated; however, the focus will be on the Fed's expectations for inflation and how it might respond. It is widely accepted that inflation will rise relatively strongly through the middle of the year. The Fed now enjoys a relatively flexible mandate and can afford to look through the spike if it deems it temporary. However, it will need to control the narrative of the inflation debate and ensure that its credibility as an inflation fighter is not damaged. Investors should therefore expect the Fed to start talking about inflation, but to ensure that the market understands that any spike will be temporary. Economic policy will however remain ultra-accommodative for a while to come.
- The local market will see the release of the February CPI reading. Inflation pressures have been noted in the food component however domestic demand still remains weak and as such a massive spike is not anticipated.
- Moving onto the financial markets, US Treasury yields have spiked and in turn given the USD something to cheer about. After slumping in the second half of last week, the USD has found its footing and regained some lost traction. Technically, it is likely to enjoy some support and nudge a little higher through the course of the next few trading sessions, but some caution will naturally be expressed ahead of the FOMC decision that is announced on Wed and the guidance and communication that is offered.
- The local unit held onto the 0.0900 level into the close of the week. This level remains the pivot and we expect a measured start to the day given the USD strength coming through in the Asian session.

ZAR and Associated Comments

- Positive risk appetite and market uncertainty surrounding the USD's future path drove gains broadly across the emerging market currency sample last week. The ZAR began the week near the 15.35/\$-handle, lost further ground on Monday as it traded above 15.5000/\$, but went on to a weekly gain of 2.70% by the end of domestic hours on Friday.
- Following solid gains earlier in the week, the ZAR came under pressure at the end of the week as rising US Treasury yields gave some fresh impetus to the dollar-bulls. Ultimately, the greenback halted its three-day slide while the local unit pared its weekly gains, closing at 14.9500/\$.
- Although capitalising well on broad dollar weakness, this did occur after the previous week's selloff for the ZAR, and thus a pull-back for the USD-ZAR currency pair was likely. The currency's responsiveness to general dollar sentiment allows it to exploit dollar losses during risk on trade, however this similarly applies to downside moves for the ZAR, resulting in heightened volatility compared to EM currencies on aggregate. Despite the current trade surplus and relatively higher real yields on offer which continue to support the ZAR, this a result of the weak domestic economic environment, a function of lockdown restrictions and ongoing structural challenges. Thus, in order for the ZAR to solidify gains in the current climate, South Africa's growth outlook needs to improve substantially. Otherwise, the currency will continue to track the ebb and flow of broader market sentiment.
- The week ahead holds the potential to both upset as well as spur on risk appetite. Wednesday will see the outcome of Fed's FOMC meeting this week, while the Bank of England too is scheduled for a rate decision on Thursday. These hold risk to emerging markets if major central banks start to express concern regarding future inflation, prompting bets of monetary policy tightening. Stateside, these bets are likely to grow given last week's signing into law of Biden's \$1.9 trillion stimulus package. The Fed will seek to downplay inflation concerns as it sees price pressures being temporary and a result of last year's price-suppressing lockdowns. In the meantime, the SA economy is set to struggle through another week of load shedding, the effects of which are likely to be evident in tomorrow's release of the BER Consumer Confidence index for Q1 which kicks off the domestic data card for the week.

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