# Botswana Market Watch

## 26 March 2021

| GMT | | International and Local Data | Period | Exp | Previous |
|---|---|---|---|---|---|
| | BO | Nothing out this morning | | | |
| 09:00 | GE | IFO business climate | Mar | 93.10 | 92.40 |
| 12:30 | US | Wholesale inventories m/m | Feb P | | 1.30% |
| 12:30 | US | PCE core y/y | Feb | 1.50% | 1.50% |
| 12:30 | US | Advance Goods Trade Balance | Feb | $-84,8bn | $-83,74bn |
| 14:00 | US | Michigan consumer confidence | Mar F | 83.50 | 83 |

| 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 |
| **Chinese 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** | Director of the African Centres for Disease Control (CDC) John Nkengasong announced that the panel reviewed the guidance on a vaccine developed by the AstraZeneca and University of Oxford and recommended the continued use of the vaccine | The decision comes after the AstraZeneca vaccine was backed by the World Health Organization. The WHO said that the benefits of the vaccine outweigh the risks | 3/5 (economy) | The Africa CDC noted that any policy decisions should be based on scientific evidence and data, adding that routine monitoring should follow the administering of all COVID-19 vaccines. The CDC's greenlight will see countries that received the vaccine under the COVAX program resume with their rollout program |

| Global | What happened? | Relevance | Importance | Analysis |
|---|---|---|---|---|
| **US Vaccine Drive** | The Biden administration has doubled its target to 200mn COVID vaccinations within the first 100 days | Faster vaccination rates are supporting expectations of strong economic growth | 4/5 (economy) | At the current pace, the US will reach this target, especially as production of vaccines will accelerate. This will allow for a faster reopening of the economy |
| **Bank Dividends** | The Fed will lift its restrictions on bank dividends from the end of June if the banks clear the latest round of stress tests | Lifting dividend restrictions will bolster banking stocks | 4/5 (equities) | The banking sector underperformance may start to fade once restrictions are lifted, marking another step towards normality |
| **China Factory Activity** | Factory activity continued to accelerate in March, led by a rebound in global demand and stronger local demand | Early indicators suggest China's growth resumed at the end of Q3 | 3/5 (economy) | Stronger economic activity in China bodes well for a global recovery, and will keep commodity prices elevated despite their recent dip owing to a stronger USD |

## Local FX Opening Rates and Comment

| | CUSTOMER BUY CASH | CUSTOMER SELL CASH | CUSTOMER BUY TT | CUSTOMER SELL TT |
|---|---|---|---|---|
| **BWPZAR** | 1.2847 | 1.4092 | 1.3094 | 1.3957 |
| **BWPUSD** | 0.0859 | 0.0941 | 0.0876 | 0.0932 |
| **GBPBWP** | 15.9893 | 14.5952 | 15.6434 | 14.8992 |
| **BWPEUR** | 0.0730 | 0.0800 | 0.0747 | 0.0784 |
| **JPYBWP** | | | 9.6089 | 10.0631 |
| | | | | |
| **USDZAR** | 14.3537 | 15.5709 | 14.6901 | 15.2340 |
| **EURUSD** | 1.1304 | 1.2249 | 1.1569 | 1.1984 |
| **GBPUSD** | 1.3209 | 1.4310 | 1.3518 | 1.4001 |

**Benchmark Yield Curve**

| | |
|---|---|
| **6m** | 1.2180 |
| **3y** | 4.3650 |
| **5y** | 5.2250 |
| **22y** | 6.3550 |

**Forward Foreign Exchange**

| | BWPUSD | BWPZAR |
|---|---|---|
| **1m** | -2.0183 | 0.0000 |
| **3m** | -6.2010 | 0.0000 |
| **6m** | -13.1040 | 0.0000 |
| **12m** | -29.6839 | 0.0000 |

**Equities** / **Economic Indicators**

| | | | | | |
|---|---|---|---|---|---|
| **BSE Domestic Index** | 6544.84 | **GDP** | -6 | **Bank Rate** | 3.75 |
| **BSE Foreign Index** | 1550.93 | **CPI** | 2.4 | | |

- The coal industry has received another boost this with Maatla Resources stating that the its recently awarded mining license for the Mmamabula project will offer a number of benefits to the country including strengthening the coal industry and increasing government revenues and hard currency earnings. The government has been steadfast in its goal of diversifying away from the diamond industry, with projects including copper mining and coal at the forefront of these endeavours.
- The world including Botswana continues to grapple with the surge in COVID-19 cases. The government yesterday attributed the spike in the nations cases to funeral gatherings and urged its citizens to take the necessary precautions when attending such events. The government has reported some 696 new COVID-19 infections since the 20th March taking Botswana's total to 36 077 while the death toll currently stands at 506.
- Internationally, the US bond market was the focal point yesterday with the 7-year auction receiving tepid interest for a second month in a row. The $62bn issuance sold at a high of 1.30% which was 2 bpts higher than where the bonds were trading ahead of the sale. The bid to cover ratio spoke volumes as well coming in below average at 2.23. This demonstrates the level of nervousness inherent in the market, it shows up the fragility of the system and now marks supply events as risk events.
- Across the pond in the EU, leaders have expressed their frustration over the massive shortfall in contracted AstraZeneca COVID-19 vaccine deliveries. This comes as the continent experiences a strong third wave of COVID-19. Inoculation levels are far behind those of the United Kingdom or the United States which has caused much embarrassment for those in charge. There is talk that the EU is considering a ban on exports of the AstraZeneca vaccine until all the shots promised to the EU have been delivered. To date, out of the 300 million shots promised by June, only 100 million have been delivered.
- The USD remains the outperformer as optimism surrounding an economic recovery gains traction coupled with a rise in US Treasury yields. The USD Index is currently trading through the 92.78 level at the time of writing and any positive data from the calendar today could well see the market make bee-line for 93.00. Moving over to other currencies we have the EUR supported ahead of the German business sentiment later today, but the single currency is still precarious given the souring of sentiment over renewed coronavirus lockdowns. Meanwhile the likes of the AUD and the ZAR have found their feet after stumbling recently.
- The BWP has held above the 0.0900 mark as we enter the final trading session for the week. Investors will be keeping a close eye on USD movements given the strength seen of late. For now a cautious stance is favoured with a deluge of data due out potentially causing some volatility into the close.

## ZAR and Associated Comments

- While risk assets remained under pressure through most of the day yesterday, the ZAR fared the worst in the EM currency basket with losses exacerbated by a more dovish than expected tone from the SARB in its rate announcement. The local currency ultimately fell 1.15% against a broadly stronger dollar as it retreated back above the 15.0000/$-handle.
- Despite there being a unanimous decision to keep the repo rate at 3.5% in this MPC meeting, whereas the last meeting was split with two of the five MPC members favouring a further 25bps cut, the speech delivered by SARB Governor Lesetja Kganyago was decidedly more dovish than expected. The SARB maintained the current accommodative monetary policy was acceptable given the uncertain macroeconomic environment and highlighted the risk of a third wave of COVID-19 infections in its decision. Nevertheless, the SARB quarterly projection model (QPM) indicates rate hikes of 25bps in each of Q2 and Q4 this year and focus has now shifted to when the hiking cycle may occur despite the dovish tone.
- On the growth and inflation front, the SARB raised its 2021 GDP growth forecast to 3.8% from 3.6% expected at the January meeting and sees inflation averaging 4.3% this year from 4% previously. This remains below the midpoint of the SARB's target 3-6% range for inflation and thus, even with the QPM indicating the repo rate will be at 4% by year end, the inflation outlook suggests the SARB will likely maintain it dovish stance, only hiking towards the end of the year or even 2022. Though supply-side inflationary pressures are likely to become evident in the coming months, producer price inflation is already accelerating with yesterday's PPI print rising 4% y/y from 3.5% in the month prior, surpassing consensus expectations for a 3.6% y/y rise. Further upside risks exist as base effects from rising oil prices will begin to play a role from March, but it remains to be seen how much of this will be passed onto consumers given the weak levels of demand. Given weak consumer demand, the SARB sees upside inflationary pressures as contained in the short term, and governor reiterated the SARB's data dependent role in managing inflation. In spite of market based expectations pointing to rising inflation, we may therefore only see rate hikes occurring before Q4 if substantial upside inflationary pressures are seen in the data.
- Ultimately, it appears the SARB is buying more time to support the economy so long as global monetary policy remains loose. The Governor's speech did mention that December and January's improved capital flows have abated and there has been more volatility in flows and EM currencies in recent weeks, suggesting the SARB is cognisant of a potentially vulnerable ZAR. For the day thus far though, the ZAR has recouped some of yesterday's losses and led the EM sample of currencies stronger as it crossed back below the 15.0000/$-handle in early morning trade. Stateside, the dollar's run of gains appears to have halted alongside improving sentiment, despite US jobless claims figures pointing to improving labour market conditions. The morning ahead sees German business sentiment data, where an improving print could support the euro at the expense of the greenback, and thus providing EM currencies with a tailwind heading into the weekend.

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