Botswana Market Watch 9 April 2021

GMT		International and Local Data	Period	Exp	Previous
	BO	Nothing on the cards			-6.0%
06:00	GE	Industrial production wda y/y	Feb	-2.50%	-3.90%
06:00	GE	Trade balance	Feb	20,10bn	14,30bn
07:30	EC	ECB Vice President Luis de Guindos at AECEM Event			
12:30	US	PPI final demand y/y	Mar	3.80%	2.80%
14:00	US	Wholesale inventories m/m	Feb P	0.50%	0.50%
14:00	US	Wholesale sales m/m	Feb		4.90%

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-Sino relations	Seven Chinese supercomputing companies have been added to the blacklist by the US Commerce Department citing national security concerns. This will do little to bolster trade relations which will come back into focus	If anything, tensions between the US and China have escalated since Biden took over. China will face a significant challenge to its dominance	4/5 (geopolitics)	The US Commerce Department said these companies were blacklisted for "building supercomputers used by China's military actors, its destabilizing military modernization efforts, and/or weapons of mass destruction programs."
Chinese inflation	Factory prices in China have risen at the fastest pace since July of 2018 as growth continued to gather momentum. China's PPI rose 4.4% y/y.	Although an indicator of recovery, it also implies that some stimulus could be withdrawn soon	3/5 (economy)	Central banks around the world are extremely cautious of withdrawing support for their economies too soon, and China is among those, but they will need to respond to an inflation episode
Fresh S&P 500 record	With so much fiscal stimulus and monetary support from the Fed, asset prices have continued to climb as a big rotation towards growth stocks is under way	The market may feel overheated, but expectations of a strong recovery are growing all the time	3/5 (economy, market)	H2 2021 is promising to be one of the strongest growth phases in history and investors are positioned for this. A lot has been priced in, but there is no reason to turn bearis on stocks just yet

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2738	1.3918	1.2984	1.3784
BWPUSD	0.0876	0.0956	0.0892	0.0947
GBPBWP	15.6639	14.3457	15.3250	14.6445
BWPEUR	0.0735	0.0803	0.0753	0.0787
JPYBWP			9.7955	10.2157
USDZAR	13.9673	15.1454	14.2947	14.8178
EURUSD	1.1429	1.2382	1.1697	1.2114
GBPUSD	1.3184	1.4285	1.3493	1.3976

Benchmark Yield Curve

6m	1.2255
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	-24.4725	0.0000

Equities

BSE Domestic Index	6531.58
BSE Foreign Index	1550.93

Economic Indicators

GDP	-4.1	Bank Rate	3.75
CPI	2.4		

- Local news flow is on the thin side but regionally the focus remains with Mozambique following a meeting of the SADC leaders in Maputo yesterday to deal with the insurgency in the north of the country. The broader take home from the meeting is that the leaders are moving closer to military intervention in the region. SADC has vowed a proportionate response to the attacks, what is not exactly clear at the moment is the level of response and what the timeframe for deployment will be. One thing is certain is that it needs to be swift in order to contain the level of fear in Mozambique and return the stability in the gas rich area.
- Internationally, China is in focus this morning. Chinese factory gate prices have pipped market expectations rising at the fastest annual pace since July 2018 for the March measurement period. This points to the recovery in the world's second largest economy gaining momentum. PPI rose 4.4% on a year on year basis which was far north of the 3.5% pencilled in at a Reuters poll and significantly higher than 1.7% recorded in February. We would however suggest keeping a close eye on Beijing's response to the rise in inflation pressures. The expectation is that they will continue to offer a moderate stance but will be quick to act to cool the economy if needed.
- US-Sino relations remain firmly in the spotlight and for all the wrong reasons. The US Commerce Department has added seven supercomputing companies to their blacklist, banning US companies from doing any business with them. US Authorities have cited national security concerns given that these companies have done work for the Chinese military and have worked on weapons of mass destruction. This comes over and above existing geopolitical tensions related to the pandemic, Hong Kong and the pre-existing trade negotiations which stemmed from the Trump administration. Thus far, this has been little to no evidence that the Biden administration will be softening their stance on the Chinese on any of these fronts. If anything, the Biden administration may well seek to directly challenge China's global influence in the global economy and in geopolitics.
- Economists have been keeping an eye on the inflationary impacts of higher energy prices. Most Central Bank's have viewed the spike in inflation as transitory and driven largely by the rise in energy costs, preferring to focus on balance sheet repair and economic growth when directing monetary policy.
- Given this backdrop we would like to draw the readers attention to developments in the oil markets of late. Oil looks set to post a fourth weekly drop in five today, despite both the Brent and WTI front-month contracts edging higher on the session thus far. WTI is trading around the $60 per barrel mark while Brent holds just north of $63. The bid tone this morning comes as the Saudis have defended OPEC's plan to gradually increase output, saying that there is enough flexibility to change course if necessary, to keep the market in balance. OPEC+ will continue to meet monthly and adjust their plans accordingly
- Moving onto the FX markets, as a trend, the USD has remained under pressure this morning. US Treasury yields have continued to moderate and overall risk appetite has returned to help EM currencies and undermine the recent bull run in the USD. Then there is the issue of the record trade deficit which further layers a headwind on to the USD, undermining it still further. Technically, the USD holds the potential to dip even more, with the next two weeks shaping up to bearish for the USD as well, although some stronger support will be encountered.
- 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

- Riskier assets and emerging market currencies alike were spurred on for gains yesterday following the latest FOMC meeting minutes released the prior evening which painted a persistently dovish US Federal Reserve. Meanwhile, the USD had to withstand additional comments from Fed Chairman Jerome Powell at an IMF event which gave the impression that the central bank will only consider policy tightening once the US economy is firing on all cylinders, while an unexpected rise in US jobless claims equally weighed on the greenback.
- Despite a broadly softer US dollar on the day, which in fact fell 0.45% from its prior trade-weighted close, the ZAR lagged behind somewhat as it appreciated a minor 0.25%, compared to the rest of the EM currency basket, to close at 14.5000/$. The local unit did briefly see a six-week best, however, as it hit an intraday high around 14.4400/$, a level last seen towards the end of February.
- It appears further gains below the 14.5000/$-handle for the ZAR would need to be accompanied by a substantial improvement in the domestic economic recovery and clear signs of government's commitment to reforms. Without this, the market will likely continue to see moves past the key 14.5000 technical level as overstretched for the local currency, as seen yesterday even with all the external pressure on the USD. Loose monetary policy is likely to remain for some years to come and thus emerging markets should enjoy higher levels of liquidity. However, even with SA's relatively high sovereign yields, the market appears unwilling to overstretch the ZAR's valuation given the country's fiscal state.
- Amidst all the external impetus, the ZAR shrugged off yesterday's manufacturing production data which contracted more than expected in February on both a monthly and yearly basis. Manufacturing output has now contracted in 20 out of the past 21 months and is indicative of a sector that remains beset by structural challenges such as unstable power supply and regulatory uncertainty. While the coronavirus pandemic has further exacerbated these challenges, growth-enhancing reforms remain key to a sustained and meaningful recovery, otherwise, the sector may continue to struggle. As such, economic growth following the post-COVID rebound will likely fall back into the same prior sluggish trend, forcing the government to increase its reliance on debt to cover its fiscal shortfall. On that front, the New Development Bank has approved another $1 billion loan to SA, in addition to the loan extended last year June, which will be used to support economic relief efforts from the pandemic, including the creation of employment opportunities and support 700k jobs in the public sector.

- For the day thus far, sentiment has swung back in favour of the dollar as we head into the weekend. Despite Powell's comments yesterday that he would like to see a slew of positive economic data spanning months to suggest the US economy has reached full health, the USD has staged a comeback following yesterday's almost half a percent tumble as Treasury yields have pushed overnight. On the domestic data card, the morning ahead sees the release of gross and net reserves which remain on a downward path given the SARB is not actively building reserves.

Contacts

Mogamisi Nkate	+267 3674335	email: mnkate@bancabc.com
Phillip Masalila	+267 3674621	email: pmasalila@bancabc.com
Kefentse Kebaetse	+267 3674336	email: kkebaetse@bancabc.com
Maungo Sebonego	+267 3674338	email: msebonego@bancabc.com

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