Botswana Market Watch

19 May 2021

GMT		International and Local Data	Period	Exp	Previous
		Nothing on the cards			
09:00	EZ	CPI y/y	Apr F	1.60%	1.30%
11:00	US	MBA mortgage applications	May 14		2.10%
15:50	EC	ECB Executive Board's Lane Attends Conference			
18:00	US	Fed FOMC Meeting Minutes	Apr 28		

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 SubSaharan 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
UK jobless rate	Q1 unemployment dropped to 4.8% vs a Reuters poll of 4.9%. The jobs market appears to be holding up better than expected, although furlough schemes are still active	The true state of unemployment is yet to be fully understood but the data suggests the worst is over and a recovery is building	**4/5** (economy)	With the UK now opening up fully, furlough schemes will come to an end, the authorities will stop supporting the economy, and plans will need to be made for the steady repayment of the debt that has been accumulated
China bans crypto	China has banned financial institutions and companies from providing services related to crypto-currency transactions	Registration, clearing, trading and settlement in crypto has been banned	**4/5** (market)	Back in 2017, China shut down local crypto exchanges. In 2019 China sought to block access to foreign exchanges, and now it has banned crypto outright
EZ recession	Data released yesterday confirmed that the EZ economy declined 0.6% in Q1 to confirm a technical recession to record a 1.8% y/y contraction	The contraction will be fleeting as lockdown restrictions are lifted. Expect a strong rebound	**4/5** (economy)	It all relates to the easing of restrictions, the vaccination programmes and the ability of the authorities to engineer a more positive narrative on the outlook for growth and investment

Local F.X. Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2540	1.3671	1.2781	1.3539
BWPUSD	0.0896	0.0976	0.0913	0.0966
GBPBWP	15.8207	14.5238	15.4784	14.8264
BWPEUR	0.0732	0.0798	0.0750	0.0782
JPYBWP			9.9822	10.3989
USDZAR	13.4396	14.5746	13.7546	14.2592
EURUSD	1.1743	1.2725	1.2018	1.2450
GBPUSD	1.3623	1.4761	1.3943	1.4441

Benchmark Yield Curve

6m	1.5240
3y	4.7750
5y	5.3250
22y	6.7750

Forward Foreign Exchange

	BWPUSD	**BWPZAR**
1m	-2.1158	0.0000
3m	-6.3863	0.0000
6m	-15.6780	0.0000
12m	-32.4724	0.0000

Equities

BSE Domestic Index	6588.1
BSE Foreign Index	1550.85

Economic Indicators

GDP	-4.1	**Bank Rate**	3.75
CPI	3.2		

- The President will be travelling to Lesotho today to strengthen ties between the two nations and present Botswana's candidate for the position of SADC Executive Secretary, Elias Mpedi Magosi. Talks between President Masisi and King Letsi III will centre around issues of common interest including the COVID-19 pandemic and cooperation through the existing bilateral cooperation framework.
- On the economic front, the highlight of today's trading session will be the FOMC minutes from the US Federal Reserve which are due to be released later this evening.
- While the April US CPI print sounded alarms about out-of-control inflation, the Federal Reserve continues to communicate that the recent episode of inflation is transitory. The FOMC meeting minutes are expected to underpin this notion. No material differences from the FOMC policy statement are expected. Although inflation is expected to rise to around 2.4% this year amid soaring commodity and food prices and as the economy reopens, the central bank expects inflation to return to its 2.0% goal next year. Even though inflation risks are tilted to the upside, there is a strong case that can be made for a moderate inflation outlook. Inflation expectations over the medium to long term remain relatively anchored. Moreover, the level of slack in the labour market remains high, and commodity prices could ease as supply chain bottlenecks are resolved. On balance, while near term inflation risks are elevated, we expect the Fed to stand by its looser for longer policy stance in the foreseeable future.
- Given this backdrop its worth taking note of the Bank of Botswana's stance on inflation. The Central Bank does see annual inflation breaching the upper cap of its 3-6% target during the second quarter of this year driven by COVID-19 supply constraints and tax increases. *"Due to supply-side factors related to the coronavirus pandemic as well as the upward adjustments in taxes and administered prices we see inflation breaching the 6% upper bound before it falls back within the range in the first quarter of 2022,"* The Governor of the BoB, MrMoses Pelaelo told a media briefing at the end of April.
- Policymakers are expected to remain vigilant for signs of structural inflation given that commodity prices are said to be at the start of a super cycle. Food prices across the world have risen driven by supply chain issues as well as China restocking. Equally we have weather issues in the US which is likely to lead to a lower corn crop driving prices of stables higher.
- Moving onto FX markets, trading has been rangebound in the Asian session as investors await the FOMC minutes later this evening. Bitcoin has however tumbled this morning after China banned its financial institutions from offering services related to crypto currencies. We expect authorities to become extremely circumspect of crypto given the stresses it could place on financial systems given its inherent volatility. Investors that lose money in this environment especially if those investments were gears risk causing systemic risk which for now cannot really be measured.
- The local unit is anchored above the 0.0930 mark, we expect this support level to hold at the open.

ZAR and Associated Comments

- The ZAR was amongst the leaders of a broadly appreciative emerging basket of currencies during the day yesterday, gaining 0.75% against a weaker US dollar. The US dollar came under renewed pressure after Fed speak the prior day which prompted investors to remove bets that inflationary pressure would see the Fed tighten policy sooner. The local unit remained on the front foot well into afternoon trade and ultimately tested the 14.0000/$-handle for the second time in a week, securing a close slightly below at 13.9900/$.
- The ZAR also shrugged off Moody's comments earlier in the morning. Moody's noted that South Africa's strong core institutions and financial sector have supported its credit profile, but sovereign debt ratings remain at risk due to high public debt levels and structurally weak growth. This is evident in the current negative outlook for sovereign debt, but the ratings agency did suggest the outlook could be changed to stable if the government's fiscal consolidation plans proved fruitful.
- On that note, referring to ongoing public sector wage negotiations, National Treasury was in the newswires yesterday stating that "no change to government's spending ceiling and fiscal envelope can be accommodated in any settlement, and this is part of the official mandate for wage settlements". In recent weeks, both Fitch and Moody's have noted the low likelihood that government is able to cap wage increases, and that this remains a primary risk leading to further fiscal deficits. Whether government can convince the credit ratings agencies that it is on a path of fiscal consolidation remains to be seen, but it is likely that only action rather than words will suffice, with the agencies to simply adopt a wait-and-see approach. It will thus be interesting to note what S&P Global says about the timeline for further potential downgrades in its review of SA debt scheduled for release this Friday.
- As for the day ahead, the domestic data card picks up with April's inflation print and will be a noteworthy release ahead of the MPC policy update tomorrow. Inflationary pressure in SA remains relatively benign with CPI having held just above SARB's lower bound of its 3% to 6% target rate in the latter parts of Q1 owing to weak underlying price pressures. This may not be the case in the months ahead given the rise in energy costs, administered electricity prices and the low base effects from 2020. Nevertheless, underlying inflation dynamics currently do not support the need for the SARB to consider hiking rates over the coming months, which the SARB may reiterate at tomorrow's policy update. Following the CPI print, March's retail sales figures will offer insight into domestic demand dynamics at the end of Q1, with expansionary pressure expected to continue after the sector recorded positive growth in February for the first time since March 2020.
- In the markets, the US dollar has steadied overnight while the ZAR has given up some of yesterday's gains in early morning trade. Despite the importance of today's domestic data prints, investors will likely remain cautious in breaking out of the ZAR's current 14.0000-14.2000/$ range ahead of the SARB tomorrow and S&P review on Friday. Later in the day, the market will be able to digest the latest FOMC meeting minutes which will offer insight into the central bank's thinking at the last monetary policy meeting. Should the Fed's minutes remain overly dovish, this may open the door for further dollar losses, with EM currencies likely to gain on the back of this. The trade-weighted dollar index (DXY) broke below 90 yesterday, and is currently testing February lows near 89.700, with the next line in the sand to the downside being January lows around 89.200.

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