

Botswana Market Watch

15 April 2021

GMT		International and Local Data	Period	Exp	Previous
	BO	CPI y/y	Mar		2.4%
12:30	US	Empire manufacturing	Apr	16.30	17.40
12:30	US	Initial jobless claims	Apr 10		744k
12:30	US	Philadelphia Fed index	Apr	40.00	51.80
12:30	US	Advance retail sales m/m	Mar	5.20%	-3.00%
12:30	US	Retail sales ex. auto and gas	Mar	4.40%	-3.30%
13:15	US	Industrial production m/m	Mar	3.00%	-2.20%
13:15	US	Manufacturing production m/m	Mar	4.00%	-3.10%

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
Crypto world	Coinbase global enjoyed a successful listing yesterday on the Nasdaq and is now valued at \$86bn. The stock price opened at \$381 per share, up 52.4% from a Tue reference price of \$250.	A clear signal that the cryptocurrencies are maturing and gaining traction as an accepted unit of exchange	3/5 (market)	Transparent platforms such as Coinbase only enhance the attractiveness of crypto-currencies and add to the sophistication of the market that stands to gain from the behaviour of central banks devaluing their currencies
ECB on EZ economy	ECB President Lagarde described the EZ economy as still being on the two crutches of monetary and fiscal stimulus, which will not be removed until a recovery emerges	It is an indication of how the central bank will behave, with governments under pressure to support	4/5 (economy)	Lockdown restrictions and a painfully slow rollout peppered by suspensions of vaccines and logistical problems have meant that lifting restrictions has proved problematic for the economy
German forecast	Germany's longer than expected lockdown will result in forecasting institutions reducing growth expectations by as much as 1% for 2021 to 3.7% from 4.7%	The institutes reporting may reduce the 2021 forecast but will likely lift the 2022 forecasts	4/5 (economy)	This is more a story of a delayed recovery than a lost recovery. It will take more time to lift restrictions in 2021, which will lower the base off which growth in 2022 is calculated

Local FX Opening Rates and Comment

	CUSTOMER BUY		CUSTOMER SELL		Benchmark Yield Curve		Forward Foreign Exchange			
	CASH	CASH	TT	TT						
BWPZAR	1.2584	1.3718	1.2826	1.3586	6m	1.2170	1m	BWPUSD	0.0000	
BWPUSD	0.0874	0.0959	0.0890	0.0950	3y	4.7550	3m	-6.2010	0.0000	
GBPBWP	15.7395	14.4483	15.3989	14.7493	5y	5.3350	6m	-13.9035	0.0000	
BWPEUR	0.0730	0.0795	0.0747	0.0779	22y	6.7250	12m	-31.0099	0.0000	
JPYBWP			9.7366	10.1343						
USDZAR	13.8280	14.9919	14.1521	14.6676						
EURUSD	1.1494	1.2453	1.1763	1.2184						
GBPUSD	1.3220	1.4323	1.3530	1.4013						
					Equities		Economic Indicators			
					BSE Domestic Index	6534.79	GDP	-4.1	Bank Rate	3.75
					BSE Foreign Index	1550.93	CPI	2.4		

- Botswana has banned all poultry imports from South Africa after an avian flu outbreak was detected on a chicken farm in Botswana's eastern neighbour. A commercial chicken farm had some 300 birds die in Ekurhuleni which is just east of Johannesburg, samples from the birds tested positive for the H5 strain. *"As a result, the import of domesticated and wild birds, their products (meat, eggs and feathers), from South Africa is banned with immediate effect," Botswana's Ministry of Agricultural Development and Food Security said in a statement.*
- The move by the ministry was not unexpected given that during the outbreak of 2017, millions of birds were culled in South Africa resulting in widespread bans of South African poultry products in the region.
- On the macro front, a wall of stimulus money and higher commodity prices are certainly supporting the thoughts of longer term inflation taking hold. The global central banking community is currently looking through the spikes in inflation viewing them as potentially short term in nature preferring to focus on balance sheet repair both on a consumer and corporate level. There are however a number of factors which may set the tone for structurally higher inflation in the coming years as the likes of China restock, the broader globe looks to electrify causing higher base metal prices and weather patterns change affecting food prices. Corn prices in the US have traded bear 8 year highs in recent days driven by cold weather which has damaged newly planted crops across the grain belt, added to this there is expectations of lower than average rainfall which may well result in lower crop yields. We would suggest that investors keep a close eye on developments in the commodities sector as it will undoubtedly have pass through effects going forward.
- This brings us to today's local release namely CPI for March which Bloomberg has scheduled in its calendar. Any pressures seen in the print are likely to emanate from a rise in fuel and higher food costs. We don't however see runaway inflation manifesting given the fact that domestic demand still needs to recover substantially before it can take hold in any meaningful way.
- On the international front, there will be some important releases scheduled for today. In the last print, US retail sales posted the largest monthly contraction since the onset of the pandemic. The contraction was primarily due to the base effects of January's stimulus-fuelled surge, which contributed to the highest monthly consumer spending increase since June 2020, while extreme weather, which impacted large parts of the country in February, also dampened demand. Given the additional stimulus released in March, though, we may see another surge in consumer spending, giving the sector a much-needed boost after the poor performance in the last quarter of 2020. Looking further out, the considerable slack that remains in the US labour market should see retail sales growth held back somewhat, at least until hiring picks up pace once again, which feeds the view that inflation will remain contained following temporary base effects.
- Yesterday proved to be another poor day for the USD, which came under further pressure in keeping with the more recent trend. It would appear that the Fed's message that it will persist with ultra-low interest rates for a while to come is resonating with many in the market and keeping USD sentiment weak. Real economy pressures are counting against the USD's performance, most notably the record trade deficit and the widening budget deficit that will persist well into 2022. Technically, there appears to be more left in this move, forcing the USD to erode to even weaker levels.
- 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 made some substantial headway yesterday as a broadly softer US dollar triggered rotation into relatively higher yielding currencies. The market initially appeared unwilling to push the local unit through the key 14.5000/\$-level as it hit 14.4400/\$ during morning trade before promptly reversing gains. The USD ultimately sank further as Treasury yields failed to provide support and investor demand spurred on gains for riskier assets and EM currencies. Subsequently, the ZAR advanced further to an intraday high around 14.3700/\$, an almost 15-month best against the dollar, closing a notch higher at 14.3800/\$ with a 1% gain on the day.
- Despite the ZAR tracking dollar dynamics almost perfectly, the local unit also had stronger than anticipated retail sales figures backing up some of its gains. Retail sales in February surged on both a monthly (+6.9%) and yearly (+2.3%) basis as pent up demand likely led to higher consumption following the easing of lockdown restrictions at the time. This suggests that there has been a considerable recovery in domestic demand conditions and a broader shift in consumer spending patterns. Looking ahead, we can expect retail sales to pick up momentum in March, mostly due to base effects and the slump seen in Q2 last year. Underlying dynamics, however, will still be weak going forward, at least until there is a considerable improvement in SA's economy and an effective rollout of vaccines.
- Resultantly, it remains to be seen how sustainable the ZAR's moves below 14.5000/\$ are, while there have been additional delays with government's vaccine procurement. Health minister Zweli Mkhize said Johnson & Johnson won't sign off on the deal reached last month, with the government citing "unreasonable terms" being demanded by the manufacturer. This is also after the rollout of the J&J vaccine was halted domestically as US health officials called for a suspension due to rare blood clots. In the SARB's monetary policy review released yesterday, it said changes to policy and rate cuts over the last year are still filtering through the financial system. While the effects are expected to peak in 2021, they are also likely to boost growth in the coming years. As inflation returns to the midpoint of the SARB's target 3%-6%, currently expected to occur in Q2 this year, the MPC will begin instituting rate normalisation to reduce the difference between the repo rate and inflation. However, given recent ZAR strength, the SARB may tolerate inflation for a little longer to support economy through looser monetary policy, which could limit the ZAR's ability to capitalise on a weaker USD as other EMs begin their rate hiking cycles.
- Externally, the market remains cautious that the Fed could change its narrative later in the year but, for the moment, is convinced that it will weather the temporary inflation storm, with lower rates and current monetary easing likely to stay. Yesterday, Fed Chairman Jerome Powell said the central bank would first reduce its monthly bond purchases before hiking rates. Overnight, the USD

has held near three-week lows on a trade-weighted basis as slightly dampened risk appetite during the Asian session has failed to provide much support. The ZAR, meanwhile, is slightly weaker and a bout of profit taking may be in order after yesterday's gains.

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

Report produced by ETM Analytics for BancABC Botswana.

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