

Botswana Market Watch

21 April 2021

GMT		International and Local Data	Period	Exp	Previous
11:00	BO	Nothing on the cards	Apr 16		-3.70%
14:00	US	MBA mortgage applications	Apr 21	0,25%	0,25%
	CA	Canada central bank rate decision			

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. 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	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
Fedspeak	Fed Chairman Powell confirmed the Fed's expectations that the US economy will temporarily see inflation which is "a little higher" as the economy recovers	Fed remains committed to its dual mandate of stable prices and full employment	3/5 (market)	The Fed will try to persist with current accommodative monetary policy for as long as possible, but will not allow inflation to become a significant problem in the years ahead
Covid latest - India	Data from Johns Hopkins shows that new infections in India have surged to staggeringly high levels of approximately 270k a day	Given the size of the population, infections may still rise much further	4/5 (economy)	India is producing its own vaccines and will be vaccinating aggressively, but it is a hotspot that is taking the edge of global demand and impacting markets
Aussie consumption	March retail sales jumped 1.4% in what is a sign of things to come for other countries that find themselves able to reopen their economies	Consumer confidence is soaring and pent-up demand and savings are now being deployed	2/5 (economy)	Consumer spending is expected to remain strong throughout the remainder of the year, with improved confidence levels also combining with very loose monetary policy

Local FX Opening Rates and Comment

	CUSTOMER BUY		CUSTOMER SELL		Benchmark Yield Curve	Forward Foreign Exchange		
	CASH	TT	CASH	TT			BWPUSD	BWPZAR
BWPZAR	1.2629	1.2872	1.3797	1.3664	6m	1.2270		
BWPUSD	0.0883	0.0900	0.0966	0.0957	3y	4.7550	1m	-2.1499 0.0000
GBP/BWP	15.7447	15.4040	14.4228	14.7232	5y	5.3350	3m	-6.2790 0.0000
BW/PEUR	0.0734	0.0752	0.0802	0.0786	22y	6.7250	6m	-14.0351 0.0000
JPY/BWP		9.7661		10.1954			12m	-31.1318 0.0000
USDZAR	13.7268	14.0486	14.8828	14.5608				
EURUSD	1.1547	1.1818	1.2510	1.2240				
GBPUSD	1.3370	1.3683	1.4485	1.4172				

Equities		Economic Indicators			
BSE Domestic Index	6521.68	GDP	-4.1	Bank Rate	3.75
BSE Foreign Index	1550.93	CPI	3.2		

- News flow was on the thin side yesterday, leading local financial market participants to look offshore for direction. The BWP-USD slipped slightly but managed to hold the 0.0920 mark while the dollar index recovered off its lows to close above the 91.00 mark yesterday. The current question that remains front and centre for the foreign exchange markets is whether we are seeing the end of dollar weakness or can it extend further. When looking at a chart, one sees that the trend to the downside is still intact for the USD Index, and we would need a close above 91.50 to break this.
- Internationally, Gold and Bitcoin have diverged; both are seen as an alternative store of value but have behaved somewhat differently recently. Gold has managed to notch up gains clearing the \$1780.00/oz mark, while Bitcoin has tumbled sharply, extending the losses seen after touching fresh highs recently. While Gold provides refuge in times of uncertainty, the jury is still out on Bitcoin even though there is more mainstream acceptance lately. We mention this in today's note because there is increasing adoption of cryptocurrencies across the region. Investors have divergent views as to first off, whether or not it is an asset class, and secondly, what the prospects for returns actually are.
- Moving over to the United States, in response to the Biden administration's infrastructure plans, Senate Republicans will produce their own counter-proposal to Biden's \$2.3trln plans this week, but it is likely to be less than a third of the size. Some speculation that the Republican offer will be somewhere in the region of \$600bn and would come accompanied with an idea on how it will all be funded. The concept of user-pay principle has been touted and this may appeal to fiscal hawks, but in essence amounts to yet another kind of "soft" tax on the private sector. This stimulus package is essential for commodity producers across the globe, given the amount of raw materials required to fulfil the scope of the infrastructure plan. Botswana has several commodities that will be needed in abundance, thus supporting both tax revenue and hard currency earnings.
- President Biden will be holding his global climate change virtual summit this week and has invited 40 leaders including China's Xi Jinping to participate. This is a clear rebuke of the Trump stance on the issue and will be seeking to secure deals with the world's largest greenhouse emitters. Leading by example, Biden will seek to unveil a new target before the summit and pledge funds to assist less wealthy countries combat climate change. The target Biden is being urged to set, is at least a 50% reduction of carbon emissions by 2030.
- Looking at the day ahead, once again, the calendars are somewhat thin in terms of data leading investors to focus on market headlines and news flow.

ZAR and Associated Comments

- The ZAR was unable to withstand a slight souring of risk appetite yesterday with the US dollar managing to halt its sharp losses of late. The local unit pared earlier gains after testing the 14.2000/\$-handle during the Asian trading session, and ultimately settled 0.35% weaker just shy of 14.3000/\$. As a whole, emerging market currencies ended the day mixed, while the USD gained on the souring sentiment.
- The outlook for the USD is one of continued weakness, with aggressive fiscal and monetary policy the root cause, while Treasury yields continue their decline and reduce its haven appeal. However, in the absence of domestic catalysts to improve the current outlook, the ZAR may struggle to capitalise in a depreciating dollar environment due to pre-existing fiscal risks and structural challenges. Released yesterday, the SARB leading indicator, a measure of South Africa's current business cycle, continued its rise in February to record highs as increases in four of the 10 subcomponents offset losses in the remaining six. Driving the rise were increases in the number of residential building plans approved and an acceleration in the 12-month rate of job advertisement growth. Although an improvement, base effects of last year's lockdowns will begin to distort measures of the economy's health, while weak business confidence and a path of deteriorating fiscal metrics remain.
- In reality, improvements on the domestic outlook are likely to be few and far between. Add dollar weakness to the mix and we may see more range-bound trade for the ZAR as it has done so for most of the year. It remains to be seen how sustainable to market deems the new 14.2000-14.3000/\$ range is, which would ultimately be unsustainable in the longer term given South Africa's fiscal risks and relatively weak growth outlook. As EM central banks begin considering rate hike cycles following the pandemic's downturn, one such catalyst for the ZAR to extend gains would be rising inflation. However, should domestic demand remain muted, the lack of demand-side pressures will be keeping inflation contained in the near term. Nevertheless, an update comes today with March's CPI growth headlining the domestic data card. Expectations are that inflation broke back into the SARB's target 3-6% range in March, from a prior figure of 2.9%, mostly a result of higher fuel costs. Meanwhile base effects will begin to play a role in the coming months and we may see the midpoint target of 4.5% breached, but only if this trend is sustained into the end of the year may we see any rate hike action from the SARB in 2021.
- Ahead of the domestic inflation print later this morning, the ZAR has continued to take cues from broader risk appetite overnight and traded slightly weaker against a dollar holding firm on a trade-weighted basis. Policy updates in the developed world kick off today with the central bank of Canada deciding rates amidst expectations it will taper bond purchases, while the likes of the ECB will be announcing its own tomorrow..

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