Botswana Market Watch

29 April 2021

GMT		International and Local Data	Period	Exp	Previous
-	BO	Benchmark Interest Rate	Apr 29	-	3.75%
08:00	EZ	M3 money supply sa y/y	Mar		12,30%
09:00	EZ	Consumer confidence	Apr F		-0,08
12:00	GE	CPI y/y	Apr P	2,00%	1,70%
12:30	US	GDP q/q annualised	1Q A	6,50%	4,30%
12:30	US	Personal consumption	1Q A	10,30%	2,30%
12:30	US	Initial jobless claims	Apr 24		547k

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
Vaccine delays	Slow progress on the vaccine rollout out and procurement issues, together with the lack of funding to bridge the gap between wealthy and developing countries, could set Africa back 2 to 5 years	The UN said the fact that Africa isn't going to get vaccinated as fast as the rest of the world will undoubtedly hinder its economic recovery	4/5 (economy)	The lack of access to vaccines would keep barriers to travel and business in place. It will also slow trade and hamper investments that could set back economic growth and prevent the creation of as many as 26mn jobs, according to the UN
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
FOMC	As expected, Fed kept policy rates unchanged and committed once more to use the full range of tools to support the economy, putting to rest any taper talk for now	Fed will continue to buy at least $80bn of USTs and $40bn of MBS to keep rates under control	4/5 (economy, market, monetary policy)	The vote in favour of this position was unanimous, and the authorities are quite comfortable in persisting with the current stance even if it means overheating the economy somewhat
Biden stimulus	President Biden yesterday proposed a sweeping $1.8trln stimulus package and pleaded with Republicans to help him work on several issues	Again he seeks to fund this through the taxing of the very wealthy but will meet resistance	4/5 (economy)	Republicans remain far more conservative and would prefer a more focused approach that focuses on infrastructure as opposed to heavy spending across the board
Equity Markets	Sentiment across equity markets is strong, with some impressive performances by US tech companies helping to bolster overall sentiment	Risk appetite will remain relatively strong, which should count against the USD, but help EMs	3/5 (market)	As the economy heats up through Q2 and into H2 2021, the strong growth will likely justify much of the higher prices that have been baked into stock markets to keep risk appetite elevated

Local FX Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2515	1.3722	1.2756	1.3590
BWPUSD	0.0880	0.0964	0.0897	0.0955
GBPBWP	15.8303	14.4539	15.4878	14.7550
BWPEUR	0.0725	0.0795	0.0742	0.0779
JPYBWP			9.7857	10.2462
USDZAR	13.6471	14.8025	13.9669	14.4823
EURUSD	1.1649	1.2622	1.1922	1.2349
GBPUSD	1.3399	1.4516	1.3713	1.4202

Benchmark Yield Curve

6m	1.2530
3y	4.7550
5y	5.3350
22y	6.7250

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-2.1158	0.0000
3m	-6.3473	0.0000
6m	-13.4745	0.0000
12m	-31.7948	0.0000

Equities

BSE Domestic Index	6559.17
BSE Foreign Index	1550.93

Economic Indicators

GDP	-4.1	Bank Rate	3.75
CPI	3.2		

- The Bank of Botswana is set to deliver its rate verdict today. Recall at the last Monetary Policy Committee (MPC) meeting in February, the Bank of Botswana decided to keep the benchmark interest rate unchanged at a record low of 3.75%, marking the second meeting it has done so. The decision to leave the policy rate unchanged was driven by the need to support the economic recovery against the backdrop of a benign inflation environment. Since the last MPC meeting, headline inflation in Botswana has quickened to move back within the central bank's inflation target of 3.00% to 6.00% in March. Looking ahead, the central bank has said that it expects inflation to rise towards the upper end of its target range partly due to transitory factors, such as value-added tax, sugar tax and fuel levy. While inflation is expected to edge higher in the coming months, we believe that the central bank will maintain its current policy stance at today's meeting.
- Shifting to energy news, US President Joe Biden administration announced the signing of a historic Memorandum of Intent (MOI) to create a two to five gigawatt Mega Solar project in Botswana and Namibia. The signing of this Intent brings the dream of making the mega solar project a reality. The US Ambassador, Craig Cloud, was on the wires saying that "*we are thrilled to see this Mega Solar signing ceremony take place. It is an important step towards our collective dream of a scalable cross-border solar project, a concept first discussed in April 2019.*" Cloud added that "*the Mega Solar project marks an important step in Botswana's effort to fight climate change.*" It is worth noting this project could help transform Botswana from a net importer to a significant producer and exporter of renewable solar power while reducing the country's carbon footprint.
- On the international front, after his first 100-days in office, Biden opted to keep the pressure on China but to focus on bolstering domestic prospects as well, urging Republicans to work closely with him as he seeks to announce another stimulus package in the region of $1.8trln. Republicans have already put forward their proposal, which is just a fraction of that size and will baulk at both the size of the package and the need to fund it out of further tax increases, albeit on the wealthy.
- Weekly jobless claims will always hold some interest, even though the bulk of the focus today will rest with the digestion of the FOMC statement and the latest GDP data. Investors are always on the lookout for greater insight into the health of the labour market and whether there are clear signs of it tightening up. The trend is clear, although the trajectory has flattened. The remainder of Q2 should prove much stronger, while H2 should see some material improvement.
- Shifting attention to the global FX, with the Fed committing to staying looser for longer and with equity markets powering ahead, the expectation is that further USD weakness is on the cards. Technicals have turned weaker again and the trade weighted USD is now targeting an index level of 90.0. Twin deficits and such loose monetary policy has tilted the scales firmly against the USD. Today's data in the form of GDP and jobless claims will hold some interest, but are unlikely to generate a strong response in the context of yesterday's FOMC and the strength of global equity markets.
- The BWP-USD traded in a tight range yesterday. A gap lower in the early morning session was not sustained as investors erred on the side of caution ahead of the US FOMC meeting, which was slated after the local market closed. As a result, the pair remained anchored within the 0.092/0.093 range, where it has been hovering since April 15. Looking at the session ahead, the BWP-USD is likely to remain rangebound as investors wait for the Bank of Botswana MPC meeting later today for directional guidance.

ZAR and Associated Comments

- Signs of a minor US dollar rebound, as US Treasury yields nudged higher on inflation expectations, ultimately proved to be short-lived as the greenback gave up some ground ahead of the Fed's policy announcement yesterday. In the case of the local currency, the ZAR took advantage, as did the majority of the EM currency basket, reversing the prior day's losses as it secured a 0.60% gain to close at 14.2750/$.
- The Fed did no favours for the greenback either as Chairman Jerome Powell poured cold water on speculation of earlier tapering of bond purchases. Additionally, the Fed continues to see coming inflation as transitory and unlikely to result in runaway price increases such that the central bank would need to intervene with rate hikes. The vast fiscal and monetary stimulus delivered to the US economy over the past year, resulting in deficits in both the current account and government budget balance, should still see the USD lose value looking further out, while the Fed's continued dovish communication and limited rate hike expectations continue to take the shine away from the USD. All in all, the Fed is sticking to its narrative that monetary policy tightening will continue to go undiscussed in the near future, with its justification being that unemployment remains far from target levels. This was despite a more upbeat view on the economy, noting that progress on vaccinations and strong fiscal and monetary stimulus has propelled indicators of economic activity and employment.
- While US economic outperformance will keep investors cautious as to future policy changes, in the meantime emerging market currencies with their higher real yields on offer should continue to be supported by flows from the developed world. This has evidently resulted in some short term stability for the USD-ZAR which resisted moves above 14.4000/$ earlier this week. Similarly, implied volatilities on USD-ZAR options are holding near 14-month lows, around levels last seen in late February and early March last year. This may be somewhat surprising given the current context of domestic politics. Specifically, the ongoing state capture inquiry at the Zondo Commission, where yesterday President Ramaphosa began his testimony and conceded there was a "system failure" in the ANC's implementation of cadre deployment to key posts in government and SOEs. The President's testimony continues today and may yet hold significant implications for SA's political landscape.
- Nevertheless, the ZAR may shrug off these developments in the short term as it has done so overnight. The USD remains in the doldrums, failing to garner support following the FOMC announcement from a $1.8 trillion spending plan proposed by US President Biden to a joint session in Congress yesterday. On the data card, the Fed's announcement yesterday may temper any reaction to US GDP data due later today which is expected to indicate a bumper first quarter for the US economy. Domestically, inflation data is on the cards with the producer price index (PPI) for March. Year-on-year PPI inflation has continued to outpace that of CPI as demand-side pressures have remained weak, limiting the ability of producer's to pass on price increases. However, as the economy continues to recover, supply-side constraints holds the potential for producer prices to drive a sharp increase in consumer prices, potentially influencing the outlook for domestic monetary policy.

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