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Botswana Market Watch

31 March 2021

GMT		International and Local Data	Period	Exp	Previous
	BO	GDP y.y	4Q		-6.0%
09:00	EZ	CPI estimate y/y	Mar	1.30%	0.90%
11:00	US	MBA mortgage applications	Mar 26		-2.50%
12:15	US	ADP employment change	Mar	500k	117k
13:45	US	Chicago PMI	Mar	60.00	59.50
14:00	US	Pending home sales y/y	Feb		8.20%

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	Johnson & Johnson announced an advance purchase agreement with the African Vaccine Acquisition Trust (AVAT) to make available up to 220mn doses of its single-shot coronavirus vaccine	The pace of economic recovery remains dependent on how quickly countries are able to build up immunity to the coronavirus	3/5 (economy)	The doses will be available to the 55 AU member states with delivery beginning in Q3 of 2021. AVAT has the potential to order an additional 180mn doses, for a combined total of up to 400mn doses through 2022

Global	What happened?	Relevance	Importance	Analysis
Chinese manufacturing	China's official manufacturing PMI in Mar was 51.9 vs a reading of 50.6 in Feb. Non-manu PMI rose to 56.3 from 51.4 in Feb	Factories appear to be raising production as the global economy re-opens	4/5 (economy)	This bodes well for a recovery in global growth and confirms that China has recovered much of the losses and may have even gained market share
UK margin squeeze	According to the BRC for March, British retailers reported another big fall in the prices they charge, as they attempted to boost sales through improved pricing	Online competition and weak demand will mean that QE related inflation may be offset	3/5 (economy)	It ultimately means that the central bank may find greater flexibility to keep monetary policy ultra-accommodative for longer. Pent up demand will likely trigger a strong boost to demand in H2.
US consumer confidence	The consumer confidence index jumped to a 1yr high of 109.7 in March, while the household employment measure rebounded, and house prices surged	GDP growth will undoubtedly surge in the coming months to produce a strong H2 2021	4/5 (economy)	As the economy opens up and confidence about the end of the pandemic grows with more incoluations, the economy will rebound strongly and in a sustained manner

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2899	1.4042	1.3147	1.3907
BWPUSD	0.0864	0.0940	0.0881	0.0931
GBPBWP	15.8634	14.5741	15.5202	14.8778
BWPEUR	0.0738	0.0803	0.0756	0.0787
JPYBWP			9.7955	10.1954
USDZAR	14.3319	15.5329	14.6678	15.1969
EURUSD	1.1238	1.2175	1.1501	1.1912
GBPUSD	1.3175	1.4277	1.3484	1.3968

Benchmark Yield Curve

6m	1.2175
3y	4.3650
5y	5.2250
22y	6.3550

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-1.7160	0.0000
3m	-5.8890	0.0000
6m	-13.8645	0.0000
12m	-30.4980	0.0000

Equities

BSE Domestic Index	6526.73
BSE Foreign Index	1550.93

Economic Indicators

GDP	-6	**Bank Rate**	3.75
CPI	2.4		

- Given the importance of today's GDP release its worth repeating what we spoke about on Monday. All eyes will be on the GDP reading for 4Q 2020 due for release later today. We will also receive the aggregated 2020 figure which will show the destruction as a result of COVID-19 which forced hard lockdowns and crated both international and domestic demand for goods and services. Forecasts are rather broad in terms of what the final tally will be ranging from a 7.7% contraction to a more bearish 8.9%. The good news is that the rebound predicted for 2021 is strong however it is going to take sometime before we experience economic activity at pre-COVID-19 levels.
- Emerging markets will be taking note of the strong Chinese official PMI number released this morning which has spurred risk appetite. Manufacturing activity expanded at its quickest pace in three months after taking a brief hiatus for the Lunar New Year Celebrations. The March reading came in at 51.9 versus 50.6 in February beating analysts expectations who had pencilled in a rise of 51.00. Its worth noting that export orders returned to growth which showed better foreign demand, however this may slow in the coming months given the uneven global economic recovery..
- Geopolitically, the US has condemned China for moves aimed at further reducing political participation and representation in Hong Kong and has expressed deep concern about the delay in the LegCo elections. "We are deeply concerned by these changes to Hong Kong's electoral system, which defy the will of people in Hong Kong and deny Hong Kongers a voice in their own governance," a State Department spokesman said in an email. This will only serve to keep US-Sino tensions running high.
- Following a softer-than-expected ADP employment change print in February, private sector hiring is expected to have picked up significantly in March. Consensus expectations are for a rise from 117k to 525k, which would coincide with the recent decline in initial jobless claims data. Nevertheless, the US labour market remains extremely loose, with the hope being that ongoing stimulus efforts will accelerate the tightening thereof in the coming quarters. Note that the market is becoming increasingly sensitive to labour market data, as the Fed has signalled time and time again that it will not consider monetary tightening until the US labour market is on a path towards full recovery. This data will undoubtedly prime market expectations ahead of the next round of the non-farm payrolls numbers.
- Strengthening US recovery hopes have bolstered sentiment towards the USD that is gaining momentum to the topside. The USD has now surged to the highest levels seen since Nov 2020 and could still test the highs seen in October. Weekly momentum is building and although the charts are overbought and screaming for a retreat, it does appear that the wholesale bearishness in the USD market has dissipated. That will likely be reflected in a strong unwind of speculative USD long positions that have now largely been cleared out. Rising US bond yields are also supportive of the USD move as a strong H2 expansion in US economic activity takes hold.
- The stronger USD has kept most emerging markets on their toes. The BWP has however managed to regain the 0.0900 handle yesterday. Month end commitments to dominate pricing action for FX today.

ZAR and Associated Comments

- The ZAR endured a volatile session yesterday as it tested the 15.0000/$-handle once again following recent moves which took the currency below the key psychological level. The local unit did, however, recover later in the session after Bank of America (BofA) Securities offered improved domestic GDP growth expectations for this year, upgrading growth to 3.8% from 2.9%. The investment bank also expects rate hikes of 100bps in Q1 2022, with the SARB to leave the repo rate at 3.5% until then. This differs from the SARB's Quarterly Projection Model which indicates 50bps worth of hikes this year to have the repo at 4% by Q1 2022, with further potential hikes to occur should inflation accelerate substantially above the 4.5% midpoint of the SARB's target range.
- The ZAR ultimately clawed back some ground into the end of domestic trading hours yesterday, settling around 14.9100/$, roughly 0.15% weaker than Monday's close. Surprisingly, this occurred ahead of an address by President Ramaphosa where it was anticipated he would announce tightened restrictions. The President stopped short of announcing a move away from the government's virus alert level 1, in fact easing limitations on public gatherings. However, there would be a return to restrictions on alcohol sales, limited to this coming long weekend, while restaurants and other institutions will still be able to serve.
- Although far from the economically devastating restrictions of last year, yesterday's slew of data still points to the pandemic's aftereffects amid the ongoing structural challenges the domestic economy faces. Private sector credit growth decelerated notably in February, coming in at 2.62% y/y from 3.26%, marking the lowest level since 2010. Coming on the back of weak business and consumer confidence, this also suggests financial institutions are unwilling to lend to over-indebted households and business, with inflationary pressures to remain relatively benign in the near term as a result. Further on the demand-side, a sluggish return to production and economic activity is visible in the pace of rehiring, with Q4's non-farm payrolls sector improving only marginally despite the further relaxing of restrictions at the time.
- These factors will continue to weigh on SA's consumptive dynamics and feed the view that rates will stay lower-for-longer, with hikes likely to be driven by supply-side inflationary pressures. The ZAR has remained relatively resilient through Q1, however, as SA's higher yields and terms of trade have provided some much needed support. On that note, February's trade balance is due today and is expected to have widened as the recent surge in commodities has bolstered SA export demand. As such, this will continue to alleviate some pressure on the ZAR as the current account may remain in a surplus position for a little while longer. Externally, the US dollar remains buoyed alongside higher US Treasury yields overnight. On the data front for the day ahead, US private sector employment change will likely provide a further tailwind to the dollar with strong hiring expected to have occurred in March..

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