

Botswana Market Watch

10 May 2021

GMT	International and Local Data	Period	Exp	Previous
	BO Nothing on the cards			
08:30	EZ Sentix investor confidence index	May	15,75	13,1
18:00	US Fed's Evans Discusses Economic Outlook			

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 Pipeline closure	A ransomware attack on Friday forced the Colonial Pipeline to close, with no date for reopening. Its four mainlines remain closed, and operations are suspended	May hold consequence to the oil market given that the throughput to the US will be disrupted	3/5 (economy)	Efforts are being made to minimise the ultimate impact on supply, but this highlights the growing vulnerabilities of systemic companies in a world of cyber-attacks and the need for security
UK elections	Of the elections that unfolded this weekend, those in Scotland were arguably the most significant, with the SNP winning 64 seats, one short of an overall majority	The SNP will believe that it has a fresh mandate to push for a fresh referendum on the back of Brexit	4/5 (politics)	This is not the result Johnson would've been hoping for. He and other officials have sidestepped the issue and will not easily be coerced into agreeing to another referendum
US Payrolls miss	US non-farm payrolls rose by only 266k jobs vs the 978k estimated, leaving the unemployment rate at 6.1% and the number of unemployed at 9.8mn	The USD suffered losses as a result and may well lose a little more before the market stabilises	4/5 (economy, monetary policy)	This threw cold water on the expectation that the US economic recovery was gaining traction. This will be used as all the justification needed by the Fed to keep monetary policy accommodative

Local F.X. Opening Rates and Comment

CUSTOMER				CUSTOMER				CUSTOMER				CUSTOMER				
BUY		SELL		BUY		SELL		Benchmark Yield Curve				Forward Foreign Exchange				
CASH		CASH		TT		TT										
BWPZAR	1.2486	1.3669	1.2726	1.3537	6m	1.0700					1m	-2.1255	0.0000			
BWPUSD	0.0888	0.0971	0.0905	0.0962	3y	4.7750					3m	-6.3570	0.0000			
GBPGBP	15.7608	14.4061	15.4198	14.7063	5y	5.3250					6m	-13.4745	0.0000			
BWPEUR	0.0731	0.0799	0.0748	0.0783	22y	6.7750					12m	-33.6863	0.0000			
JPYBWP			9.8938	10.3480												
USDZAR	13.4978	14.6350	13.8141	14.3184												
EURUSD	1.1669	1.2642	1.1942	1.2369												
GBPUSD	1.3455	1.4579	1.3771	1.4263												
								Equities				Economic Indicators				
								BSE Domestic Index		6581.79	GDP		-4.1	Bank Rate		3.75
								BSE Foreign Index		1550.93	CPI		3.2			

- The Kazungula Bridge crossing the Zambezi will open today marking a giant leap forward for logistics in connecting Zambia and Botswana. The impact on logistics in the area will be felt almost immediately as the bridge offers Zambian Copperbelt import and export requirements an additional route to the ports of Durban. Traditionally any road freight to and from Zambia made its way through Zimbabwe via the Beitbridge border crossing, this crossing is however notoriously congested and crossing it can result in delays from several hours, to days in some circumstances.
- The impact on the North-Eastern section of Botswana as truckers make their way through the country is also likely to be positive given that it will create industry along this corridor to specifically service these needs. Francistown could benefit greatly from the increased logistical activity in the region.
- In other news CGTN reported that *Authorities in Botswana began inspections in public schools for COVID-19 compliance on Friday ahead of a phased reopening of the learning institutions from Tuesday next week. The Ministry of Education issued a statement on Thursday saying the inspections will begin on Friday and run up to Monday "to ensure the safe return of learners and teachers"*.
- Taking a look at global macro developments we have oil on the front foot this morning. Oil coupled with rise in food prices has been the primary driver of higher inflation readings across the globe and as such any movements here will be watched closely. Crude futures are advancing this morning while gasoline futures in the US surge following a cyberattack on a key pipeline in the US. There is still no plan to restart the pipeline, forcing traders to seek alternative cargoes from Europe and Asia. This has seen Brent front-month futures rise to around \$68.66 per barrel this morning, while WTI futures trade near \$65.20. In response to the attack, the US has lifted various limits on the transport of fuels by road to ease any supply shortage fears.
- Last week's non-farm payrolls jobs report was poor, missing expectations by miles. It highlighted that expectations of a very rapid recovery in the US economy were still some way off and that the recovery could be both uneven and erratic. That might change through H2 2021, but for now, that appears to be the case. It has offered the authorities enough ammunition to persist with current stimulus efforts. As a result, the USD came in for huge punishment on Friday, allowing several riskier currencies to scale fresh highs and further raise the probability that the US will experience some kind of an inflation episode later this year.
- Following the payrolls data miss, the USD plunged and will encourage the bears to persist with their short USD positions for longer as there is little in the way of major market moving data that will change overall expectations. Technically, the USD may be oversold in the short-term, but there is no clear-cut evidence that the USD is about to rebound, other than the fact that the USD index is now running into tough support. The bias for now remains overwhelmingly against the USD, even though the desire to sell USDs from these levels may have dissipated somewhat.
- This will give comfort to those looking for better Pula levels at the start of the week and we would not be surprised to see a test of the 0.0930 level in due course should the momentum be maintained.

ZAR and Associated Comments

- The ZAR was led to a third daily rise against the USD on Friday amidst improving risk appetite and surprisingly weak US employment figures which weighed heavily on the greenback. Following the prior two days of gains, the local currency began the last day of last week on the back foot ahead of an equally important review of SA sovereign debt by Moody's Investor Services. However, the scheduled review was skipped by Moody's, allowing the ZAR to cement gains secured on the back of weak US data.
- On Friday it was reported that US nonfarm payrolls rose by 266k in April, where expectations were for a million jobs to be added after March's strong hiring of 770k. The unemployment rate rose from 6% to 6.1%. This uneven pace of recovery reinforces the US Fed's looser-for-longer policy stance and pours cold water on the possibility of the Fed tightening policy in the short term.
- Resultantly, it was a sea of green for emerging market currencies as the USD fell sharply. The ZAR advanced 1.15% as it settled at 14.0575/\$ by the end of domestic hours, taking its weekly gain to over 3%. With EM currencies gaining on the back of USD weakness and US monetary policy tightening being dealt another setback, this ultimately buys time for EM central banks to maintain looser policies themselves without risking capital flight. This holds true for the SARB as the ZAR is currently its strongest since early January 2020, while the domestic economic recovery has been faring well despite the lingering risks and uncertainty regarding a third wave of infections. Though, the local unit has been subject to external developments dictating its broader rebound, thus its recent strength brings with it the possibility of a sharp selloff should sentiment sour or idiosyncratic factors become evident. Additionally, the market may see further downside for the USD, but it is not as convinced that US inflation will not be a problem despite the weak jobs report. Specifically, US Treasury yields also fell sharply on Friday before regaining ground and ultimately ending higher.
- Thus risks do remain for EM currencies in the form of unexpected global monetary dynamics, with the market still seeing the Fed potentially needing to raise rates to deal with inflation. Domestically, the ZAR sidestepped a potential Moody's release which would have highlighted the credit risks associated with SA investment. Moody's said in a notice that the ratings for SA had not changed, but that they may if there was a material change in credit condition or some other triggering event.
- Meanwhile, political risks will likely remain afoot with recently suspended ANC officials unlikely to step down without a fight. The latest news over the weekend was that ANC Secretary-General Ace Magashule was excluded from a national executive committee (NEC) meeting, reportedly causing a stir amongst officials during the meeting organised to consider his own suspension. However, for the day thus far, the ZAR remains set on taking cues from broader market sentiment with the unit holding steady near Friday's close in early trade. In light of minimal data releases scheduled for the day ahead, the market may take on a more consolidative tone after last week's gains. That said, the USD bias remains to the downside and is likely to offer up some further gains for EMs in the near term.

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