

Botswana Market Watch

30 April 2021

GMT		International and Local Data	Period	Exp	Previous
-	BO	Nothing scheduled	-	-	-
O/N	JN	Jobless rate	Mar	2,60% (a)	2,90%
01:00	CH	PMI manufacturing	Apr	51,10 (a)	51,90
09:00	EZ	CPI estimate y/y	Apr	1,50%	1,30%
09:00	EZ	GDP sa y/y	1Q A	-2,10%	-4,90%
14:00	US	Michigan consumer confidence	Apr F	87,50	86,50

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 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
Germany plans to boost vaccine production in Africa	German biotechnology company BioNTech is discussing the possibility of COVID-19 vaccine production in Africa to expand the company's supply network	Setting up more vaccine production sites in Africa will help boost access to vaccines on the continent	4/5 (economy)	As it stands, only a handful of African countries are able to produce vaccines, A rise in the number of African countries producing COVID-19 vaccine would help bolster Africa's economic recovery

Global	What happened?	Relevance	Importance	Analysis
Chinese PMI	China's manufacturing PMI fell to 51.1 in April from 51.9 in March as supply-side disruptions and rising production costs softened the momentum	Logistics, shortages of chips and containers show that the global economy remains constrained	4/5 (economy)	Some of these issues are temporary and so too are the disruptions constraining the global economy. But, as the year unfolds, so the disruptions and shortages will gradually diminish.
Japanese factory output	In contrast to China, Japan's factory output grew 2.2% from the previous month, boosted by a rise in vehicle production and organic and inorganic chemicals	Although off a soft base, the growth is welcome and shows that the economy is recovering	4/5 (economy)	The full extent of any recovery will unfold through H2 2021 when the global economy opens up more fully. In the interim, small incremental gains will become the trend
US GDP	Data released yesterday showed that US GDP accelerated 6.4% annualised in Q1, beating expectations to the upside.	The economy is just 0.9% off levels recorded in Q4 2019 as growth recovers	3/5 (economy)	By the end of Q2, the economy will have recovered past pre-covid levels, with the prospect of lots of stimulus-induced growth still to come

Local FX Opening Rates and Comment

	CUSTOMER				CUSTOMER				CUSTOMER				CUSTOMER			
	BUY		SELL		BUY		SELL		BUY		SELL		BUY		SELL	
	CASH	CASH	TT	TT	CASH	CASH	TT	TT	CASH	CASH	TT	TT	CASH	CASH	TT	TT
BWPZAR	1.2676	1.3816	1.2920	1.3684	Benchmark Yield Curve				Forward Foreign Exchange							
BWPUSD	0.0885	0.0965	0.0902	0.0956	6m	1.2530				BWPUSD	BWPZAR					
GBPGBP	15.7218	14.4300	15.3816	14.7307	3y	4.7550				1m	-2.1158	0.0000				
BWPEUR	0.0731	0.0796	0.0748	0.0780	5y	5.3350				3m	-6.3473	0.0000				
JPYBWP			9.8545	10.2666	22y	6.6850				6m	-14.3520	0.0000				
										12m	-31.3706	0.0000				
USDZAR	13.7485	14.9048	14.0708	14.5823	Equities				Economic Indicators							
EURUSD	1.1635	1.2606	1.1908	1.2333	BSE Domestic Index	6561.2	GDP	-4.1	Bank Rate	3.75						
GBPUSD	1.3377	1.4496	1.3690	1.4182	BSE Foreign Index	1550.93	CPI	3.2								

- The Bank of Botswana's Monetary Policy Committee voted in favour of leaving its benchmark interest rate unchanged at 3.75% yesterday. The central bank said however that inflation risks have intensified with the risks to the inflation outlook now assessed to be skewed to the upside. Policymakers flagged the rise in global commodity prices beyond current forecasts and additional fiscal stimulus as two key risks to the inflation outlook. Against this backdrop, the central bank raised its inflation forecast and now expects inflation to rise above the upper limit of its 3-6% inflation target in Q2 and is estimated to return within the target range in Q1 of 2022.
- From a growth perspective, the central bank expects economic activity to rebound markedly this year. In line with the Ministry of Finance and Economic Development, economic growth is projected to rise to 8.8% in 2021, up from an initial projection of 7.7%. Note that Botswana's economy contracted by -7.9% in 2020. The growth outcome will largely depend on the successful vaccine rollout as it will enable the opening up of the economy. The central bank said that the economy is expected to operate below full capacity in both the short and medium term. Therefore, demand-side inflation pressures are expected to remain contained going forward.
- In a bid to reduce the unaffordable high wage bill, the government is planning a massive cut in civil servants and parastatals employees allowances through a new allowance and benefits policy recommended by the IMF in its recently concluded Article IV. The move also follows a decision by the government to freeze 50% of the recruitment of vacant posts to mitigate the impact of COVID-19. This move is likely to be met with some criticism from the trade unions who were already unhappy with the IMF proposal arguing that it handicaps workers. According to a local news outlet, the government will hold consultations with trade unions soon as the government anticipates to table the Draft Allowances and Benefits Policy in July parliament session. Should the policy be adopted, we could see a significant drop in the government wage bill which will help offset pressure on the government books.
- Keeping abreast with COVID-19 developments, the Botswana healthcare system is overwhelmed by the increase in coronavirus infections. The Ministry of Health and Wellness was on the wires saying that "the effect of the pandemic has stretched its capacity to cope, especially with rising cases and limited resources." In a bid to cope with this situation, the ministry is trying to manage all health facilities through patient bookings and decentralisation of some resources. Should the government fail to permanently resolve this problem, this could be a serious crisis that could lead to the tightening of restrictions again.
- Globally, yesterday saw the US economy report back on Q1 GDP and the outcome was impressive, with growth of 6.4% annualised recorded vs expectations of 6.1%. Fiscal support was a leading driver of the strong performance leaving the economy just 0.9% off pre-covid economic activity levels. This rebound is stronger and sharper than anticipated with the full effects of the fiscal and monetary stimulus not yet in the data. Expectations are that H2 2021 will be an extremely strong half, characterised by robust growth, a modest rise in inflation and improvement in labour dynamics. Under these conditions, the Fed will take advantage and seek to taper its asset purchases, something that will likely be further exacerbated by the extended fiscal stimulus that the Biden administration still seeks to implement, with another \$1.8trln package being proposed.
- Shifting attention to the domestic FX market, the BWP-USD continues to trade in a tight range. Looking ahead, the decision by the Bank of Botswana to keep the policy rate on hold should continue to offer the BWP support. Heading into the final session of the week, given the lack of domestic releases, investors will look offshore for directional guidance.

ZAR and Associated Comments

- With the last two weeks characterised by uneven, range bound trade for the USD-ZAR, it appears the market is awaiting a catalyst to imply short-term direction. Despite holding steady yesterday after tumbling on Wednesday against a basket of currencies, the longer term outlook for the USD remains to the downside as loose fiscal and monetary policy is seen to sustain the US' twin deficits. For the ZAR though, the market seems unwilling to push the local unit higher in the near term given its outperformance on a year-to-date basis already. Yesterday was a good case in point, reaction to the dovish Fed announcement the day prior spilled over into morning trade which saw the USD-ZAR trade as low as 14.1500/\$. However, only briefly, as the local unit backtracked during the day to ultimately close 0.30% weaker at 14.3100/\$.
- On the data front, the dollar did have a solid first quarter GDP release in its favour. GDP grew 6.4% in Q1, which compares strongly to growth in the last quarter of 2020 at 4.3%. As a result, US Treasury yields rose given the strong growth's implication for higher inflation, which in turn provided some support to the dollar. Specifically, the yield on the 10-year Treasury note has continued its rise in the final week and a half of the month towards 1.65%, erasing roughly half of the decline since the March 31 high around 1.74%.
- Domestically, data yesterday showed producer price inflation accelerated in March to 5.2%, from a prior figure of 4.0%, beating surveyed expectations of a rise to 4.5%. Pressure stemming from supply-side constraints, in addition to improving demand conditions following the easing of economic restrictions, has led to the steady rise in factory prices. However, the pace of producer price inflation is anticipated to accelerate in the months ahead, owing to the low base effects and the sharp recovery in international crude prices. While there is potential for these prices to drive an increase in consumer prices with industry unlikely to absorb all the manufacturing costs going forward, the persistently weak demand environment despite the economic normalisation underway should limit this. The ZAR expectedly shrugged these developments off yesterday, with the market willing to wait and see the impacts on CPI inflation and implications for SARB policy.
- With domestic catalysts few and far between, the ZAR is set for a second week of relatively flat trade on a point-to-point basis. However, the local unit is still on track to end April more than 3% stronger due to gains in the former half of the month which saw the ZAR enter its current range, while it remains the leader of EM currencies on a year-to-date basis. It seems pandemic risks remain, with fears of rising infections being driven by COVID-19's devastation in India presently. Health minister Zweli Mkhize said in an online briefing yesterday that the government will begin considering restrictions to stave off a similar third wave, which may put a damper on domestic assets in the last trading day of the week.
- Meanwhile, positive sentiment during the US session stemming from stronger than expected earnings, a dovish Fed and Biden's spending plans, has failed to spill over into the Asian session in early morning trade. The week ends with a slew of domestic economic data, including private sector credit growth, M3 money supply and government budget and trade balances. The market will also have Eurozone CPI and GDP data to digest later this morning, while US consumer confidence is scheduled for later in the day.

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Report produced by ETM Analytics for BancABC Botswana.

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