# Botswana Market Watch

**23 April 2021**

| GMT | | International and Local Data | Period | Exp | Previous |
|---|---|---|---|---|---|
| | B.O. | Nothing on the cards | | | |
| 07:30 | GE | Markit/BME manufacturing PMI | Apr P | 65.80 | 66.60 |
| 08:00 | EZ | Markit/BME manufacturing PMI | Apr P | 62.20 | 62.50 |
| 08:30 | GB | Markit manufacturing PMI | Apr P | 59.40 | 58.90 |
| 13:45 | US | Markit PMI manufacturing | Apr P | 60.00 | 59.10 |
| 14:00 | U.S. | New home sales | Mar | 868k | 775k |

| 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 |
|---|---|---|---|---|
| ECB | Unsurprisingly, the ECB's policy remained unchanged, keeping a strong stimulus policy in place. The ECB felt that the economy was poised for a strong rebound | Given the more upbeat assessment of a recovery, taper talk may dominate ahead of Jun meeting | 3/5 (monetary policy) | With the vaccine rollout ongoing and economies gradually opening up as they prepare for the summer holidays, the economic rebound will take place and could be powerful |
| Covid latest - India | India's Covid infection rate continues to accelerate, with more than 314k new infections reported in just one day | Given the size of the population of around 1.4bn people, it will likely accelerate more | 4/5 (economy) | These are frightening statistics that could dwarf what was seen in the U.S., and comes despite a vaccination drive unfolding in India |
| Climate Change targets | The U.S. and other countries hiked their targets for slashing greenhouse gas emissions at the global climate summit held virtually | The U.S. unveiled the goal to cut emissions by 50-52% from 2005 levels at the start of the summit | 3/5 (politics, economy) | Japan raised its target to cut emissions by 46% by 2030 up from 26%, while Canada raised its target to 40-45% up from 30% previously. Others announced similar initiatives |

## Local F.X. Opening Rates and Comment

| | CUSTOMER BUY CASH | CUSTOMER SELL CASH | CUSTOMER BUY TT | CUSTOMER SELL TT |
|---|---|---|---|---|
| **BWPZAR** | 1.2646 | 1.3789 | 1.2890 | 1.3657 |
| **BWPUSD** | 0.0885 | 0.0964 | 0.0902 | 0.0955 |
| **GBPBWP** | 15.6406 | 14.3586 | 15.3022 | 14.6578 |
| **BWPEUR** | 0.0736 | 0.0802 | 0.0754 | 0.0786 |
| **JPYBWP** | | | 9.7759 | 10.1852 |
| | | | | |
| **USDZAR** | 13.7155 | 14.8748 | 14.0370 | 14.5530 |
| **EURUSD** | 1.1543 | 1.2506 | 1.1814 | 1.2235 |
| **GBPUSD** | 1.3310 | 1.4421 | 1.3622 | 1.4109 |

**Benchmark Yield Curve**

| | |
|---|---|
| **6m** | 1.2230 |
| **3y** | 4.7550 |
| **5y** | 5.3350 |
| **22y** | 6.7250 |

**Forward Foreign Exchange**

| | BWPUSD | BWPZAR |
|---|---|---|
| **1m** | -1.5893 | 0.0000 |
| **3m** | -5.6063 | 0.0000 |
| **6m** | -14.2935 | 0.0000 |
| **12m** | -31.8581 | 0.0000 |

**Equities**

| | |
|---|---|
| **BSE Domestic Index** | 6539.96 |
| **BSE Foreign Index** | 1550.93 |

**Economic Indicators**

| | | | |
|---|---|---|---|
| **GDP** | -4.1 | **Bank Rate** | 3.75 |
| **CPI** | 3.2 | | |

- We enter the final day of trade with the global risk appetite underpinned following a decision by the European Central Bank to maintain its current stimulus programmes. Emerging and frontier markets keep a close watch on policy out of the G7 given that they are put in place to ensure an economic recovery which will spur the need for raw materials. For the most part, emerging and frontier markets provide these. Thus export revenues accrue in these economies, bolstering the government coffers and assisting the likes of Botswana with its own recovery programmes as the COVID-19 pandemic continues to impact its population.
- The big theme that is doing the rounds is the widening of the tax net. Governments have ramped up debt to support social structures following the destruction caused by COVID-19, and this needs to be funded. So, it's not surprising to hear U.S. President Joe Biden speaking of raising capital gains tax to 40% for wealthy individuals, almost double the current rate. Countries like Chile are exploring a wealth tax, and there will be sustained pressure on corporates to increase their contribution as we advance.
- One asset class firmly in the spotlight is cryptocurrencies and how these will be taxed. Authorities have found it difficult to tax the gains achieved on this, given the nature of the investment, but changes will be coming soon. We believe that there will be a global crackdown, and taxes will need to be paid.
- Locally, newsflow is on the thin side; however, news vendors remain focused on delivering relief across the country. There is no data for release; however, this changes next week when we have the Botswana Central Bank releasing its verdict on interest rates on the 29th of April. We expect an unchanged decision with the benchmark rate to be left at 3.75%. Any inflationary pressures experienced now is likely to be viewed by the bank as transitory.
- Moving onto the global foreign exchange markets, it has been a far more consolidative week for the USD after what has been a robust depreciative trend. One of the factors that could be keeping investors cautious is the FOMC decision and statement next week. Investors will be on the lookout for any fresh guidance that might offer insight into the probability of tapering. Following the ECB comments yesterday, the Fed may well choose to moderate expectations of a taper on the grounds of rising inflation risks and a strong economic recovery in H2. This could influence the performance of the USD.
- As mentioned yesterday, local F.X. markets remain rangebound for now. Fixed income investors will be gearing up for the next bond auction which will take place on the 30th of April 2021. The government will place BWP200m 6% bonds due for a maturity the 13th of June 2040.

## ZAR and Associated Comments

- The USD-ZAR traded gradually higher yesterday after gaining support near the bottom of its current narrow range around 14.2500. The outcome of this week's ECB meeting failed to weigh on the dollar, while the ZAR struggled to hold onto the prior day's gains despite other commodity currencies managing to cement moves higher.
- Ultimately, the ZAR's tendency to track broader dollar moves resulted in a slight depreciation as it fell 0.45% by the end of domestic hours to close at 14.3000/$. Correspondingly, the USD gained on a trade-weighted basis, largely due to losses in the euro and the pound. Making no changes to current policy, ECB president Lagarde also curbed tapering expectations at the rate announcement yesterday, stating that the bloc's central bank is not yet discussing the phasing out of its emerging bond buying programme. This sets up the Fed's next FOMC meeting next week, where the US Federal Reserve is likely to reiterate the same message that it is still premature to begin considering reducing bond purchases.
- Looking ahead, as US Treasury yields continue to decline, we may well see the dollar's bearish bias steadily continue. While the ZAR may still capitalise on this in the short-term, we maintain that the unit will have a tough task of making moves stick in the medium to longer term. Given current levels, being around 15-month highs for the ZAR, further short-term gains may yet require an additional domestic catalyst. Weak domestic demand has seen the resumption of local exports outpace that of imports, which provided some support to the ZAR, but may not persist for much longer. Meanwhile, the continuation of the domestic recovery has been held up by a slow vaccine rollout. Reported yesterday in an online briefing, the government will start the general rollout of the Johnson & Johnson vaccine from May 17. So far, around 300k healthcare workers have been vaccinated with the vaccine. Being so late in the day on the global vaccine rollout, markets were expectedly unmoved by this development.
- The government wage dispute with labour unions returns to focus with negotiations resuming today. Recall unions are demanding wage increases well above current inflation and have warned of widespread industrial strike action should government persist in their endeavours to freeze wages. This throws a spanner in the works of government's fiscal consolidation efforts, where a continually degrading fiscal position will result in longer-term vulnerability for the ZAR.
- For the day thus far, the ZAR is on track to end the week flat from the prior's close. The local unit has managed to pare overnight losses with the USD falling on account of news of a proposal that US President Biden will roll out a plan to raise on investment gains in order to fund social spending initiatives. US equity markets resultantly slumped on the news, with a slight risk off tone spilling over into the Asian trading session. PMIs due later this morning for the EU and UK may provide some fresh impetus, while US PMIs are scheduled for this afternoon, however larger moves may be muted ahead of the Fed's FOMC meeting next week. Thus, we may see more choppy trade for the local currency in the near term, with no string of gains or losses emerging over the last week..

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