

Botswana Market Watch

27 May 2021

GMT		International and Local Data	Period	Exp	Previous
		Nothing on the cards			
12:30	US	Durable goods orders m/m	Apr P	0.80%	0.80%
12:30	US	GDP q/q annualised	1Q S	6.40%	6.40%
12:30	US	Personal consumption	1Q S		10.70%
12:30	US	Initial jobless claims	May 22		444k
14:00	US	Pending home sales y/y	Apr		25.30%
15:00	US	Kansas City manufacturing activity	May		31

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
Chinese industrial profits	Industrial profits slowed in April amid high commodity prices. Growth in profits fell to 57% y/y in Apr down from 92.3% in March	Low base factors of the Jan-April profits skew the result. Growth to fall	3/5 (economy)	Although this paints a picture of a strong recovery, the growth rate will moderate in the months ahead as the low base factors unwind.
UK QE	PM Johnson's former top adviser Cummings admitted that he was concerned that bond market investors would not tolerate the sharp rise in debt issuance at the start of the pandemic	Offers clear perspective on why the BoE was drafted in to play such an important role and stabilise markets	2/5 (economy, market)	That is not just a UK fear; it will have dominated most markets around the world, which would also explain the sheer scale of the quantitative easing efforts of the central banks as they sought to restore calm and order
Fedspeak	The Fed's head of supervision Quarles said yesterday he did not expect a 1970s breakout of inflation but acknowledged that risks to inflation were building	He indicated that he would be open to the idea of reducing the amount of bond purchases in time	3/5 (economy, monetary policy)	However, he was clear that he would be in no rush, and did not wish to overstate his concern. Merely that he felt it appropriate to start thinking of and talking about tapering bond purchases

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	1.2401	1.3540	1.2640	1.3410	6m	1.6250	1m	-2.2133	0.0000
BWPUSD	0.0901	0.0982	0.0919	0.0972	3y	4.6250	3m	-6.6983	0.0000
GBP/BWP	15.6388	14.3431	15.3005	14.6419	5y	5.4250	6m	-15.1564	0.0000
BW/PEUR	0.0739	0.0806	0.0757	0.0791	22y	6.7250	12m	-35.0415	0.0000
JPY/BWP			10.0608	10.4904					
USDZAR	13.2070	14.3278	13.5165	14.0178					
EURUSD	1.1706	1.2683	1.1981	1.2408					
GBPUSD	1.3554	1.4685	1.3872	1.4367					

Equities		Economic Indicators			
BSE Domestic Index	6590.26	GDP	-4.1	Bank Rate	3.75
BSE Foreign Index	1550.85	CPI	3.2		

- Botswana's policymakers will be keeping a close eye on chatter out of the developed markets specifically in relation to their expectations of an economic recovery post COVID-19. Botswana is investing heavily in the likes of the Kalahari copper belt and various other projects to diversify its hard currency earnings. These investments are currently aligned with the global requirements for commodities and products which makes us optimistic on the longer-term prospects for the country overall.
- Another Fed speaker in the form of Head of Supervision Quarles confirmed that the Fed would not be in any hurry to reduce its stimulus. Although Quarles was open to the idea of talking about tapering, he saw no need to do so any time soon. He specifically stated that he did not want to overstate his concerns around inflation and did not expect to see a breakout episode of inflation. Nothing new in any of this and the markets appear to have taken his comments in their stride. Focus through the afternoon will shift to the data scheduled for release.
- Relations between the US and China are tense and are unlikely to ease any time soon. US Trade representative Katherine Tai made it clear that the US still faces many challenges concerning China across the board. Beyond the list of human rights abuses, it's handling of Hong Kong and now Taiwan, its trade practices and growing influence on the global scale, President Biden is now requesting a deeper investigation into the origins of Covid-19. Information has resurfaced suggesting it may have leaked from the lab in Wuhan, which would've been man-made.
- Moving onto the markets, the dollar index (DXY) has snapped back above the 90.000 critical technical level after finding support near February lows yesterday. Slightly less dovish comments from key Fed officials over the past two days have slowly filtered into markets and allowed the USD to trim losses this week, as it secured gains against most major currencies yesterday
- The local unit remains well poised to take advantage of any USD weakness and we remain of the view that a close above the 0.0940 mark cannot be discounted in the near future.

ZAR and Associated Comments

- The ZAR extended its current winning streak against the USD for the fifth day yesterday. After hovering near 22-month lows through most of the day, the ZAR bulls found enough impetus to break through a July 2019 high around 13.8100/\$. While domestic developments this week have offered the local unit a tailwind, the ZAR has made steady progress since early March, where it was trading near the top of its wide 14.5000-15.5000 Q1 range at the time. The local currency's outperformance amongst other EM currencies has been notable due to the combination of a commodity-lifted domestic trade balance and overwhelming bias against the USD.
- The ZAR, managed to sustain a breakthrough of its own resistance levels yesterday, maintaining trade past 13.8000/\$ and ultimately gaining an EM-topping 0.70% as it closed around 13.7600/\$, its strongest levels since February 2019.
- While the ZAR may continue to gain in the near term, the timeframe for ZAR strength will begin to disappear looking further out. Idiosyncratic factors will likely start to weigh on domestic assets once again after stimulus-driven flows into local markets begin to slow and as domestic imports improve and lessen the trade surplus. Further down the line, the ZAR does remain prone to correction once the stimulus taps in the developed world are closed and if the domestic economic recovery has not kept up the pace for the SARB to hike rates in response.
- For the day ahead, the domestic data card picks up with the release of April producer price index, which will offer insight into supply-side inflation. Factory price growth in South Africa has accelerated every month since reaching lows in May last year, and this is expected to have continued to April. However, high supply-side inflation may not filter through to the consumer side given SA's current demand dynamics, suggesting it will place suppliers under even more financial pressure. A strong figure here may thus have a muted effect on the ZAR, as this is unlikely to be fully offloaded into CPI inflation by suppliers as yet. In the spot markets, the ZAR has held steady around yesterday's close, staving off selling pressure as the dollar has equally held steady after yesterday's trade-weighted gains. This suggests the ZAR may yet be favoured for more upside once domestic trade commences, while US data later in the day in the form of jobless claims and factory goods orders could reduce this somewhat should the data point to US economic strength..

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