

Botswana Market Watch

25 May 2021

| GMT | International and Local Data | | Period | Exp | Previous |
|--|------------------------------|---|--------|--------|----------|
| Botswana to sell 7-Certificates | | | | | |
| 08:00 | GE | IFO business climate | May | 98,00 | 96,80 |
| 13:00 | US | House price index m/m | Mar | 1.40% | 0.90% |
| 13:00 | US | S&P CoreLogic Case-Shiller house price composite-20 y/y | Mar | | 11,94% |
| 14:00 | US | Consumer confidence | May | 120,00 | 121,70 |
| 14:00 | US | New home sales | Apr | 950k | 1021k |
| 14:00 | US | Richmond Fed manufacturing index | May | 19,00 | 17,00 |

| 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 |
| Cost of slow vaccine rollout | A study done by the World Bank showed that the slow rollout of COVID-19 vaccines in Africa could cost the continent \$14bn a month in economic output | Less than 0.5% of the continent's roughly 1.3bn people are fully immunized, according to Bloomberg data | 4/5 (economy) | African is struggling to secure vaccines as wealthy countries hoard vaccines for their citizens. This has ultimately resulted in a much slower rate of vaccination in Africa than in other parts of the world |
| 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 |
|-------------------------|--|--|-----------------------------------|---|
| BoE on inflation | BoE Governor Bailey has made it clear that a short-term jump in prices due to supply chain pressures has no bearing on inflation in the medium-term | The BoE will however be monitoring very carefully the inflation produced for clear signs of a rise | 3/5 (economy) | Beyond the supply-side pressures, most other drivers of inflation such as a tightening labour market and rapidly rising wages were largely absent at present. |
| BoJ warning | BoJ Governor Kuroda has warned of an uneven global recovery that could boost savings, inequality and debt as well as a decline in the natural rate of interest | What Kuroda is referring to is the distortionary effects of ultra-loose monetary policy | 4/5 (economy, monetary policy) | The longer QE and other forms of ultra-loose monetary policy continue, the more wealth is centralised in the asset markets already owned by the wealthy with the poor largely excluded |
| Iran-IAEA | Iran and the UN have extended a recently expired monitoring agreement by another month that could help revive talks on the 2015 nuclear deal | The Biden administration is looking to undo the actions of the Trump administration | 4/5 (geopolitics) | While the agreement was in place, Iran had stuck to the deal's restrictions. But after the US abandoned the nuclear accord and imposed sanctions, Iran retaliated by breaching the restrictions |

Local F.X. Opening Rates and Comment

| | CUSTOMER BUY | | CUSTOMER SELL | | Benchmark Yield Curve | | Forward Foreign Exchange | | | | |
|---------|--------------|---------|---------------|---------|-----------------------|--------|--------------------------|--------|----------|--------|--------|
| | CASH | TT | CASH | TT | | | | | | | |
| BWPZAR | 1.2453 | 1.2693 | 1.3590 | 1.3459 | 6m | 1.5240 | 1m | BWPUSD | -2.2035 | BWPZAR | 0.0000 |
| BWPUSD | 0.0896 | 0.0913 | 0.0978 | 0.0968 | 3y | 4.6250 | 3m | | -6.4448 | | 0.0000 |
| GBP/BWP | 15.8062 | 15.4643 | 14.4961 | 14.7981 | 5y | 5.4250 | 6m | | -14.8736 | | 0.0000 |
| BW/PEUR | 0.0732 | 0.0750 | 0.0799 | 0.0783 | 22y | 6.7250 | 12m | | -33.5351 | | 0.0000 |
| JPY/BWP | | 9.9724 | | 10.3887 | | | | | | | |
| USDZAR | 13.3471 | 13.6599 | 14.4723 | 14.1592 | | | | | | | |
| EURUSD | 1.1738 | 1.2013 | 1.2717 | 1.2442 | | | | | | | |
| GBPUSD | 1.3612 | 1.3931 | 1.4747 | 1.4428 | | | | | | | |

| Equities | | Economic Indicators | | | |
|--------------------|---------|---------------------|------|-----------|------|
| BSE Domestic Index | 6593.77 | GDP | -4.1 | Bank Rate | 3.75 |
| BSE Foreign Index | 1550.85 | CPI | 3.2 | | |

- The broader backdrop for the country is currently centred on the investment by foreign entities in the country and the broadening of the hard currency earning potential. Agriculture is a focal point with the likes of the Chinese promoting moringa farming, global demand for moringa is massive and it is to this end that the Chinese are supporting the local industry. Hu Yan, Co-Founder and Managing Director of Moringa Technology Industry remains committed to building the moringa industry in Botswana stating that he needs at least 50 tonnes of moringa to start, hence he has been training local farmers on growing moringa trees and giving them seeds to get started. His efforts to ensure that about 500,000 trees are planted within the Greater Gaborone Area have since attracted both the young and old from across the country according to Xinhua.
- Keeping with China, The Chinese state planner, the National Development and Reform Commission stated that it will strengthen its controls of key commodities from 2021 to 2025 as part of its 14th 5-year plan. The commission is currently drafting plans to cope with what it views as abnormal price fluctuations in commodities such as copper, corn and iron ore.
- China has been aggressive in re-stocking across the commodity spectrum using COFCO, its state-owned commodity trader to source commodities across the world.
- One point to note is that China's trading activity is very opaque and they are not traditionally forthcoming with the size of their commodity holdings. This is likely to remain a factor as they restock as they will not want to unduly affect any price more than needed.
- As mentioned yesterday we still hold the view that the broader macro picture on base metals is unchanged, and what we are seeing is the froth being removed from the market. This is good news for Botswana given the development taking place around the industrial metals complex. The Kalahari Copper Belt is expected to add meaningfully to the economy in the coming decades and diversify the country away from the diamond trade which has been responsible for some 70% of Botswana's export earnings.
- For the day thus far, the market bias has remained against the USD, with emerging market currencies in the green overnight. Sentiment has been positive during Asian trade following a Wall Street rally yesterday, while Fed speakers overnight added to the weight on the USD, stating that the time to withdraw monetary support would not be during the pandemic.
- This positive sentiment is likely to flow through to the local open and we expect the 0.0930 support level to hold. Investors are also reminded of the standard 7-day certificates on offer today. This comes ahead of the bond auction due on the 28th May, we expect solid demand given the fiscal profile of Botswana coupled with the strong yield pick-up.

ZAR and Associated Comments

- The USD-ZAR fell for a third consecutive day yesterday, as the local currency continues to gain on the back of a declining US dollar. Though, this was not without a bout of intraday volatility which saw the ZAR retreat back above the 14.0000/\$-handle earlier in the day. However, the USD was more consistently pressured during the day as it headed towards February's trade-weighted lows, which ultimately offered the ZAR some reprieve later in the day. At the end of domestic hours, the local unit was 0.25% stronger against the dollar at 13.9200/\$.
- While a large part of the USD-ZAR's decline has come from the dollar side this year, specific ZAR strength has also contributed, given the local currency has been a top performer in the emerging market currency basket. A weak domestic economic backdrop and the global commodity boom have resulted in a persistently positive trade balance, with the resumption in imports in the pandemic's wake falling short of that of exports. This has led to a ZAR bolstered by physical flows, despite the associated high level of fiscal risks. Simultaneously, SA's high real yields due to these risks remain attractive to yield-starved investors as developed world central banks maintain looser policies for longer.
- Given the ZAR's recent strength, it seems speculators see further upside for the local unit. According to the latest CFTC data, speculators in the non-commercial futures market upped their net long ZAR bets in the week ending 18 May. Speculators have continued to turn more bullish on the ZAR and have room to build this position further, which should support the currency within the spot market in the near term. As for the USD, investors remain net short on the greenback, given continued intimations from the Fed that interest rates and the economy are far from being normalised. All in all, more downside may well be expected for the USD-ZAR. However, we maintain that the ZAR remains vulnerable to corrections and external shocks given idiosyncratic risks to the economy in the longer term..

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