Botswana Market Watch

22 April 2021

GMT		International and Local Data	Period	Exp	Previous
	BO	Nothing on the cards			
11:45	EZ	ECB rate announcement	Apr 22	0.00%	0.00%
12:30	US	Chicago Fed activity index	Mar		-1,09
12:30	US	Initial jobless claims	Apr 17		576k
12:30	EC	ECB President Christine Lagarde Holds Press Conference			
14:00	US	Existing home sales	Mar	6,17mn	6,22mn
14:00	EZ	Consumer confidence	Apr A	-11,30	-10,80
14:00	US	Leading Indicators	Mar	0.60%	0.20%

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
BoC	Yesterday, the BoC announced its decision and indicated that it could start hiking interest rates in late 2022 as it raised its growth outlook for the economy	The BoC also cut its weekly bond purchases to C$3bn from a previous target of C$4bn	3/5 (market)	The impact on the economy of the lockdowns has been less severe than first though and the recovery is expected to be strong. The BoC is now actively in policy normalisation mode
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 – China relations	Australia cancelled two "belt and Road" infrastructure building initiatives which has angered the Chinese government that has warned of consequences	Australia's actions have been criticised by China and will further damage strained relations	3/5 (politics, economy)	Australia for its part has taken a tougher stance against China in recent years and is seeking to render itself more independent. China has warned of the consequences of this behaviour

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2613	1.3789	1.2857	1.3657
BWPUSD	0.0885	0.0966	0.0902	0.0957
GBPBWP	15.7185	14.3989	15.3784	14.6989
BWPEUR	0.0735	0.0803	0.0753	0.0787
JPYBWP			9.7759	10.2055
USDZAR	13.6800	14.8434	14.0006	14.5223
EURUSD	1.1554	1.2517	1.1824	1.2247
GBPUSD	1.3377	1.4492	1.3690	1.4179

Benchmark Yield Curve

6m	1.2390
3y	4.7550
5y	5.3350
22y	6.7250

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-2.0816	0.0000
3m	-5.9524	0.0000
6m	-13.9133	0.0000
12m	-31.0196	0.0000

Equities / **Economic Indicators**

BSE Domestic Index	6539.96	GDP	-4.1	Bank Rate	3.75
BSE Foreign Index	1550.93	CPI	3.2		

- The country announced yesterday that it would permit the importation of poultry from South Africa from approved avian-influenza free farms. The move comes as a result of reassurances and quality checks by South Africa. This move by the Botswana authorities will be welcomed by South Africa as the poultry industry contributes some R50bn per year to SA's GDP and is directly responsible for some 110 000 jobs.
- In other local news, Afrik21 reported the following - *A Memorandum of Intent (MoI) has been virtually signed between the governments of Botswana and Namibia for the implementation of their 5,000 MWp mega solar project. Both countries have already received support from the International Finance Corporation (IFC), the International Bank for Reconstruction and Development (Bird), the African Development Bank (AfDB), as well as the US government's Power Africa initiative. Things are looking up for the construction of a 5 000 MWp solar complex straddling the border between Namibia and Botswana. The authorities of these southern African countries have signed a memorandum of intent via video conference with several financial partnerships, including the African Development Bank (AfDB), the International Finance Corporation (IFC), the International Bank for Reconstruction and Development (Bird) and the US government's Power Africa.*
- Internationally, all eyes will be on the ECB meeting later this afternoon. No major changes are expected at the ECB monetary policy meeting this week. The bank no longer needs to worry about rising yields, meaning that any changes to bond purchase levels will likely wait until the next meeting. The bank will unlikely change its assessment of the balance of risks facing the regional economy, but the more hawkish among them will look to contained yields and a recovery across globe as reasons to not push for more stimulus. The tone of Lagarde's press conference will be key, but it is most likely that this week's meeting will turn out to be a damp squib.
- In terms of FX markets, although downside momentum appears to have stabilised, the bias remains intact. The USD has succumbed to pressure which has mounted as US Treasury yields have moderated back down. However, the recent volatility in equity markets has bolstered demand for USDs and some investors have sought to buy the USD dips. Given the lack of data to trade on and the upcoming ECB guidance today, the USD may well consolidate through the final two sessions of the week, before a busier data week resumes next week.
- Local markets remain rangebound for now. Fixed income investors will be gearing up for the next bond auction which will take place on the 30 April 2021. The government will place BWP200m 6% bonds due for a maturity June 13 2040.

ZAR and Associated Comments

- The US dollar steadied yesterday following tetchy risk appetite the day prior as pandemic-related concerns triggered safe haven flows. This appeared to be short-lived though, as global equity markets were given a boost and snapped recent losses at the start of the US trading session, offering higher-beta assets such as the ZAR some reprieve. Resultantly, the ZAR swung earlier losses in a broadly pressured EM basket of currencies to lead gains against a softer USD.
- Nevertheless, the local currency remained in its recent range following the 0.40% appreciation yesterday which saw the unit close at 14.2400/$. Implied volatilities on USD-ZAR options, which represent the price of hedging currency movements and depends on expectations of future volatility, have dropped in April following the spike and ZAR sell-off in late February and March. One-month at-the-money vols are currently near December lows, which points to some near-term stability for the local currency. However, without a positive domestic catalyst to cement the ZAR at its current 15-month highs, the local unit remains prone to correction, especially given its tendency to track global market dynamics.
- The domestic inflation print yesterday failed to meaningfully update the current outlook for muted inflationary pressure and the ZAR expectedly shrugged this off as a result. The consumer price index (CPI) rose 3.2% y/y in March, up a prior figure of 2.9% in February. Core inflation, which measures price pressures excluding food, non-alcoholic beverages, fuel and energy, slowed to 2.5% y/y from 2.6% prior. These numbers confirm that demand-side inflationary pressures in South Africa remain subdued at best, taking the pressure off the SARB to hike rates this year. While base effects will continue to keep the headline rate supported and may even see it breach the 4.5% mid-point of the SARB's target range, underlying dynamics will remain weak and inflation should slow once again towards the end of the year.
- Should this benign inflationary environment persist, this makes it unlikely that the SARB will hike rates this year despite the SARB quarterly projection model calling for two 25bps hikes at the last MPC meeting, one in Q2 and another in Q4. That the ZAR has extended gains against the dollar in this environment remains a result of the attractive yields on offer. Given current inflation, South Africa's real 10-year bond yield is highest amongst developing nations as investors are rewarded relatively higher for longer-term fiscal risks. Looking further out, if growth and inflation continue to lag behind once other EM central banks begin their rate hiking cycles, this may leave SA prone to outflows, keeping the ZAR vulnerable.
- Overnight, the ZAR has given up some of yesterday's gain while the USD has remained on the back foot. Focus for the day ahead will turn to the ECB rate announcement. While no policy updates are expected, any mention of future tapering of bond purchases or positive announcements on the economic outlook could bolster the euro, mounting further pressure on the greenback. Yesterday, saw the Canadian central bank pare back bond purchases, resulting in sharp gains for the Canadian dollar.

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