

## Botswana Market Watch

26 May 2021

GMT		International and Local Data	Period	Exp	Previous
		<b>Nothing on the cards</b>			
09:00	EC	ECB's Villeroy speaks at French National Assembly			
11:00	US	MBA mortgage applications	May 21		1.20%
14:00	US	Fed's Quarles Discusses Insurance Regulation			
19:00	US	Fed's Quarles Discusses the Economic Outlook			

Africa	What happened?	Relevance	Importance	Analysis
<b>Agriculture funding gap</b>	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	<b>3/5</b> (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
<b>Cost of slow vaccine rollout</b>	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	<b>4/5</b> (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
<b>Africa vaccines</b>	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	<b>3/5</b> (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
<b>US consumer confidence</b>	Consumer confidence held at a high level but slipped slightly in May to 117.2. In particular, the households' employment measure rose strongly	US consumer confidence at a 14-yr high offers insight into future US consumption	<b>3/5</b> (economy)	Economic activity is gradually recovering, and most indicators are pointing to a solid expansion in H2 2021, albeit peppered with the odd bout of volatile data as pandemic concerns weigh
<b>US housing market</b>	New home sales dropped 5.9% m/m in April but were still up 48.3% in y/y terms, courtesy of the very low interest rates that made homes affordable	The housing market, for now, remains buoyant even though it is off its recent peaks	<b>3/5</b> (economy, market)	Add to that the jump in house prices of 13.2% y/y in Mar as reflected by the S&P CoreLogic Case-Shiller house price index, and the market remains in good shape and boosting balance sheets
<b>Fedspeak</b>	Fed members are starting to speak more openly about the conditions needed for the Fed to announce any tapering of QE	San Fran President Daly quickly added that nothing would be done now	<b>3/5</b> (economy, monetary policy)	The Fed will remain as accommodative as it can for as long as it can ensure that the full employment mandate is achieved

### Local F.X. Opening Rates and Comment

CUSTOMER				CUSTOMER				CUSTOMER				CUSTOMER			
BUY		SELL		BUY		SELL		BUY		SELL		BUY		SELL	
CASH		CASH		TT		TT		CASH		CASH		TT		TT	
BWPZAR	1.2432	1.3560	1.2672	1.3429	<b>Benchmark Yield Curve</b> 6m 1.6260 3y 4.6250 5y 5.4250 22y 6.7250	<b>Forward Foreign Exchange</b>		1m	-2.1450	BWPUSD	0.0000				
BWPUSD	0.0900	0.0980	0.0917	0.0970		3m	-6.4643	BWPZAR	0.0000						
GBPBWP	15.7210	14.4336	15.3808	14.7343		6m	-15.8535								
BWPEUR	0.0733	0.0799	0.0751	0.0783		12m	-35.2219								
JPYBWP			10.0117	10.4294											
USDZAR	13.2684	14.3939	13.5793	14.0825											
EURUSD	1.1768	1.2752	1.2043	1.2477											
GBPUSD	1.3596	1.4731	1.3915	1.4412											

Equities		Economic Indicators			
BSE Domestic Index	6598.48	GDP	-4.1	Bank Rate	3.75
BSE Foreign Index	1550.85	CPI	3.2		

- Intra-Africa trade remains a focal point for the region following the recent opening of the Kazungula Bridge. The African Continental Free Trade Area (AfCFTA), which started trading under the agreement in January 2021 is the initiative which is hoped will boost the amount of intra-Africa trade elevating the various economies to middle tier and reverse the current trend which is one of an export of raw materials and the importation of finished goods from the rest of the world. Intra-Africa trade is currently less than 20% and the initiative aims to increase this to 30% in the next few years by attracting investment across the economic sectors and building regional value chains. Botswana has already indicated a willingness to expand its OEM motor manufacturing capacity as it is perfectly placed to service the motor sector in South Africa with some of the assembly plants a mere 300 kms across the border in Pretoria, South Africa.
- One point that needs to be made is that the infrastructure enabling intra-Africa trade needs to be improved. The road infrastructure across the continent and certainly north of the Botswana border needs serious attention. Efficiencies need to be achieved at the various crossings, with red tape and bureaucracy shunned in favour of technological advances and a willingness to trade.
- Moving over to markets we see base metals are experiencing the aftermath of China stating that they are going to curtail wild price swings and strength controls around commodities in their five-year plan from 2021-2025. Most have taken this to mean that they will at some point look to curtail any speculative activity and there are those that have gone so far as to say they may even adopt a similar approach to their stance on crypto where they have banned certain activities outright.
- We see this as an extreme view and favour a strategy where the Chinese will aim to smooth prices rather than curtail trading activity.
- The dollar has not had a good run of late. Another dovish Fed official played down inflation risks which pressured the world's reserve currency. Fed Vice Chair Richard Clarida stated in a Yahoo! Finance interview that signs of inflation would "prove to be largely transitory," and thus the market has priced for rates remaining on hold for at least 2021 and for most of 2022. This keeps higher yielding frontier and emerging markets on the front foot will relegating the dollar to the back of the queue at the moment.
- Given this backdrop it was not surprising to see the BWP perform well yesterday with the currency stretching its legs towards the 0.09400 mark. We remain bullish in the near term but would like to point out that the price action over the next few days will be equally influenced by month end corporate needs.

## ZAR and Associated Comments

- The ZAR strengthened for the fourth consecutive day against the USD yesterday amidst positive global risk appetite. In fact, the local currency claimed the top spot in the EM currency basket after receiving a tailwind from several domestic developments. Earlier in the day, the SARB's leading indicator rose to a fresh record high of 121.3 in March from 119.3 in the month prior. Besides base effects playing a role, this feeds the view that the SA economy remains on a path of recovery for the time being and likely recorded net positive growth in Q1 this year.
- Providing further positive sentiment to the ZAR, Minister of Public Enterprises Pravin Gordhan announced to lawmakers yesterday that Eskom's net debt fell to R401bn from R488bn at the end of the 2019/2020 financial year. This is no doubt a significant development for the debt-stricken state utility and the fiscus, which has remained burdened by multiple bailouts over recent years. While the debt reduction was attributed to the repayment of existing debt, the improvement in the exchange rate over the last year was also noted to have played a role in reducing the SOE's dollar-denominated debt. The debt pile nevertheless remains significant but is still a welcome development that will encourage investors.
- The ZAR took these in its stride as it went on to close at 13.8500/\$, securing a 0.55% gain on the day. Amidst the positive risk appetite, the local unit also shrugged off news of a potential tightening of restrictions in anticipation of the third wave of COVID-19 infections. The National Coronavirus Command Council (NCCC) met yesterday, where they were reportedly urged to consider stricter containment measures to avoid a ramp-up in infections. The decision ultimately rests with Cabinet, and it remains to be seen whether this advice will be heeded, given the unfortunately disproportionate economic consequence of lockdown restrictions.
- Meanwhile, the USD remained in the doldrums yesterday as US economic data weighed on the greenback. Specifically, the US housing market was less buoyant than expected in April, and a gauge of consumer confidence also slipped. This ultimately saw the dollar extend its current downtrend, succumbing to broad losses.
- Overnight, not much has changed in terms of overall bias. The ZAR pared some of yesterday's gains earlier this morning but has since reversed direction to trade in the green during a largely positive Asian trading session. USD weakness has similarly persisted after a host of Fed speakers overnight reiterated the appropriateness of current monetary policy given the slack in the US labour market, which continues to soothe inflationary concerns. Domestically, Cabinet is due to meet today, chaired by President Ramaphosa, and is likely to focus on rising COVID-19 infections in several provinces. This holds the potential to diminish the ZAR's current positive sentiment should there be allusions to a move to tighter restrictions. Still, barring such, the bias remains to the topside for the local currency as it trades near 22-month highs.

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