Botswana Market Watch

20 April 2021

GMT		International and Local Data	Period	Exp	Previous
12;00	BO	Botswana to place BWP10bn 7-day certificates			-6.0%
06:00	JN	Machine tool orders y/y	Mar F		65.00%
06:00	GB	ILO unemployment rate (3mths)	Feb	5.10%	5.00%
13:30	EC	Bank of Italy Deputy Governor Cipollone speaks at event			

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
China rates	China has left its lending benchmark rate on hold for the 12th consecutive month with the 1yr prime rate at 3.85% and the 5yr at 4.65%	Policy makers will remain cautious in unwinding stimulus given the many downside risks	3/5 (market)	Expectations for the most part are that the PBoC will leave rates unchanged through the remainder of the year, until there are clear indications that the pandemic has been overcome
RBA minutes	CB remains committed to supporting the economy. Employment and inflation goals not yet met. Goals only likely to be met in 2024	RBA has built its argument for leaving rates on hold for as long as is necessary to achieve goals	4/5 (monetary policy)	Market conditions have improved and a strong recovery is anticipated in H2 2021, but the RBA will still persist with its ultra-accommodative stance for what appears to be several years
ECB – EZ banks	A 5yr review by the ECB found that the EZ's top banks had undercounted their risk-weighted assets by 275bn or some 12%, by underestimating potential losses	It means that the bank ratios are not conservative enough and more capital raising is needed	3/5 (economy)	Banks are reportedly moving to correct the deficiencies and fully comply with the requirements, but more needs to be done which will likely impose a degree of caution over the banking system

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2588	1.3720	1.2830	1.3588
BWPUSD	0.0887	0.0965	0.0904	0.0956
GBPBWP	15.7564	14.4631	15.4155	14.7644
BWPEUR	0.0735	0.0801	0.0753	0.0785
JPYBWP			9.8152	10.2259
USDZAR	13.6230	14.7684	13.9423	14.4489
EURUSD	1.1579	1.2548	1.1850	1.2276
GBPUSD	1.3434	1.4558	1.3749	1.4243

Benchmark Yield Curve

6m	1.2170
3y	4.7550
5y	5.3350
22y	6.7250

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-2.2181	0.0000
3m	-5.9231	0.0000
6m	-13.8645	0.0000
12m	-30.9221	0.0000

Equities / **Economic Indicators**

BSE Domestic Index	6551.82	GDP	-4.1	Bank Rate	3.75
BSE Foreign Index	1550.93	CPI	3.2		

- The local currency market took news of a new finance minister in its stride yesterday paying more attention to developments in the global FX markets. The BWP-USD maintained its status above the 0.0920 mark in the interbank market driven by another bout of dollar weakness. The question that some are posing at the moment is whether the government's target of the Pula to lose 2.87% this year is realistic given the current depreciation of the dollar and strength of the rand. Year to date, the Pula has appreciated by some 0.32%, granted this is below the likes of the rand which is currently some 3.5% stronger, but we cannot rule out any further dollar weakness going forward. The currency basket is pegged in a ratio of 45% to the rand and 55% to IMF's special drawing right currencies.
- The Dollar Index is currently marking time just ahead of the 90.90 level compared to highs of 93.437 at the end of March.
- Moving over to base metals, we would like to draw the readers attention to developments in the copper markets given the potential of the Kalahari Copper Belt.
- Copper prices have received a boost from two sources this morning. First off, we have a weaker USD and secondly China's largest copper smelters have recommended curbing new supply and using more scrap to assist the country in achieving its climate goals. Bloomberg reported the following - *Fifteen smelters said the increased use of secondary metal would enable them to use less copper directly extracted from mines, and they'll also use more blister -- a less pure form of metal -- as a raw material, according to Beijing Antaike*
- The broader creation of efficiencies remains front and centre for Beijing. China's industry ministry stated yesterday that it would be compiling records in 2021 on energy consumption for key heavy users such as the aluminium, cement and steel industries for the purpose of promoting conservation and efficiency.
- Internationally, President Joe Biden has indicated that he is "prepared to compromise" on infrastructure and has asked the Republicans for a proposal by May. Biden met with a bipartisan group of lawmakers in a bid to try and build traction for the $2.0trln investment. At the centre of it all, is just how the $2.0trln will be financed and it would appear that a more popular approach would be to adopt a user-pay principle as opposed to simply extracting the funds from the broader fiscus. That might make the infrastructure spend more budget neutral, but will impose a burden on the private sector nonetheless. It may however be more palatable to the more conservative lawmakers that are against further increases in taxation.
- Looking at the day ahead for the globe, in the absence of any material data, focus will rest with the financial markets, the USD's behaviour, what equities are pricing in and the bond market. All three are interlinked with investors trying to find the balance between understanding the distortions created by money supply and identifying real value in a market environment still fraught with uncertainty as more worrying vaccine news is released, the pandemic being far from over, and the economic recovery largely dependent on the removal of restrictions on growth

ZAR and Associated Comments

- With limited data at the start of the week to influence direction, the ZAR was able to track broader EM currency sentiment which were led stronger by a weakening US dollar. The USD dropped on a trade-weighted basis as gains for the euro and British Pound pressured the greenback, while slightly higher US Treasuries yields on the day offered little support as they remain near four-week lows. At one stage the ZAR had recouped all of Friday's losses but ultimately settled at the 14.2400/$-handle, 0.45% stronger than its prior close.
- For the most part, the dollar is continuing to track US Treasury yields lower, while the ZAR continues to garner support from inflows as investors favour SA's higher real rates and from higher commodity prices which are supporting the country's current account through its positive external trade position. Last week saw the 24th straight week of net inflows into US-listed ETFs that invest in developing nations. According to data compiled by Bloomberg, net inflows last week amounted to $749.3 million, down from the prior week's $1.3 billion. Coinciding with the ZAR's outperformance last week, South Africa recorded the largest net inflow in the EMEA sample, coming in at $33.8 million, where $14.7 million were attributed to local equities and $19.1 million went into domestic bond markets.
- With US Treasury yields stabilising after Q1's pricing in of a stronger US economy under the reflation trade, emerging markets will likely continue to attract higher investment as the appeal of the safe-haven greenback wanes. Resultantly, SA's higher real yields will offer support to the ZAR in the near term, but longer-term risks remain and have been worsened by the pandemic's economic downturn.
- On the upside, some more progress is being made on the domestic vaccine rollout, which is greatly needed to avert more economically damaging restrictions. Pfizer has reportedly backed down from demands to indemnify itself form any negative effect from the vaccine shots. Meanwhile, the USD has remained subdued in early morning trade, with the ZAR stronger at the time of writing and testing the 14.2000/$-handle. The day ahead sees the release of the SARB's leading indicator which, since the pandemic-induced low last May, has risen to record highs. While the domestic economy has shown signs of a nascent recovery that has gained momentum from the back-end of last year, SA's economy remains marred with deep structural challenges. This was reiterated by SARB Governor Lesetja Kganyago last week as he called for reforms to occur alongside the accommodative monetary policy the central bank has offered over the past year. Looking ahead, the indicator is expected to surge to new highs. However, SA's growth prospects will remain weak and continue to be so until the government plays a more active role in supporting the recovery..

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