

## Botswana Market Watch

## 18 March 2021

GMT		International and Local Data	Period	Exp	Previous
13:00	BO	Nothing on the cards			
12:00	GB	BoE asset purchase target	Mar	875bn	875bn
12:00	GB	BoE bank rate	Mar 18	0.10%	0.10%
12:30	US	Initial jobless claims	Mar 13		712k
12:30	US	Philadelphia Fed index	Mar	24	23.10
12:30	UK	BoE's Haldane Speaks at Women In Finance Awards			
14:00	US	Leading Indicators	Feb	0.30%	0.50%

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. Lingered 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
FOMC	The Fed opted to keep monetary policy unchanged, but upgraded its expectations for growth, inflation and employment. Still there was no promise of normalisation of monetary policy	Notwithstanding the more upbeat outlook, the Fed has reaffirmed its position of remaining ultra-accommodative	4/5 (monetary policy)	The Fed will remain as supportive as possible, for so long as inflation allows it to. Inflation is expected to bump up mid-year but the rise is expected to be temporary and the Fed's flexible mandate can cope with that now
Metals	The gold price has risen to a two-week high and copper prices are rallying further on the Fed's upgrade to US growth and the expectation of more to come	A strong cyclical growth phase is anticipated and prices are responding to strong demand	3/5 (market)	The stimulus effort by the US is now being factored into growth expectations that have been upgraded. It is a major theme that will unfold through the course of the next few years
Greek bond issue	Although a small EZ country, it is notable that Greece with its fiscal profile, auctioned off €2.5bn worth of 30yr paper in an auction that was 10X oversubscribed	This is the first 30yr auction in a decade and reflects how the stress in the periphery has ebbed	3/5 (market, economy)	Whether it be the fact that Greece has reformed, or that the ECB is actively helping bond markets, Greece has been able to raise long-term capital which bodes well for the broader EZ

### Local FX Opening Rates and Comment

	CUSTOMER BUY	CUSTOMER SELL	CUSTOMER BUY	CUSTOMER SELL	Benchmark Yield Curve		Forward Foreign Exchange			
	CASH	CASH	TT	TT				BWPUSD	BWPZAR	
BWPZAR	1.2786	1.3990	1.3033	1.3856	6m	1.2240				
BWPUSD	0.0872	0.0953	0.0888	0.0943	3y	4.3650	1m	-2.0670	0.0000	
GBPBWP	15.9711	14.6127	15.6255	14.9172	5y	5.2250	3m	-6.2595	0.0000	
BWPEUR	0.0729	0.0797	0.0746	0.0781	22y	6.3550	6m	-13.4258	0.0000	
JYPBWP			9.7169	10.1547			12m	-29.5133	0.0000	
USDZAR	14.0821	15.2733	14.4122	14.9429						
EURUSD	1.1479	1.2439	1.1748	1.2170						
GBPUSD	1.3385	1.4502	1.3699	1.4188						
					<b>Equities</b>		<b>Economic Indicators</b>			
					BSE Domestic Index	6593.08	GDP	-6	Bank Rate	3.75
					BSE Foreign Index	1550.93	CPI	2.4		

- Teachers have placed pressure on the government after some 24 of them have succumbed to the COVID-19 virus over a two-week period. The teaching community have asked the government to vaccinate them first in a joint release statement from the Botswana Sectors of Educators Trade Union and Botswana Teachers Union.
- The Covidshield vaccine has arrived with some 30 000 doses donated by India who are the producers of the vaccine at the Serum Institute of India. All Africa reported that the minister of Health and Wellness Dr Edwin Dikoloti has since told the nation that plans are underway to ensure that there is effectiveness in rolling out the vaccine, confident that health authorities are ready.
- A successful vaccination campaign is crucial for the country to enter the phase of economic recovery. Tourism remains a massive earner of foreign currency and it is unlikely that the tourists from the developed world will return until there is success in creating herd immunity within the country. It is also paramount for internally driven growth, as the country cannot afford another protracted lockdown.
- Casting an eye offshore, at its latest FOMC meeting last night, the Fed opted to keep rates near zero and to persist with asset purchases of at least \$120bn per month. Although the decision to hold monetary policy unchanged will not come as much of a surprise, the upgrade to growth and inflation may raise some eyebrows. The Fed has indicated that it now expected GDP growth to accelerate to 6.5% this year and for inflation to rise to 2.2%, with both numbers expected to moderate through 2022. At the previous meeting, the Fed had anticipated growth of 4.5% in 2021 and an unemployment rate of 5%. While growth expectations have been substantially upgraded, the unemployment rate by year-end has also been upgraded to just 4.5%. The bump higher in inflation is therefore considered temporary, and the Fed's more flexible mandate allows it to ride it out without having to perform communication gymnastics to justify not responding to the rise in inflation. It is also fair to say that the Fed will want to see what the effects of the latest fiscal stimulus package will be before responding, although even here, the Fed will likely consider the fact that this stimulus will also exert a temporary effect on growth. At 6.5%, it appears as though the Fed has adjusted its forecasts to reflect its expectations on growth of the latest stimulus package.
- Following last night's Fed announcement, the USD has found itself on the defensive. Affirmation that the Fed will persist with its ultra-accommodative monetary policy despite the upgrade to growth and inflation has led investors to believe that the Fed's stance will further debase the USD. Technically, the USD is trading heavy and looks set to retreat a little further through the week ahead. The steady rise in US Treasury yields will however lend the USD some support and an overly bearish short-term view on the USD carries its risks. Downside momentum on the USD may well dissipate in the trading sessions ahead.
- The BWP remains underpinned above the 0.0900 level and the expectation is that we may see further gains given the dovish stance from the Fed overnight. Longer term the Central Bank remains committed to a steady BWP devaluation process to support the export sector.

## ZAR and Associated Comments

- The ZAR treaded water for most of Wednesday with the local unit relatively flat on the day at the 14.8800/\$-handle ahead of the FOMC update from Fed Chairman Jerome Powell. This was consistent across the FX space with no substantial moves being made as the market cautiously awaited the Fed policy update. Expectedly, Powell announced the Fed would keep rates near zero and make no changes to asset purchases of at least \$120bn per month. However, the Fed did offer improved forecasts with growth expected to reach 6.5% this year compared to the previous meeting's 4.5% anticipated growth for 2021.
- While the improved growth forecasts would have been dollar positive, the Fed once again poured cold water on any rate hikes or monetary policy tightening until at least 2023. The Fed also expects inflation to tick up to 2.4% this year, however emphasizing this would be transitory and the Fed will look past this. As to market reaction, the dollar fell sharply and US Treasury yields dipped as Powell pushed back against views that the Fed would need to take action against higher yields. Emerging market and commodity currencies meanwhile gapped higher against the USD, with the ZAR jumping over 1.30% overnight and in early morning trade today.
- On the domestic front, the ZAR shrugged off yesterday's retail sales print with the FOMC rate announcement in full focus. However, it appears January's harsher lockdown restrictions was a substantial and additional setback to the retail sector which declined 3.5% y/y at the start of 2021 from a prior contraction of 1.2%. The sector has now remained in contractionary territory for 10 consecutive months and, while some improvement may occur in the coming months as economic activity normalises, structural constraints due to a weak labour market and tightening household budgets, amid the expected increases in fuel and electricity prices, will make the return to pre-pandemic levels considerably more challenging.
- While the local data will weigh on domestic growth expectations, domestic demand is likely to resume at a slower pace than the rest of the globe given SA's structural challenges, which should ultimately keep the country's trade balance positively buoyed and support the currency. In the short term, the ZAR has continued to trade stronger overnight on the back of a weaker USD. Meanwhile during the Asian trading session, Asia-Pacific stocks have traded up alongside European equity futures, suggesting risk on trade may be the order of the day. However, after pulling back yesterday during Powell's speech, US Treasury yields have continued to strengthen overnight and may be the source of some dollar support following yesterday's slide.

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