Botswana Market Watch

26 April 2021

GMT		International and Local Data	Period	Exp	Previous
	B.O.	Nothing on the cards			
08:00	GE	IFO business climate	Apr	98.00	96.60
12:30	US	Durable goods orders m/m	Mar P	2.00%	-1.20%

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
Covid - India	The surge in infections seen in India is like nothing seen in this pandemic before, and given the size of the population of more than 1.4bn, it could get worse	New infections have risen to 350k per day, and the world is responding by sending supplies	5/5 (economy, virus)	Although India is capable of making its own vaccines, the acceleration in the surge means that it is overwhelming all supplies, hospitals and has dwarfed any vaccine rollout
Summer Holiday Travel	A top European official indicated on Sun that vaccinated Americans will be allowed to travel to Europe by summer, easing travel restrictions	The EU will accept, unconditionally all those that have had a vaccination that has been approved	4/5 (economy)	The three vaccines used in the US have been approved, in which case, any vaccinated Americans will be allowed to travel to EU in a bid to assist European economies to start their recovery
USD slide	The USD has continued its slide as speculation intensified that the Fed would not seek to taper any time soon.	The FOMC on Wed will offer clarity on whether the USD slide will persist	3/5 (market)	Should the Fed persist with an ultra-accommodative stance, it would justify the weakness in the USD seen so far, and the USD may well remain weak

Local F.X. Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2619	1.3759	1.2862	1.3627
BWPUSD	0.0885	0.0966	0.0902	0.0957
GBPBWP	15.6857	14.4000	15.3463	14.7000
BWPEUR	0.0731	0.0796	0.0748	0.0780
JPYBWP			9.7562	10.1547
USDZAR	13.6868	14.8426	14.0076	14.5215
EURUSD	1.1628	1.2598	1.1900	1.2325
GBPUSD	1.3349	1.4462	1.3662	1.4149

Benchmark Yield Curve

6m	1.2330
3y	4.7550
5y	5.3350
22y	6.7250

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-2.0670	0.0000
3m	-6.2888	0.0000
6m	-14.2740	0.0000
12m	-31.8435	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		

- The big news in Botswana's fiscal space over the weekend was the sovereign credit rating downgrade by Moody's. The global ratings agency announced late on Friday evening that it had downgraded Botswana's long-term local and foreign currency issuer ratings to A3 from A2 and changed the outlook to stable from negative. Moody's said in its statement that the downgrade to A3 reflects the deterioration in fiscal strength exacerbated by the shock induced by the coronavirus pandemic. \

- The agency said that Botswana's fiscal buffers have been eroded by the COVID-19 pandemic, reducing the government's fiscal space to absorb future shocks, to which the country is more exposed than most of its A-rated peers, mainly reflecting a lower level of income and economic diversification. The agency highlighted that this is exacerbated by Botswana's heavy reliance on volatile sources of revenue, with mineral and Southern African Customs Union revenue making up more than 50% of the country's total revenue prior to the COVID-19 outbreak.
- Moody's added that Botswana's credit profile continues to be supported by robust fiscal metrics, in particular a low debt level and high debt affordability. Moody's estimates the fiscal deficit to have reached 9.0% of GDP in the 2020 fiscal year, which ended on 31 March 2021. This compares to a deficit of 5.6% of GDP in the 2019 fiscal year.
  Looking ahead, Moody's noted that Botswana could face further negative rating action if the country's fiscal buffers continue to deteriorate or if vulnerabilities of the budget structure to sudden declines in SACU revenues and/or mineral revenues increase. On the flip side, Botswana could face positive rating action if there is evidence that measures to increase economic diversification and improve the business environment are effective in materially reducing economic and fiscal reliance on the mineral sector. Therefore, investors should closely monitor any developments relating to structural reforms in Botswana.
- Internationally, while India may be experiencing a very dramatic and concerning rise in infections, the news in the US has improved, with the authorities giving the green light for the J&J vaccinations to resume. The benefits far outweigh the risks, and given that it is a single jab inoculation, and will help speed up the vaccination process. Other countries that had similarly paused the vaccine rollout will now also resume, in a good news development all round. The US is making good progress with its vaccination drive, and infection numbers appear to have resumed their downward trend, which will likely accelerate through the summer.
- In the way of focus, much of it will turn to the release of the Fed's decision on Wed and the justification for it. It will be the week's main event, and investors will seek clarification not only on whether the Fed will persist with its ultra-accommodative stance but how it sees the inflation vs growth dynamic unfolding. It will likely guide the Fed's response function, which is now slightly less certain given that the Fed now enjoys greater flexibility concerning the achievement of its mandate.
- Moving onto the FX markets, no change to the underlying bearish bias which persists in the USD market, with the trade-weighted USD still firmly on the defensive. Ahead of the FOMC decision and statement this week, speculation has intensified that the Fed will persist with its ultra-accommodative monetary policy and will not seek to taper any time soon. This very loose stance is enough to ensure that the USD continues feeling the debasing pressure of such a policy, while the anticipated rise in inflation amid high twin deficits only cements the argument against the USD. Technically, although the USD may be oversold in the short-term, it holds the potential to weaken a little further.
- As mentioned yesterday, local F.X. markets remain contained at the start of the trading session as the investment community unpack the Moody's decision and prepare for the week ahead which sees trading shift towards end of the month commitments. For now the expectation is that 0.0910 remains the floor in terms of the BWP-USD

ZAR and Associated Comments

- The ZAR was set to end last week flat if it wasn't for Friday's marginal gains which saw the unit end 0.25% in the green against the US dollar. As the ZAR settles in roughly 15-month unseen territory, namely its new 14.2000-14.3000/$ range over the last week, it is clear that ZAR moves have been relatively muted against the dollar's broader slide as the market re-mains cautious to push the local currency much higher. The USD's trade-weighted index, the DXY, meanwhile fell 0.75% over the course of last week, testing and breaking through a key support level at 91.00. The ZAR scarcely capitalised com-pared to other EM currency gainers and ultimately closed at the 14.2700/$-handle.
- As further losses for the USD beckon, structural challenges to the domestic economy are coming to the fore once again and may limit the potential to which the ZAR can take advantage. Higher commodity prices and attractive real yields have sup-ported the ZAR through the first quarter of the year, but as public wage negotiations progress, it seems the inevitable result may leave Natial Treasury's (NT) fiscal consolidation plans in tatters.
- In an online webinar on Friday, NT's deputy director-general for asset and liability management Tshepiso Moahloli said South Africa's debt position is unsustainable with the country being in a vicious cycle, unable to generate enough revenue to pay off its debt. On the same call, acting head of the budget office Edgar Sishi said that South Africa needs to control the public sector wage bill to ensure that state-worker pay doesn't crowd out spending. On that front, government has been told over the weekend to prepare for industrial strike action with public sector union, the Public Servant Association, declaring a dead-lock in wage negotiations after Friday's talks proved unsuccessful. The government's revised offer reportedly shifted funds from future wage progression and other benefits to increases for this fiscal year. At the budget announcement in February, FinMin Tito Mboweni's announced plans to reduce the budget deficit in the coming years relied heavily on lessening the public wage burden. While NT is making the right noises, we still haven't seen any real efforts to stabilise the country's fi-nances. If the wage negotiations are not successful, there may be very little NT can do to prevent a fiscal crisis, and will likely keep the ZAR trading above fair value in the medium to longer term.
- The day ahead sees a slow start to the economic data calendar for the week, however Wednesday's Fed FOMC policy announcement is likely to steal focus either way. More on the stateside data card, US GDP data for Q1 comes later in the week which, if it goes according expectations, will show output approaching pre-pandemic levels. This could provide the USD some much-needed support after the FOMC announcement which is likely to mimic that of the ECB's last week, that it re-mains too

early to begin talks on tapering asset purchases. Domestically, it is a shortened trading week with tomorrow's Freedom Day holiday, although it ends with a slew of economic and government budget balance data on Friday. The ZAR, meanwhile, is holding steady in the middle of its current 14.2000-14.3000/$ range despite NT's warning last week, but has been unable to materially extend gains against a weaker USD. The USD has preserved its bearish bias in the run up to the FOMC announcement, but may be provided some support by the Fed given the recent positive US economic data.

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