

Botswana Market Watch

16 March 2021

GMT		International and Local Data	Period	Exp	Previous
13:00	BO	BWP10bn 7-Day certificates on offer			
10:00	EZ	ZEW economic sentiment	Mar		69.60
10:00	GE	ZEW economic sentiment	Mar	75	71.20
12:30	US	Import price index y/y	Feb		0.90%
12:30	US	Advance retail sales m/m	Feb	-0.30%	5.30%
12:30	US	Retail sales ex. auto and gas	Feb	-0.40%	6.10%
13:15	US	Industrial production m/m	Feb	0.60%	0.90%
13:15	US	Manufacturing production m/m	Feb	0.40%	1.00%

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
Vaccine latest	While AstraZeneca denies their vaccine is unsafe, Germany, Italy and France are the latest two countries to suspend the vaccine out of fear it causes blood clots	Given its status as an early vaccine which is cheap to acquire, this is a blow for global immunisation efforts	4/5 (economy)	There are however other vaccines that are and will be coming to market and will receive approval for emergency distribution and administration. AstraZeneca will likely push back as well
ECB policy stance	Bank of Portugal governor Mario Centeno told Reuters that the EZ economy was far from being out of the woods, and that the upcoming data would justify the central bank's Dec stance	Although optimistic, Centeno reiterated that more policy tweaks would be needed to assist the recovery	3/5 (monetary policy)	All that said, he was sure to reiterate that ECB policy had not run out of efficacy and that when used together with fiscal policy was still powerful and able to assist in bolstering the EZ economic recovery
UK Bonds	UK Bond yields have risen to the highest levels since the onset of the pandemic. Gov Baily however believes that it is a function of an economy that is recovering	It implies that while the governor is hopeful but cautious, that policy will remain unchanged	3/5 (markets, monetary policy)	Governor Baily is not sounding the alarm in so far as the rise in yields is concerned. On the contrary, he is framing the rise in yields as a sign of economic recovery.

Local FX Opening Rates and Comment

	CUSTOMER BUY		CUSTOMER SELL		Benchmark Yield Curve		Forward Foreign Exchange			
	CASH	CASH	TT	TT						
BWPZAR	1.2935	1.4051	1.3184	1.3916	6m	1.2250		BWPUSD	BWPZAR	
BWPUSD	0.0872	0.0945	0.0888	0.0936	3y	4.3650	1m	-2.1450	0.0000	
GBP/BWP	15.8852	14.6460	15.5415	14.9512	5y	5.2250	3m	-6.2498	0.0000	
BWPEUR	0.0731	0.0792	0.0748	0.0777	22y	6.3550	6m	-13.4355	0.0000	
JPY/BWP			9.7366	10.1038			12m	-33.2085	0.0000	
USDZAR	14.2456	15.4584	14.5795	15.1239						
EURUSD	1.1459	1.2414	1.1727	1.2146						
GBPUSD	1.3312	1.4424	1.3624	1.4112						
					Equities		Economic Indicators			
					BSE Domestic Index	6602.96	GDP	-6	Bank Rate	3.75
					BSE Foreign Index	1550.93	CPI	2.4		

- Data released yesterday showed a mild rise in the inflation reading for February. The February reading came in at 2.4% year on year versus 2.3% year on year in January. The month on month print recorded 0.3% versus 0.5% in January. We still hold the view that the Central Bank will view any minor spikes in inflation as transitory and will rather adopt a measured approach when dealing with monetary policy and any adjustments to the broader narrative. Botswana still has strong real rates at a time when many compatriots do not and this there is an element of resilience baked already baked in.
- The international geopolitical stage as always has a strong China focus this morning. US Secretary of State, Mr Anthony Blinken has called for stronger economic and security ties with Japan using his first time abroad as part of the new US administration to strengthen Asian alliances as China's influence continues to grow in the region. The US delegation will be visiting Tokyo and Seoul with Reuters reporting that issues on the agenda will range from freedom of navigation in the South and East China Seas and semiconductor supply-chain security, to North Korean nuclear issue and the military coup in Myanmar.
- This all comes ahead of the US-Sino meeting which is scheduled to take place in Alaska. Potentially the US are looking to add allies or build additional centres of influence ahead of this crucial meeting with the Chinese which has the ability to thaw relations which took a marked turn for the worse under the Trump presidency.
- From a global macro perspective, one of the major themes that is likely to unfold through the year ahead, is that of fiscal consolidation and recovery. Such has been the blow from the pandemic, that government fiscal positions have deteriorated alarmingly. Fiscal consolidation can be achieved in one of two ways. Either the government can find ways to shrink and become more efficient and effective while consuming fewer resources, or tax hikes will need to be implemented in order to build tax revenues. The latter could have longer-term consequences on growth in the medium to longer-term. Shrinking the size of government could have implications in the near-term. That would not be favoured in the context of a weak growth backdrop that has the authorities convinced that more stimulus is needed.
- Looking at the day ahead, we have the weekly T-Bill auction to contend with, while the data calendar internationally is rather full.
- Casting an eye towards the FX markets, no real surprise that the USD is marking time ahead of the FOMC decision and statement later this week. Investors will be waiting for the guidance from the Fed on the combination of inflation and the rise in bond yields. How the Fed chooses to frame the debate and what it's consequent actions might be should inflation rise will likely guide the market reaction. It will therefore be the guidance that will drive USD direction in the latter part of the week.
- The BWP remains underpinned above the 0.0900 level and the expectation is that we may see further gains should the FED take a dovish stance tomorrow.

ZAR and Associated Comments

- The ZAR snapped back at the start of the week, swinging losses sustained earlier in the day as bearish momentum taking the local unit back above the 15.0000/\$-handle proved temporary. Notably, the ZAR gained against a broadly firmer dollar yesterday which appeared to hold steady, as US Treasury yields eased, ahead of the Fed's two-day FOMC meeting kicking off today.
- Alongside stronger domestic government bonds on the day, the ZAR ultimately closed 0.35% stronger against the USD at 14.9000/\$. While the line in the sand to the downside now stands at the 15.0000/\$-level once again, the remainder of the week is set to be dominated by central bank guidance. Should new growth and inflation forecasts favour the USD instead, this will likely reduce any support the ZAR could gain from key technical levels. Having said that, the USD's dip last week suggests an uncertain market psyche and continued dovish Fed communication could send the dollar lower.
- Domestically, the FNB/BER consumer confidence index (CCI) scheduled for today kicks off the slim local data card this week. Although it has regained most of the ground lost when it plunged to a 35-year low in Q2 last year, the Q1 reading likely remained weak due to the reintroduction of harsher lockdown restrictions at the start of the year, a substantial dent in the domestic economic recovery. Furthermore, high unemployment, multiple bouts of load shedding as well as price increases in fuel and electricity continue to pose downside risks to any rebound in the CCI and limit consumers' willingness to spend.
- For the day thus far, this morning's trade has been in favour of emerging market currencies, with the USD trading marginally weaker. Fresh directional impetus comes later in the afternoon as a host of US data for February is set to provide an update on the US economy's nascent recovery. Weak data here will underscore the Fed's continued dovish narrative and may lend some support to the dollar-bears ahead of the Fed's rate decision tomorrow. As to the local currency, USD-ZAR overnight option volatility has spiked to the highest level since the US presidential elections in November last year where political uncertainty drove a great deal of volatility in the markets at the time. Nevertheless, the ZAR has continued to trade stronger overnight, however option pricing indicates the potential for heightened spot market volatility in the days ahead.

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