Botswana Market Watch

8 April 2021

GMT		International and Local Data	Period	Exp	Previous
	BO	Nothing on the cards			-6.0%
11:30	EC	ECB Publishes Account of Its March 10-11 Policy Meeting			
12:30	US	Initial jobless claims	Mar 27	685k	719k
15:00	US	Fed's Bullard Discusses Economy and Monetary Policy			
16:00	US	Powell Takes Part in IMF Panel on Global Economy			

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
US Trade Deficit	Feb's US trade deficit has widened 4.8% to a fresh record high of $71.1bn. Driving the widening was a dip in US exports of 2.6% while imports fell 0.7%	For all of Trump's negotiations, it is clear that the bigger driver is the credit cycle	4/5 (economy)	Given the ultra-accommodative stance by the Fed and the expansive fiscal stance by the government, dissaving has been enhanced and bolstered overall consumptive demand
ECB policy	Data from the ECB shows that it accelerated the pace of its emergency bond buying programme through March despite lockdowns	Buying increased 22.7% in March, with Germany being the largest beneficiary of its stimulus	4/5 (monetary policy)	The ECB is determined to keep bond yields from rising too far and to remain as supportive as possible through the remainder of the year as the economy recovers from lockdown
UK housing	The unexpected extension of a tax break on property purchases announced in the budget has revived what was looking like a fading housing boom	RICS data showed that the house price index rose to +59 in Mar from +52 in Feb to mark another jump	3/5 (economy, market)	Removing the stamp duty cost has had an immediate impact on housing sales and offered a tremendous boost to all related industries. That will unwind only when the taxes are re-introduced

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2718	1.3865	1.2963	1.3732
BWPUSD	0.0875	0.0952	0.0891	0.0942
GBPBWP	15.7085	14.4325	15.3686	14.7332
BWPEUR	0.0736	0.0802	0.0754	0.0786
JPYBWP			9.8250	10.2157
USDZAR	13.9607	15.1533	14.2879	14.8255
EURUSD	1.1396	1.2347	1.1663	1.2080
GBPUSD	1.3206	1.4310	1.3515	1.4001

Benchmark Yield Curve

6m	1.2200
3y	4.6750
5y	5.3250
22y	6.7250

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-1.8476	0.0000
3m	-6.5813	0.0000
6m	-13.6549	0.0000
12m	-26.6516	0.0000

Equities		Economic Indicators			
BSE Domestic Index	6527.44	**GDP**	-6	**Bank Rate**	3.75
BSE Foreign Index	1550.93	**CPI**	2.4		

- Regionally the terrorism being experienced in Northern Mozambique has been the focal point. SADC ministers including the current chair Botswana have concluded preparatory talks ahead of Thursday's summit of the heads of state. Botswana's Minister of

Foreign Affairs Lemogang Kwape was quoted as saying that no SADC member can face terrorism alone and they should not have to either. The next step will be the heads of state deciding on what tangible action to take to prevent further attacks in Mozambique and what the response will be to last month's attacks which gained news coverage across the globe. The attendees of the meeting are expected to include Mozambique, Malawi, Tanzania, Botswana, South Africa and Zimbabwe.

- Internationally, No surprise in the FOMC minutes released yesterday which continued to speak to the Fed's position to remain ultra-accommodative for as long as is needed to achieve full employment and inflation closer to the target. The Fed is in no rush to normalise monetary policy, and would rather risk overheating the economy than doing too little. It seems highly probable that if second round inflation effects remain muted, that the Fed will persist with its current policy stance for as long as possible. It now enjoys greater flexibility through its mandate and will undoubtedly use it, to its maximum potential. The effects of this have been to help bond yields nudge a little lower from their recent highs
- In the way of data, the usual weekly jobless claims data will be released and again investors will be looking for further incremental gains in the quest to recover lost jobs. Recent data has shown a stall in the recovery, but the effects of the stimulus package will very soon be felt and will likely have a very pronounced and positive effect on economic data, especially when one considers that the rest of the world is simultaneously loosening lockdown restrictions to allow the global economy to stage a meaningful recovery. Data through the course of the next few weeks and months is likely to reflect ongoing improvement and all indications are that H2 2021 is shaping up to be a very strong growth phase.
- Background lobbying and negotiations are under way concerning the corporate tax hikes alluded to by the Biden administration. The rise in the corporate tax rate will likely be much lower than the 28% mooted by Biden. Sources reveal that a rise to 28% from 21% was always going to be a stretch and that a more modest rise to 25% was more realistic. To rebalance the books some expenditure cuts will be needed. Fiscal consolidation is unlikely to be achieved through tax hikes alone. The government needs to work on becoming more efficient and reducing its overall burden to the tax base, while still spending in the most targeted and beneficial manner.
- Moving onto the FX markets, although it has recovered marginally off its recent lows, the USD remains pinned down and under pressure while bond yields show signs of retreating a little further. The record trade deficit, coupled with all the fiscal spending and a Fed that has committed to remain ultra-accommodative all ensure that the bias remains firmly against the USD in the medium to longer-term. Technically, the weekly chart shows that the USD holds the potential to correct significantly more in the coming weeks and that the speculative element that has developed over the past year is likely to remain intact for now.
- Given the fact that we have the USD on the backfoot, it is not surprising to see the local unit remaining well supported. The BWP-USD is currently marking time around the 0.0910 mark as we head into the open cementing the positive bias seen in the market yesterday.

ZAR and Associated Comments

- A broad sample of emerging market currencies offered few clues as to general market sentiment yesterday with the basket of currencies ending a rather diverse day. Given the ZAR's proxy status for emerging market sentiment, it seems rather apt that it ended the day flat after hovering in a narrow range around the 14.5500/$ handle for the second day. Despite recent upgrades to the global growth outlook from the IMF, this did come with warnings of the risks emerging markets remain exposed to. The ZAR ultimately failed to capitalise on any positive sentiment stemming from this, while recent SARB comments highlighting the impact of the country's fiscal state on monetary policy similarly dimmed optimism.
- However, with the ZAR at current levels, the market appears to need far more developments on the domestic recovery front in order for the currency to push through the key 14.5000/$-level. Yesterday's data prints offered little in that respect as both the economy-wide Standard Bank PMI and SACCI business confidence index were little changed in March from the month prior. Despite the move away from tighter restrictions, business sentiment and the economic outlook has not improved substantially, remaining subdued by ongoing structural challenges. This will likely persist in the short term until there has been progress in the country's vaccine rollout and, in the medium to long term, there are clear signs of government addressing SA's structural challenges.
- Nevertheless, the ZAR has remained resilient to the USD's first quarter rise which may be in for a minor correction given its year-to-date performance. The overnight release of the US Federal Reserve's last FOMC meeting did little to add to the greenback's current correction as it rebounded off more than two-week lows, closing a touch higher on a trade-weighted basis. Overall, the minutes showed the Fed still views the US economy as being far from point where it would consider easing back on its accommodative monetary policy. Up to this point though, the market has seemed unconvinced that the Fed's timeline will remain in place. The market has been pricing in the US economy's outperformance and vaccine rollout relative to its major peers in the form of higher inflation expectations through higher Treasury yields. However, Treasury yields and US breakeven rates, which measure the difference between the real yield on inflation-linked bonds and the nominal Treasury yield, resulting in implied or expected inflation for the term of the instruments, appear to have stabilised. While the Fed's goals is to achieve an inflation average of 2%, the current 10-year breakeven rate is now around 2.34%, the 5-year at 2.59%, and the 2-year is at 2.65%. Should these rates continue to stabilise and, by extension Treasury yields, the USD may begin to lose some of its yield-driven and haven appeal. The ability of the ZAR to capitalise on this, however, depends on the domestic recovery and requisite government reforms.
- For the day ahead, the market will turn to an address by Fed Chair Jerome Powell who is due to speak at an IMF event later today, while SARB governor Lesetja Kganyago also speaks at an Official Monetary and Financial Institutions Forum event. On the

data front, February's manufacturing production print will headline the domestic data card, while US initial jobless claims due later today will likely corroborate the recent US labour report with persistently strong hiring taking place in March..

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