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Botswana Market Watch

12 April 2021

GMT		International and Local Data	Period	Exp	Previous
	BO	Nothing on the cards			-6.0%
09:00	EZ	Retail sales y/y	Feb	-5.30%	-6.40%
13:00	UK	BOE's Tenreyro Speaks on Webinar			
18:00	US	Monthly budget statement	Mar		$-310,92bn

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	Africa requires around $12bn to vaccinate enough people to build up herd immunity to contain the spread of COVID-19 on the continent according to a study conducted by the IMF and the World Bank	Relative to other parts of the world, Africa is lagging in its vaccine rollout. As such, the economic recovery in Africa could lag other parts of the world	3/5 (economy)	The amount of money needed by Africa to prevent the transmission of the virus is the same as the total amount of official debt service payments already deferred by 45 of the poorest countries participating in the G20's Debt Service Suspension Initiative

Global	What happened?	Relevance	Importance	Analysis
Fed's Powell	Fed Chairman Powell has described the US economy as being at an inflection point. Hiring and growth is about to pick up, but opening up too quickly could spark another wave	The risk of the authorities opening up too quickly will keep the Fed ultra-accommodative in its stance	3/5 (economy)	Although vaccinations are happening at pace, reopening too quickly threatens a spike in infections and another round of restrictions.It feeds into the narrative that the US will only open the economy when it is certain the pandemic is over
Japanese wholesale prices	March wholesale prices rose 1.0% y/y vs the forecast of 0.5%. This is the first annual increase in more than a year	Rising costs will slowly start to impact on profit margins and boost inflation	3/5 (economy)	While the pandemic is unfolding, the outlook is unclear, and given Japan's history of deflation it is far from certain this inflationary trend will persist
Corn prices	Corn prices have continued to rise with the understanding that corn supplies will remain relatively tight all the way through to 2022	Chicago corn futures rose to a record high last week in what may become an inflation driver	3/5 (economy, market)	However, that the price retreated slightly even after farmers confirmed that they would plant less corn, suggests that the market may be nearing a top. It will still drive some inflationary pressure.

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2744	1.3940	1.2990	1.3806
BWPUSD	0.0873	0.0953	0.0889	0.0943
GBPBWP	15.6652	14.3330	15.3263	14.6316
BWPEUR	0.0733	0.0802	0.0751	0.0786
JPYBWP			9.7857	10.2157
USDZAR	14.0195	15.2016	14.3480	14.8727
EURUSD	1.1414	1.2370	1.1682	1.2102
GBPUSD	1.3143	1.4240	1.3451	1.3932

Benchmark Yield Curve

6m	1.2300
3y	4.7550
5y	5.3350
22y	6.7250

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-1.8428	0.0000
3m	-6.5813	0.0000
6m	-13.6549	0.0000
12m	-24.7016	0.0000

Equities / **Economic Indicators**

BSE Domestic Index	6526.9	GDP	-4.1	Bank Rate	3.75
BSE Foreign Index	1550.93	CPI	2.4		

- Cryptocurrencies continue to grow in relevance across the globe with Bitcon printing new highs as investors look for alternatives fearing longer term currency debasement as the world's central banks' put the money printing presses fully operational in an attempt to underpin the global economic recovery process. The price of one Bitcoin has topped $60 000 a coin and the market capitalisation of crypto currencies has topped $2trn last week. Several Central Banks have banned crypto outright, while some have restricted trading and mining.
- Against this backdrop, the Bank of Botswana has stated that crytopcurrencies are not in its investment horizon stating that they are "speculative assets without the backing of any underlying economic activity". The bank has widened its investment guidelines for foreign reserves.
- Moving onto international news flow, a report from BoFA has pointed out that the equity markets have attracted more than half a trillion dollars in the past five months which exceed the combined inflows over the past 12 years. We see this as a direct consequence of the massive amount liquidity injected into the market by the global central banks looking to find a home. Valuations are at their highest level since the Dotcom bubble with the likes of the S&P trading at nearly 22 times its forward earnings. How much upside at current levels is debatable, but we are undoubtedly in bubble territory and there is a strong possibility that stocks temper in the coming months as the broader economic reality post the stimulus becomes clear. Any economic recovery will be patchy, tech stocks have been overinflated and need to correct. Interestingly, there has been a massive $40bn wager placed on the VIX that it will break above 25 and rise to 40 by mid July. Tactical equity traders have been warned.
- Moving onto the FX markets, Risk mood in Asia has been sombre and this has supported the USD at the start of the week with the index holding above the 92.25 mark. The EUR-USD traded at a high of 1.1911 before EUR-JPY cross selling pressured the single currency resulting in it marking time around the 1.8885 level into the EU open. Cable charts are pointing lower with support at 1.3630 eyed. Japanese importers were noted buyers around the Tokyo fix following through towards the 109.00 level however Archegos related sales post the Hong Kong fix has kept things contained. Emerging markets are on the back foot with the likes of the TRY shedding around 0.3% thus far. Pulling back the lens, investors remain committed to buying on any dips approaching 92.00 in terms of the USD Index with end March highs very much in the cross hairs. This may be a short term trade with the longer term macro risks surrounding the USD building. The wave of stimulus has flooded the world with USD liquidity and thus the risk of currency debasement is real.
- The BWP-USD maintained its status above the 0.0900 level however the start of the week suggests a risk off mood is underway. Thus we expect a cautious start to the session with investors adopting a wait and see approach.

ZAR and Associated Comments

- Following a largely positive week for emerging market currencies, which gained on the back of a softer US dollar, sentiment swung in favour of the greenback on Friday as Treasury yields were pushed higher after data showing US producer prices rose faster than expected in March. For the ZAR, Friday saw the local unit trim its weekly advance as it retreated 0.70% against the USD, but remained 0.45% in the green week-on-week.
- Nevertheless, the USD still ran into a weekly loss as it was led lower on a trade-weighted basis with Treasury yields coming off recent highs following dovish Fed communication from officials and the release of the last FOMC meeting minutes. With the US dollar index (DXY) close to 1% weaker over the course of the week, that the ZAR failed to capitalise fully suggests the market remains cautious to overstretch the local currency's valuation. The pandemic highlighted and exacerbated South Africa's fiscal constraints, while the after-effects of the pandemic, including a weak macroeconomic backdrop and subdued tax intake, are likely to keep fiscal risks elevated. Moreover, the ZAR remains unable to materially break through the key psychological 14.5000/$ level despite broad EM currency strength, indicating the market needs to see greater developments on the domestic reform front before this can happen.
- Despite all the focus on US growth and inflation which is to impact Fed policy changes in the years to come, the ZAR has and should continue to maintain a sense of resilience to broader market pressure, barring a complete risk off move. This has largely stemmed from SA's positive trade balance and physical flows as the recovery in domestic imports continue to lag behind that of exports. As such, the ZAR may struggle to push higher in the near term as imports recover and as the government drags its feet on requisite growth-enhancing reforms. Having said that, domestic exports may still have room to underpin the ZAR at the margin as recent food price inflation, specifically corn prices in the US, will drive locals to export surplus crop yield.
- Currently though, the market remains fixated on US inflation expectations. The dollar remains supported by Friday's PPI data print while focus now turns to US CPI data scheduled for tomorrow. We should begin to see base effects becoming evident in subsequent inflation prints, an acceleration the Fed has reiterated will not be long lasting. In an interview released yesterday and recorded earlier last week, US Fed Chair Jerome Powell said there is still a risk the US experiences a rise in COVID-19 cases if the reopening of the economy is too hasty. This feeds perceptions that the Fed will not be too hasty itself in considering any sort of policy tapering, but has done little to dampen the greenback's mood on the day thus far with the upcoming inflation print in full view. The ZAR meanwhile has traded slightly weaker in early morning trade around the 14.6400/$-handle at the time of writing, with the day ahead likely to be dictated by the dollar-leg and Treasury yield movements.

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