

Botswana Market Watch

21 May 2021

GMT		International and Local Data	Period	Exp	Previous
		Nothing on the cards			
13:45	US	Markit PMI manufacturing	May P	60.80	60.50
13:45	US	Markit composite PMI	May P		63.50
13:45	US	Markit services PMI	May P	64.90	64.70
14:00	US	Existing home sales	Apr	6,06mn	6,01mn
14:00	EZ	Consumer confidence	May A	-6,30	-8,10

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
Cryptocurrency regulations	Following the Chinese Ban on the use of cryptocurrency, the US Treasury has called for stricter cryptocurrency compliance with the IRS that believes it enhances tax evasion risk	This will likely be the start of a long line of regulations that are imposed on crypto to render it regulated and controlled	3/5 (economy)	The Treasury announced that it would require any transfer of \$10,000 or more to be reported to the IRS, including exchanges, crypto payments and or transfers, and assets as the noose tightens on illegal flows and activity
EU-Sino relations	The EU on Thursday halted ratification of a new investment pact with China until China lifts sanctions on EU politicians. These talks aimed at putting EU on an equal footing in China	Clearly, political tensions between the two economic power blocs continue to run high, and trade relations have soured	4/5 (politics, economy, trade)	The move is a tit-for-tat response after China imposed sanctions on EU politicians, think tanks and diplomatic bodies following the sanctions imposed on China by the West for the mass detentions of Muslim Uyghurs
Israel - Hamas cease-fire	After 11 days of fighting, Israel's security cabinet voted to approve a tentative cease-fire. Biden called it a mutual and unconditional cease-fire	This will help restore some calm in the region, although geopolitical tensions run high	5/5 (geopolitics)	There is an intense effort globally to pressure both sides into halting these attacks. The US has said it would work with the Palestinian authorities (not Hamas) to restore calm to the region

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	1.2503	1.3647	1.2744	1.3516	6m	1.5250				
BWPUSD	0.0894	0.0973	0.0911	0.0964	3y	4.6250	1m	-1.9403 0.0000		
GBP/BWP	15.8424	14.5291	15.4997	14.8318	5y	5.4250	3m	-5.5868 0.0000		
BW/PEUR	0.0731	0.0797	0.0748	0.0781	22y	6.7250	6m	-14.6396 0.0000		
JPY/BWP			9.9429	10.3683			12m	-32.2920 0.0000		
USDZAR	13.4292	14.5649	13.7440	14.2498						
EURUSD	1.1743	1.2722	1.2018	1.2447						
GBPUSD	1.3614	1.4749	1.3933	1.4430						
					Equities		Economic Indicators			
					BSE Domestic Index	6594.87	GDP	-4.1	Bank Rate	3.75
					BSE Foreign Index	1550.85	CPI	3.2		

- Calls for a ceasefire in the Middle East have finally been heard. According to the state-run news agency MENA, Egypt has announced that a ceasefire between Hamas and Israel in Gaza would start at 02.00 am local time. The Egyptians would be sending two security delegations to Tel Aviv and the Palestinian territories to ensure compliance and implementation following the deadliest fighting in decades over the past 11 days. Israel's cabinet has met and approved the truce, so it is hoped that a ceasefire can be achieved.
- The ceasefire will be welcomed as the threat of the fighting becoming more widespread across the Middle East is a reality which would undoubtedly exert upward pressure on oil prices as the geopolitical risk premium rises. This would add additional pressure to inflation readings across the world at a time when inflation is rising as a result of supply chain issues due to COVID-19, higher energy prices and higher food prices.
- The US Treasury appears to have been busy. Not only has it proposed a global minimum corporate tax to curtail tax avoidance from companies setting up in more tax-friendly jurisdictions for the purposes of saving on tax, but they are also looking to raise more tax revenues. That extended into the crypto-currency space as well, where the Treasury announced that any transaction of \$10k or more would need to be declared, whether that be through an exchange, a transaction, asset holdings or a transfer of wealth. Although not expressly stated, the theme of governments around the world looking for more tax revenues will see the likes of unregulated crypto markets targeted, especially as they are deemed transactional nodes that facilitate corruption, trafficking and tax evasion.
- Weekly jobless claims that were released yesterday showed a further drop of 34k to bring initial claims down to 444k, while continued claims increased to 111k as rehiring efforts appeared to slow. The data highlights the uneven nature of the recovery and why the Fed is likely to persist with its loose monetary policy stance for as long as it takes to secure a strong economic recovery. As the pandemic eases and the economy continues to open up, the recovery trend will reassert itself. H2 2021 will likely generate a much stronger improvement in overall economic activity.
- In terms of the FX markets, the USD remains on the defensive as data released so far this week has not done enough to build expectation of a taper. Quite the opposite, investors will feel comfortable that the Fed will persist with its ultra-accommodative stance and that the current fundamentals, reflected through the ballooning twin deficits will continue to erode the broader value of the USD. Technically, some support has been found in the past three trading sessions just below the 89.70 level of the trade weighted USD, but a punch below that will likely trigger another run against the USD. Some focus will turn to the PMI data later today for guidance on the strength of the US economic recovery. A strong outcome will help the USD recover some of its composure.
- 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 edged firmer yesterday ahead of a SARB address where it was all but expected the central bank would maintain the current policy rate at 3.50%. The USD meanwhile scaled back after overnight gains where unexpected discussion surrounding tapering of bond purchases by US Fed officials in the last FOMC meeting minutes drove US Treasury yields higher, lifting the dollar. Ultimately, dollar losses through the day and a more balanced outlook from the SARB saw the ZAR pare earlier losses and settle at 13.9900/\$, 0.25% stronger from the prior day's close.
- The MPC decision yesterday conformed to expectations with a unanimous decision to keep the repo rate on hold. This was also the second consecutive meeting where all MPC members decided to maintain current policy which suggests that rate hike discussions may be on the cards in the coming months. However, the inflation outlook for this year was revised down and the SARB now sees the average CPI rise in 2021 at 4.2%, down from 4.3%. Core CPI inflation was also revised down to 3.0% from a previous estimate of 3.3%. With a more dovish inflation outlook, the SARB views this as sufficient justification for keeping rates lower for longer to support the economy which remains below pre-pandemic levels of output.
- Nevertheless, the ZAR favoured a more balanced outlook from the SARB where, despite the downwards revisions to inflation, SARB Governor Lesetja Kganyago noted in the MPC statement that risks remain skewed to the upside. The SARB also noted that they are willing to tolerate negative real interest rates if CPI remains generally contained and there is slack in the economy. Given the recent inflation print of 4.4% earlier in the week and that the repo has remained at 3.5%, SA's real policy rate is now in negative territory at -0.9%. This puts SA roughly in the middle of the developing nation sample in terms of accommodative monetary policy. Meanwhile, SA's 10-year bond yield adjusted for inflation, being roughly 5%, remains amongst the highest of developing markets. The disparity here signifies SA's elevated fiscal risk resulting from high debt levels and stagnant growth. While the ZAR has retained a level of resilience this year due to stronger terms of trade, with the resumption of domestic imports lagging exports in the pandemic's wake, the currency remains at risk of depreciation should credit rating agencies not see sufficient structural reforms to stave off further downgrades. Thus, the SARB may tolerate a negative real rate for the time being, with the outlook for rate hikes now firmly towards the end of the year, but could act sooner should ZAR volatility become an issue for the central bank.
- For the day ahead, domestic investors will look to S&P Global Ratings for hints as to the potential for a further sovereign debt rating downgrade in the future. Government's fiscal consolidation plan will require continual efforts in the coming years and S&P may ultimately adopt a similar wait-and-see approach as Moody's did in its scheduled review at the beginning of the month. Externally, the market has a slew of PMI data out of the UK, Europe and the US later in the afternoon for an update on the global economic recovery. In the spot markets, despite the USD's slide continuing overnight, the ZAR has failed to push higher than yesterday's close in early morning trade, with the market likely to need a clear positive catalyst to extend ZAR gains beyond the 14.0000/\$-handle in the near-term.

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Report produced by ETM Analytics for BancABC Botswana.

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