

## Botswana Market Watch

## 14 April 2021

GMT		International and Local Data	Period	Exp	Previous
	<b>BO</b>	<b>Nothing on the cards</b>			
09:00	<b>EZ</b>	Industrial production (wda) y/y	Feb	0.10%	0.10%
11:00	<b>US</b>	MBA mortgage applications	Apr 9		-5.10%
12:30	<b>US</b>	Import price index y/y	Mar		3.00%
14:30	<b>UK</b>	BOE's Haskel Speaks on Webinar			
16:00	<b>US</b>	Powell Speaks to the Economic Club of Washington			
18:00	<b>US</b>	U.S. Federal Reserve Releases Beige Book			

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	<b>5/5</b> (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. Lingered 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	<b>4/5</b> (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	<b>3/5</b> (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-Russia relations	In a bid to defuse tensions between the two countries, President Biden has proposed a summit between Russia and the US to tackle a range of issues	This will likely be seen as a constructive approach to defuse tensions	<b>3/5</b> (geopolitics)	The US will discourage Russia from raising tensions in Ukraine (a NATO nation applicant), while Russia will express readiness for dialogue around matters concerning their interests
US earnings	Some big banks will be reporting back today which will of interest on the earnings front as investors try to gauge the degree of recovery and power of stimulus	Equity markets for the most part are on the front foot and anticipating good earnings reports	<b>4/5</b> (market)	Goldman Sachs, JP Morgan Chase and Wells Fargo will all be reporting to make this an important day for banking stocks more broadly, but also for investors to understand the business cycle
N Ireland talks/Brexit	Trade with Northern Ireland has become contentious and a meeting will be held on Thu between Britain, Ireland's foreign ministry and an EU negotiator	Although there is a sense of co-operation, the logistics of any trade arrangement will be difficult	<b>4/5</b> (geopolitics)	N Ireland and Ireland want to maintain an open border, but N Ireland does not belong in the EU. The effective border is now in the Irish Sea that N Ireland views as a betrayal by Britain

### Local FX Opening Rates and Comment

	CUSTOMER BUY		CUSTOMER SELL		Benchmark Yield Curve		Forward Foreign Exchange			
	CASH	CASH	TT	TT						
BWPZAR	1.2690	1.3834	1.2935	1.3701	6m	1.2270		BWPUSD	BWPZAR	
BWPUSD	0.0876	0.0955	0.0893	0.0946	3y	4.7550	1m	-1.5893	0.0000	
GBPGBP	15.6922	14.4021	15.3528	14.7022	5y	5.3350	3m	-5.9280	0.0000	
BWPEUR	0.0732	0.0799	0.0750	0.0783	22y	6.7250	6m	-14.0644	0.0000	
JPYBWP			9.7661	10.1750			12m	-31.2488	0.0000	
USDZAR	13.8996	15.0701	14.2254	14.7441						
EURUSD	1.1482	1.2439	1.1751	1.2170						
GBPUSD	1.3221	1.4327	1.3531	1.4017						
					<b>Equities</b>		<b>Economic Indicators</b>			
					BSE Domestic Index	6534.79	GDP	-4.1	Bank Rate	3.75
					BSE Foreign Index	1550.93	CPI	2.4		

- Investments in the Kalahari copper belt are stepping up and this is not without merit. The projections for the price of copper are exceedingly bullish with the likes of Goldman Sachs pencilling in a price of \$15 000/tonne by 2025 driven by the energy transition which will be driven by the widespread adoption of green energy products. These products are known to require a significant amount of electronic circuitry which uses copper. Bloomberg reported - *Moving the global economy toward net zero emissions remains a core driver of the structural bull market in commodities demand, in which green metals – copper in particular – are critical, analysts led by Nicholas Snowden said in the note dated April 13. Global copper demand will see the strongest phase of volume growth in history during the 2020s and will increase by 600% by 2030 due to the green transition in Goldman's base case. Market is unprepared for this, as supply is already tight; bank sees a long-term supply gap of 8.2m tons by 2030, twice the size of the shortfall that triggered the bull market in copper in early 2000s*
- The supply issues predicted for the red metal will lead it to potentially becoming a political powerplay in due course, with consumers of the metal such as China and United States jostling for position to secure supply chains. Robert Friedland the mining magnate has gone so far as to state that copper is going to become so crucial in electrifying the world that securing the supply chain will become a national security issue.
- This does suggest the fortunes of Southern Africa improving dramatically over the coming years as investors pile in. What it will however take is good leadership across the region to make sure that the revenues received diversify the economies in the area and do not end up on wasteful expenditure.
- Taking a look at the United States, a number of important banks will be reporting their earnings today and they always hold market moving potential. Investors will be looking for signs that the economic recovery is well under way and that the fiscal and monetary stimulus is generating a fresh credit cycle that would be synonymous with boom times. Plentiful liquidity and the dissemination of vaccines should see confidence ramp up and banks produce some exciting earnings results through the months and years ahead.
- In other news, The US has paused its use of the J&J vaccine after some 6 cases of women under the age of 50 recorded some blood clots. The reaction appears to be similar to that of Astra Zeneca. It is unlikely that the rollout of the vaccine will be stopped. Rather, there may be accompanying treatment for those taking the vaccine to minimise the possibility of any problems. Any stall is only expected to last a few days. In the broader scheme of things, 6 instances of problems against a backdrop of 7.2mn vaccines is a tiny proportion of the sample and the benefits of taking the vaccine will still far outweigh the risks.
- US Stock markets are rising to fresh record levels, while bond yields are easing. Risk aversion is subsiding and the USD has come under considerable pressure. A deeper retreat is under way as the news out of the US and elsewhere steadily improves, investors will feel more confident in rotating towards riskier asset classes. Add to that the massive stimulus efforts in the US that are helping to fuel a record trade deficit and there are strong arguments for the USD losing even more ground. Technically the weekly chart is pointing to a deeper correction.
- The BWP-USD maintained its status above the 0.0900 level and we expect the local unit to hold onto gains for now

## ZAR and Associated Comments

- The ZAR hovered in a narrow range yesterday prior to domestic markets opening, that is until some sharp selling pressure saw the unit weaken to 14.6800/\$, alongside the broader EM currency basket, as reports broke that US health officials have called for a suspension of the Johnson & Johnson vaccine shot due to cases of rare side effects. Due to the potential global impact, this weighed on riskier asset classes, however only temporarily as officials and J&J representatives were quick to downplay the rare occurrences.
- Later on in the session, the ZAR managed to swing losses against a softer dollar following the release of US CPI data which appeared to be well priced in at current levels for the greenback and US Treasuries. US inflation came out marginally higher than surveyed expectations in March, however it was still a substantial acceleration as inflation rose to 2.6% y/y from 1.7% previously. Month-on-month, inflation ticked up to 0.6%, the biggest jump in over eight years. Base effects will have played a major role, notably gas prices which accounted for nearly half of the rise in CPI, while the Fed has reiterated these price shocks will be temporary and a large amount of slack still remains in the economy. Looking ahead, inflation is expected to accelerate further in the coming months, but may ultimately play into the Fed's expectations. Should there not be a concerning rise, the Fed will be justified in looser-for-longer policies, with the search for yield by investors ultimately supporting relatively higher yielding emerging market assets.
- The market ultimately deemed the rise as not enough to begin to worry the Fed and the USD succumbed to pressure from similarly falling Treasury yields yesterday. The ZAR, meanwhile, had mining production data earlier in the day for additional support. Mining production rose 3.8% m/m in February from 3.9% prior, however this beat market expectations for a minor 0.4% rise. On an annual basis, mining production rose for the first time in 12 months, where the increase in output was supported by the persistent rise in global commodity prices and the easing of lockdown restrictions at the time. Despite the recent improvement, it is difficult to argue that this will be sustained going forward given factors that continue to linger in the undercurrent posing risks to the sector's long-term outlook, barring the impact of base effects from March onwards. SA's mining sector still faces risks from the absence of structural reforms and an unstable power supply.
- As a result, this will continue to feed the view of a weak economic backdrop and stagnant growth which will detract from further investment going forward. On the consumption side, February's retail sales data will be available later today which are likely to reflect depressed domestic demand, a weak labour market and subdued consumer confidence as certain restrictions were still in place through most of the month. For the time being though, the ZAR remains poised to gain on the back of a softer USD, with the unit pushing below the 14.5000/\$-handle in early morning trade after closing at 14.5300/\$ yesterday. SA health authorities

will meet today to discuss suspension of J&J vaccine in the US, as it forms a key element in the domestic vaccination programme, while the market will also have the SARB's bi-annual monetary policy review to digest. Externally, a slew of major central bank speakers are scheduled for later this afternoon including the BoE, ECB and Fed's Powell amongst other Fed officials.

## Contacts

Mogamisi Nkate	+267 3674335	email: <a href="mailto:mnkate@bancabc.com">mnkate@bancabc.com</a>
Phillip Masalila	+267 3674621	email: <a href="mailto:pmasalila@bancabc.com">pmasalila@bancabc.com</a>
Kefentse Kebaetse	+267 3674336	email: <a href="mailto:kkebaetse@bancabc.com">kkebaetse@bancabc.com</a>
Maungo Sebonego	+267 3674338	email: <a href="mailto:msebonego@bancabc.com">msebonego@bancabc.com</a>

**Report produced by ETM Analytics for BancABC Botswana.**

## Disclaimer

The information provided herein has been prepared solely for informational purposes and is not an offer to buy or sell or a solicitation of an offer to buy or sell the securities or instruments mentioned or to participate in any particular trading strategy. These materials have been based upon information generally available to the public from sources believed to be reliable. No representation is given with respect to their accuracy or completeness, and they may change without notice. BancABC on its own behalf and on behalf of its affiliates disclaims any and all liability relating to these materials, including, without limitation, any express or implied representations or warranties for statements or errors contained in, or omissions from, these materials.