

Botswana Market Watch

14 May 2021

GMT		International and Local Data	Period	Exp	Previous
	BO	Nothing on the cards			
12:30	US	Import price index y/y	Apr		6,9%
12:30	US	Advance retail sales m/m	Apr	1,1%	9,8%
12:30	US	Retail sales ex. auto and gas	Apr	2,1%	8,2%
13:15	US	Industrial production m/m	Apr	1,3%	1,4%
13:15	US	Manufacturing production m/m	Apr	2,5%	2,7%
14:00	US	Michigan consumer confidence	May P	90	88,3
14:00	US	Business inventories m/m	Mar	0,3%	0,5%

Africa	What happened?	Relevance	Importance	Analysis
Agriculture funding gap	CDC Group, the UK's development investment arm, is taking a step to help bridge what it estimates is a funding gap of as much as \$31bn that Africa's agriculture and food industry faces each year. The CDC is targeting \$1bn worth of investment into Africa this year	As banks withdraw funding from agriculture due to regulation changes, and with some larger players defaulting, institutions such as CDC have a significant role to play in plugging the shortfall	3/5 (economy)	Many African governments are under strain from the costs of managing the COVID-19 pandemic against a backdrop of poor investment and political instability. The funding from the CDC aims to reach more than half a million farmers across 29 sub-Saharan African nations, from Mozambique and Tanzania to Kenya
Fitch warning	Global credit ratings agency Fitch warned that the slow pace of COVID-19 vaccination programs in Sub-Saharan Africa means that risks related to the pandemic remain high	While the vaccine rollout has been slow, Fitch noted that the region benefits from global support initiatives, including a new SDR allocation	4/5 (economy)	The median GDP growth rate for Sub-Saharan Africa is 4.3% in 2021 and 5.0% in 2022. The median debt-to-GDP ratio for the region meanwhile is expected to rise to 75% in 2022 from 68% in 2020
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 jobs market	More in line with the JOLTS data and the ADP figures, the weekly jobless claims numbers have now fallen to a 14m low of 473k	There are signs that the labour market is tightening and will continue to do so	3/5 (economy, market)	The recovery narrative for H2 2021 is strong and, together with the rise in inflation, will give the Fed reason to consider removing some stimulus
Japan - Covid	Japan has added another three prefectures hard-hit by the pandemic to the virus state of emergency as the country tries to keep infections from spiralling	This throws the Olympics into question and will impact GDP growth	4/5 (economy)	Medical resources are being pushed to the limit, while the vaccination drive has been particularly slow amongst DM countries, with only 3% of the population vaccinated thus far
Israel/Palestine conflict	Israel fired artillery and more air-strikes into Gaza amid ongoing Palestinian rocket attacks. Hostilities now enter Day 5	Israel has confirmed that they will not stop until they have pacified Hamas	5/5 (geopolitics)	This weekend, the UN security council will actively discuss the rise in tensions, but it is unlikely they will be able to convince Israel to back down

Local F.X. Opening Rates and Comment

	CUSTOMER BUY	CUSTOMER SELL	CUSTOMER BUY	CUSTOMER SELL	Benchmark Yield Curve		Forward Foreign Exchange			
	CASH	CASH	TT	TT				BWPUSD	BWPZAR	
BWPZAR	1.2618	1.3758	1.2861	1.3626	6m	1.5240				
BWPUSD	0.0894	0.0974	0.0911	0.0965	3y	4.7750	1m	-2.1548	0.0000	
GBP/BWP	15.6950	14.4092	15.3554	14.7094	5y	5.3250	3m	-6.4350	0.0000	
BW/PEUR	0.0739	0.0805	0.0757	0.0789	22y	6.7750	6m	-13.6500	0.0000	
JPY/BWP			10.0215	10.4294			12m	-34.1250	0.0000	
USDZAR	13.5536	14.6990	13.8712	14.3810						
EURUSD	1.1603	1.2570	1.1874	1.2299						
GBPUSD	1.3487	1.4612	1.3803	1.4296						
					Equities		Economic Indicators			
					BSE Domestic Index	6585.55	GDP	-4.1	Bank Rate	3.75
					BSE Foreign Index	1550.85	CPI	3.2		

- Botswana will be participating in an expo in Dubai which will be held from the 1st October 2021 to 31st March 2022 in the UAE. The expo titled Dubai 2020 was postponed last year as a result of the COVID-19 pandemic features *Connecting Minds, Creating the Future as its theme*. Xinhua reports the following - *Botswana will use the expo as a platform to attract foreign direct investment and an opportunity to celebrate and dialogue with other countries on issues of creativity, innovation, humanity and world cultures, said Kutlo Moagi, director of corporate affairs at Botswana Investment Trade Center (BITC). Moagi noted that Botswana's participation will be anchored on a multi-dimensional approach, saying all relevant stakeholders will be involved. "Engagement of different stakeholders has commenced and various teams are already working toward the execution of this national assignment."*
- Moving onto market developments, the threat of tightening credit and price caps in China have dampened demand for industrial metals into the weekend. Data out of China on Wednesday showed that new bank loans fell more than expected in April, this coupled with slowing money supply has raised some red flags on the Chinese economic front. The reason touted for the slowing money supply was weak demand for financing, not tightening liquidity supply.
- The benchmark 3m LME copper contract was down some 0.2% to \$10324/tonne by 05:18 local time and is on target to post its first weekly loss since the week ending 2nd April 2021
- Pulling back the lens, we had copper hitting an all-time high on Monday, so some profit taking is warranted, the broader trend remains to the upside and we still hold the view that we will see \$15000/tonne sooner than we will see \$5000/tonne as we did during the initial stages of the COVID-19 pandemic.
- This is important for the local economy as the government remains committed to the development of the Kalahari copper belt which will diversify mining revenue away from diamond mining.
- On the geopolitical front, we advocate that investors and readers keep a close eye on the rising conflict in the Middle East. Israel fired artillery and more airstrikes into Gaza amid ongoing Palestinian rocket attacks. Hostilities now enter day five with Israel stating it will not back down until they have pacified Hamas.
- After initially jumping on the higher than anticipated inflation numbers, the USD has paused its bull-run to some degree. The Fed has tried to ease concerns about rising inflation, calling it temporary, but investors are not completely sold yet. This might put the brakes on the USD losing a lot more ground in the short to medium-term, although given the strength of the credit cycle that has been created and the impact it is likely to have on the trade and current account deficits, this will likely translate into an underlying pressure on the USD which remains intact.
- The Pula remained contained during yesterday's trading session with the 0.09300 level held into the close. We expect a measured start to the day with a number of US data releases due this afternoon providing the trading angle into the close of the week.

ZAR and Associated Comments

- Emerging market currencies ended yesterday mixed, with some remaining on the back foot following Wednesday's US inflation-driven market rout and others managing to eke out gains against a steadier US dollar. Unsurprisingly the ZAR, which is often a gauge for EM sentiment, was caught in the middle, ultimately ending the day roughly where it began at the 14.1000/\$-handle.
- The local unit also received a tailwind in the form of strong mining production data, helping it to stem further losses. South Africa's mining production output expanded rapidly in March, increasing 21.3% y/y. Base effects aside, mining output also rose on a monthly basis, coming in at 4.5% m/m, and beat expectations for a 1.8% decline from the prior month. The monthly rise suggests the recovery is still underway, while the strong year-on-year growth, according to Statistics South Africa, can be attributed to the double-digit growth in the production of iron ore, manganese, PGMs and gold.
- Alongside the global search for higher yield, higher commodity prices and an increase in nominal mining exports have been highly influential in the recovery of the ZAR and domestic output. While the mining sector will continue to benefit from the global rally in commodity prices, the trend of the current recovery in mining production is ultimately unsustainable as the sector continues to face risks in the absence of structural reforms, which are detracting from investors' confidence and the longer-term recovery. As such, we will likely need to see growth-conducive policy reform in the near future for the recovery to persist and continue supporting the recoveries in domestic output and the ZAR.
- In the near-term, markets appear to be settling following Wednesday's rout with global equity markets returning to positive territory yesterday and this morning during the Asian session. Fed officials this week have continued to push the narrative that inflation will be transitory, helping to allay fears that the Fed may soon begin discussion on stopping the stimulus taps. Despite dipping yesterday, the 10-year US Treasury yield remains at just over a one-month high, while the USD looks set for a weekly gain against a basket of currencies. While markets have calmed, this suggests heightened concern still exists that the Fed will ultimately need to fast-track policy tightening which presents itself as a clear risk to emerging markets.
- It is clear though that the Fed would want to keep accommodative monetary policy in place until there is a full-scale recovery. Thus, as the recovery progresses, data releases hold the potential for upset as they have done recently. On that note, today will feature a heavy US data card with retail sales, industrial production and consumer confidence all scheduled for release. With the dollar bulls seemingly in charge this week, the bias would still be to the upside for the greenback should investors remain cautious ahead of the releases. As for the ZAR, the local unit has traded slightly weaker overnight, hovering around 14.1200/\$. With limited domestic catalysts during the day ahead, the local currency is set to track broader sentiment into the weekend. Next week heats up with the SARB announcing policy, yet implied volatilities for USD-ZAR options now covering the event remain subdued suggesting options traders are comfortable with the level of risk priced in at the moment and don't see any surprises coming from the MPC..

Contacts

Mogamisi Nkate	+267 3674335	email: mnkate@bancabc.com
Phillip Masalila	+267 3674621	email: pmasalila@bancabc.com
Kefentse Kebaetse	+267 3674336	email: kkebaetse@bancabc.com
Maungo Sebonego	+267 3674338	email: msebonego@bancabc.com

Report produced by ETM Analytics for BancABC Botswana.

Disclaimer

The information provided herein has been prepared solely for informational purposes and is not an offer to buy or sell or a solicitation of an offer to buy or sell the securities or instruments mentioned or to participate in any particular trading strategy. These materials have been based upon information generally available to the public from sources believed to be reliable. No representation is given with respect to their accuracy or completeness, and they may change without notice. BancABC on its own behalf and on behalf of its affiliates disclaims any and all liability relating to these materials, including, without limitation, any express or implied representations or warranties for statements or errors contained in, or omissions from, these materials.