

## Botswana Market Watch

## 19 April 2021

GMT		International and Local Data	Period	Exp	Previous
	<b>BO</b>	<b>Nothing on the cards</b>			<b>-6.0%</b>
04:30	JN	Industrial production y/y	Feb F		-2.60%
09:00	EZ	Construction output wda y/y	Feb		-1.90%

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	<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. 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	<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
Cryptocurrencies	Took a substantial tumble over the weekend on news that the US Treasury is looking to charge several institutions for money laundering using cryptocurrencies	Stronger regulation of the users of cryptocurrencies may well knock the wind out of its sails	<b>3/5</b> (market)	This is always the biggest risk and will be a source of concern to many. However, it does not detract from the desire of investors to rotate away from FIAT currencies being debased by QE
UK House Prices	House prices in Britain rose to a record high after Fin Min Sunak extended a tax cut for home-owners last month, according to data from Rightmove	Although substantial costs have been reduced, the price of houses has risen to partially offset	<b>4/5</b> (economy, market)	The move has helped to bolster the balance sheets of many households. However, the risk is some of that froth unwinds once the tax duty on house transfers is reinstated
Japanese Exports	Japan's exports have posted the largest monthly gain since late 2017, led by a significant rise in China-bound shipments.	Given Japan's role as a global exporter, this confirms a recovery in global demand	<b>3/5</b> (economy)	This was the strongest growth in more than three years but was mainly down to base factors that will unwind as global growth gradually recovers

### Local FX Opening Rates and Comment

	CUSTOMER BUY		CUSTOMER SELL		Benchmark Yield Curve		Forward Foreign Exchange			
	CASH	CASH	TT	TT						
	BWPZAR	1.2637	1.3777	1.2881	1.3644	6m	1.2300	1m	BWPUSD	BWPZAR
BWPUSD	0.0886	0.0966	0.0903	0.0957	3y	4.7550	3m	-2.0768	0.0000	
GBPGBP	15.6011	14.3214	15.2636	14.6197	5y	5.3350	6m	-6.3375	0.0000	
BWPEUR	0.0741	0.0807	0.0758	0.0792	22y	6.6850	12m	-13.8743	0.0000	
JPYBWP			9.8545	10.2666				-30.9319	0.0000	
USDZAR	13.6916	14.8461	14.0125	14.5249						
EURUSD	1.1479	1.2438	1.1748	1.2169						
GBPUSD	1.3290	1.4400	1.3602	1.4088						
Equities		Economic Indicators								
BSE Domestic Index	6569.59	GDP	-4.1	Bank Rate	3.75					
BSE Foreign Index	1550.93	CPI	3.2							

- There has been some shuffling of the cabinet late last week with the government led by President Mokgweetsi Masisi appointing a new finance minister. Peggy Serame has been appointed the new finance minister replacing Thapelo Matsheka. Thapelo Masheka has been appointed the new minister of infrastructure and housing development which is a lower profile post to the finance minister. Peggy Serame has certainly taken a step forward in political prominence within the President's cabinet, returning to the Finance Ministry where she previously served as a microeconomist.
- Internationally the COVID-19 pandemic remains front and centre with the efficacy of vaccines against the virus variants in the spotlight. News out of Israel overnight is that the COVID-19 virus variant discovered in South Africa can break breach the protection offered by the Pfizer Inc and BioNTech vaccine to some extent according to a real-world study in Israel. Reuters reported the following - *The study was released on the medRxiv pre-print site on April 9 and has not been peer reviewed. It compared almost 400 people who had tested positive for COVID-19, after they received one or two doses of the vaccine, against the same number of unvaccinated patients with the disease. It matched age and gender, among other characteristics. The South African variant, B.1.351, was found to make up about 1% of all the COVID-19 cases across all the people studied, according to the study by Tel Aviv University and Israel's largest healthcare provider, Clalit.*
- J&J scientists have refuted suggestions that their vaccine is similar to AstraZeneca, which would explain why they have both been linked with very rare blood clotting, mainly in women. It is more than likely that the vaccine will be reinstated and that doctors will be asked to become more judicious in who they administer what vaccine to. The benefits of the vaccine far outweigh the risks given the tiny percentage of people that suffer these side effects, and the vaccination drive is, therefore, likely to continue.
- In the way of data through the week ahead, it will be a quieter one for the US, especially early on. It will only be Thu and Fri, which will offer investors much to trade on with some leading indicators and the Markit PMI the only data worth commenting on at this stage. Direction is, therefore, likely to come from elsewhere.
- Locally nothing is due for release and thus newflow will likely drive markets through the course of this week.
- Moving onto the FX markets, as US yields dipped, so did the USD's performance, with the greenback remaining pinned near multi-week lows. The performance of UST yields will likely determine broader direction in the USD through the week ahead, with very little in the way of US data until Thu and Friday this week. Therefore, it is a good week to take stock of the economic backdrop and better understand whether the dynamics that have detracted from the USD through the past year remain intact.
- The BWP-USD cleared the 0.09200 level in the interbank market driven by a weaker USD and stronger sentiment towards frontier and emerging markets. This morning we see the USD broadly weaker and this may well translate to a stronger opening for the BWP

## ZAR and Associated Comments

- The ZAR eased on Friday, despite the US dollar remaining on the back foot, as investors booked profits following the prior day's sharp gains which saw the unit break through some key technical levels. The local currency ultimately ended off the last day of the week with a 0.95% decline, the most in the emerging market currency sample, as it settled at the 14.3100/\$-handle. However, this was likely a function of the ZAR moving into territory last seen 15 months ago. After closing the prior week at 14.6100/\$, the ZAR was still the top performing emerging market currency as it secured a 2.10% appreciation against the USD over the week.
- The ZAR's resilience over the first quarter, in light of the dollar's rally at the time, explains the current outperformance as well as the currency's year-to-date performance. Support has largely stemmed from the real economy through a sustained positive trade balance, as exports remain bolstered due to higher commodity prices, while inflows from the developed world have been soaking up SA's relatively high real yields in comparison to risks currently faced.
- However, SA is not without its own idiosyncratic risks which extend past current pandemic risks. Structural challenges, such as unstable power supply and growth suppressing policies, still plague certain industries on which the fiscus heavily relies on. Meanwhile, public sector wage negotiations are coming to the fore once again. On Friday, unions warned that strike action may occur if government does not agree to increase wages for the 2021-2022 fiscal year. A key point in current fiscal consolidation plans to reduce the budget deficit in the coming years relies on a civil servant wage freeze. Without this moderation in public spending, the government will struggle to achieve targets outlined by FinMin Tito Mboweni in the February budget in the next three years. The next meeting between government and unions will occur at the end of this week, while last week it was also reported stated-owned Eskom's two biggest unions are demanding 15% wage increases, while another smaller union is asking for a 9.5% increase.
- This comes at a time when the tax base has endured tremendous pressure over the last year, and inflation is currently at 2.9% y/y according to the last print. On that front, an update comes mid-week with March's inflation figures headlining the domestic data card this week. The SARB, meanwhile, was decidedly dovish last week with Governor Kganyago stating that rates will remain low for as long as inflation allows. If March's print comes out weaker than expected, it may raise concerns over SA's recovery, while other developing world central banks will be beginning to consider monetary tightening in order to bolster their markets and currencies.
- In the meantime, EM currencies are likely to gain on the back of a softer dollar as bearish momentum for the greenback persists and the market continues to price out earlier Fed tapering. On the domestic front, SA's health regulator has asked government to lift the ban on the Johnson & Johnson vaccine, and continue with the rollout given certain conditions. This has offered the ZAR some support in early morning trade as it holds below 14.3000/\$. Externally, later this week sees rate decisions from the central bank of Canada as well as the ECB. With late vaccine rollouts starting to accelerate, this may allow some room for policymakers to consider tightening policy in the coming months, hints of which the market will be on the lookout.

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