

Botswana Market Watch

28 April 2021

GMT		International and Local Data	Period	Exp	Previous
	BO	Nothing on the cards			
06:00	GE	GfK consumer confidence	May	-3.50	-6.20
11:00	US	MBA mortgage applications	Apr 23		8.60%
12:30	US	Wholesale inventories m/m	Mar P		0.60%
12:30	US	Advance Goods Trade Balance	Mar	\$-87,50bn	\$-86,72bn
18:00	US	FOMC rate decision	Apr 28	0,25%	0,25%
18:30	US	Powell Holds Press Conference Following FOMC Meeting			

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
US 7yr auction	UST yields rose on Tue despite the improved demand for the \$62bn auction, while inflation expectations rose to an eight-year high ahead of the FOMC decision	The Fed's buying on its own will not be enough to hold back yields through inflation and recovery	4/5 (economy, market)	If the Fed leaves the economy to expand unchecked, the risk is that the overheating which follows drives bond yields up still further to put the brakes on the credit cycle that has emerged
Japanese retail sales	March retail sales rose 5.2% y/y vs 4.7% predicted. It is the strongest growth recorded in five months, but does not capture the curbs imposed due to Covid-19	Japan's economy shows signs of recovering strongly if only curbs were sustainably lifted	2/5 (economy, virus)	Retail sales spending recovered to pre-Covid levels in Q4 2020, and is on track to post solid growth in the future when restrictions are lifted and global growth resumes to boost consumer confidence
US consumer confidence	Consumer confidence jumped to 121.7 in Apr, the highest reading in some 14 months as the household employment measure soars and house prices rise	Overall confidence is returning as more vaccinations take place, the economy opens	3/5 (economy)	Given the amount of stimulus applied, the economy is well primed to take full advantage of the easing restrictions and strong growth is anticipated through H2 led by consumer spending

Local F.X. Opening Rates and Comment

	CUSTOMER BUY		CUSTOMER SELL		Benchmark Yield Curve		Forward Foreign Exchange			
	CASH	CASH	TT	TT						
BWPZAR	1.2708	1.3854	1.2953	1.3721	6m	1.2270	1m	BWPUSD	BWPZAR	
BWPUSD	0.0883	0.0962	0.0900	0.0953	3y	4.7550	3m	-1.9208	0.0000	
GBPGBP	15.6859	14.4000	15.3465	14.7000	5y	5.3350	6m	-6.2693	0.0000	
BWPEUR	0.0732	0.0797	0.0749	0.0781	22y	6.7250	12m	-13.3088	0.0000	
JPYBWP			9.8348	10.2462				-33.5303	0.0000	
USDZAR	13.8140	14.9776	14.1378	14.6535						
EURUSD	1.1595	1.2562	1.1867	1.2290						
GBPUSD	1.3320	1.4431	1.3632	1.4119						
					Equities		Economic Indicators			
					BSE Domestic Index	6559.17	GDP	-4.1	Bank Rate	3.75
					BSE Foreign Index	1550.93	CPI	3.2		

- Following on from yesterday's comments surrounding the COVID-19 vaccination programme there have been further developments which will be viewed as a massive step forward in Botswana's fight against the pandemic.
- The deputy coordinator of the Presidential COVID-19 task team, Mosepele Mosepele announced that Botswana has secured enough vaccines to inoculate its adult population against the virus. The country has agreed deals with various providers to cover the 1.9mn population of 2.4mn. Johnson & Johnson will provide 1.1mn vaccines while 250 000 have been agreed with Moderna Inc, this excludes earlier arrangements through the Covax initiatives and will be subject to change during the implementation. The programme could result in Botswana being the first African country to vaccinate its entire population.
- Keeping with COVID-19, the President Mokgweetsi Masisi will enter a period of self-quarantine after a staff member tested positive for the virus. This means he will miss a Southern Africa regional meeting which he was due to chair on Thursday to discuss the insurgent attacks in Mozambique.
- There are growing concerns in the region regarding the Islamic State-linked attacks in Mozambique's Cabo Delgado province. Total has called for force majeure on its LNG project and there is growing risk of the insurgency spilling over into neighbouring countries.
- Casting an eye abroad the focus today is undoubtedly reserved for the United States. No fireworks are expected at the April FOMC meeting, with the central bank likely to adopt a steady-as-she-goes approach, especially after the ECB meeting last week. The economy is recovering and inflation expectations are rising, but risks are still prevalent with the permanent impact of the pandemic still largely unknown. Fed Chair Powell will once again affirm this, suggesting that asset purchases and interest rates will remain unchanged for a prolonged period in order to support the economy. It will be interesting to see what the dot plots look like this time around, to see if any members have brought forward their expectations for rate hikes. A confirmation that rates are not rising in the near-term and that asset purchases will remain at the same pace for now will support markets but weigh on the USD.
- As we approach the end of the month and the Fed announcement this afternoon, the USD appears to have stabilised and is showing some signs of staging a recovery. Technically, a bounce is long overdue and the catalyst might well be the Fed announcement today, given just how much Fed dovishness has been priced into the USD. The rise in UST yields will also help support the USD, while any retreat in equity markets despite the improved earnings reports would do the same. It may just be that this is more a function of what has been priced in, than it is what the data looks like in the short-term.
- Given this backdrop we expect a measured start to the local session with the BWP likely to remain contained above 0.0910 for now.

ZAR and Associated Comments

- The USD-ZAR held steady on Monday, failing to move in either direction ahead of the domestic Freedom Day holiday. However, this stability was not carried through into yesterday as local markets were closed, with the currency pair led higher by the dollar leg. The USD was given a boost on Tuesday after hitting a two-month low against a basket of currencies the prior day, with support stemming once again from a surge in US Treasury yields.
- The moves were attributed to higher inflation expectations in the US, which equally surged, after US consumer confidence data and house prices rose more than expected. Specifically, the 10-year US breakeven inflation rate, which measures average inflation expectations over the next decade, rose to 2.4% yesterday, its highest in eight years. As a result, the ZAR broke its recent range bound trade as it depreciated 0.65% against a broadly stronger USD to close at 14.3500/\$.
- Despite domestic data card picking up tomorrow with the release of producer price inflation, the Fed FOMC policy announcement is likely to set the tone for riskier assets in the near term. The USD has remained bid against other major currencies this week ahead of the policy announcement, but has incurred choppy trade against EM currencies. While it remains to be seen after the FOMC whether the bearish bias will persist for the USD, rising Treasury yields may lend the USD enough support for a minor correction. However, Treasury yields will likely only rise should the Fed give any indication of inflation targets being met. The Fed's tone may be more positive given how the US vaccine rollout has progressed, but recall that it has continuously reiterated it will tolerate higher inflation until the economic recovery is complete.
- Nevertheless, risks still remain for the ZAR which has largely been supported by real trade flows and financial market inflows due to the higher real yields on offer. An earlier indication of tightening monetary policy in developed nations risks inflows as the USD specifically becomes more attractive as a reserve, or if the Fed allows inflation to rise substantially which would see accompanying rising yields. The ZAR held up well as UST yields rose throughout Q1, but this may not be the case going forward as the pandemic's end nears. Noted by FinMin Tito Mboweni in comments on National Treasury's website, interest rate normalisation and rising yields in developed nations bring risks to emerging markets, especially South Africa that is already under severe fiscal pressure. Meanwhile, SA's terms of trade are likely to be diminished by rising oil prices which are nearing pre-pandemic levels, thus providing limited support to the ZAR in the future.
- The day thus far has seen the USD remaining broadly bid ahead of the FOMC later today. An improved outlook by the Fed may ultimately provide some near term support to the USD, but it is unlikely that Fed Chairman Jerome Powell will announce any changes to monetary policy settings and will be very careful as to indications of when tapering may occur should yields continue to rise..

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