Botswana Market Watch

28 May 2021

GMT		International and Local Data	Period	Exp	Previous
11:00	BW	200m 2023, 300m 2027, 200m 2031 bonds on offer			
11:00	BW	BWP870 91-Day bills and BWP380 182-Day Bills on offer			
12:30	US	Wholesale inventories m/m	Apr P		1.30%
12:30	US	PCE core y/y	Apr	2.90%	1.80%
12:30	US	Advance Goods Trade Balance	Apr	$-93,50bn	$-90,60bn
13:45	US	Chicago PMI	May	69,50	72,10
14:00	US	Michigan consumer confidence	May F	83,00	82,80

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
US money market distortions	A lack of options amid low or negative interest rates has translated into money market funds parking funds at the Fed in record amounts	Through the reverse repo programme, banks parked some $485.3bn with the Fed, a new record	**3/5** (economy)	The facility effectively allows the Fed to mop up excess liquidity in the money market to prevent yields from going below zero. It is sign that monetary policy is distorting markets
US infrastructure bill	Senate Republicans introduced their $928bn infrastructural programme yesterday, which aims at revitalising roads, bridges and broadband systems	The package is half of what the Democrats want to spend but is an increase from where they were	**4/5** (economy, politics)	It is believed that the improved offer is a step closer and maybe enough to keep the talks alive. The Republican bill is more focused on physical infrastructure; the Democrats include social spending
Global bonds	The EZ bond market rally driven by dovish central bank comments has come to an end on the back of a sharp sell-off in bonds in the US and the UK	The UK is looking at rate hikes in 2022 and the US is looking at introducing an enormous budget	**3/5** (economy, markets)	For now, bond market yields are on the rise, and investors will increasingly start to look beyond the current low interest rate environment to a time when stimulus is withdrawn

Local F.X. Opening Rates and Comment

	CUSTOMER BUY CASH	CUSTOMER SELL CASH	CUSTOMER BUY TT	CUSTOMER SELL TT
BWPZAR	1.2410	1.3540	1.2649	1.3410
BWPUSD	0.0901	0.0984	0.0919	0.0974
GBPBWP	15.7251	14.4224	15.3849	14.7228
BWPEUR	0.0739	0.0806	0.0757	0.0791
JPYBWP			10.1296	10.5617
USDZAR	13.2157	14.3292	13.5255	14.0192
EURUSD	1.1701	1.2678	1.1976	1.2403
GBPUSD	1.3629	1.4766	1.3949	1.4446

Benchmark Yield Curve

6m	1.5750
3y	4.4750
5y	5.3250
22y	6.7750

Forward Foreign Exchange

	BWPUSD	BWPZAR
1m	-2.0768	0.0000
3m	-6.4935	0.0000
6m	-15.6683	0.0000
12m	-34.8075	0.0000

Equities / **Economic Indicators**

BSE Domestic Index	6587.4	GDP	-4.1	Bank Rate	3.75
BSE Foreign Index	1550.85	CPI	3.2		

- The highlight of today's local calendar is the bond auction which takes place at 13.00 local time. Botswana issuing bonds, the quality debt is without question given the credit rating and the yield pick up they offer. Today we will have the following bonds on offer.
  - BWP200m 4.5% 2023
  - BWP300m 5.5% 2027
  - BWP200m 7.75% 2031
- The last auction on the April 30th saw some interesting results. We had robust interest for the 2027 issuance, however the 2031 received a lower total amount of bids than what was on offer and this was true of the 2040 issuance as well leading to the market receiving much lower allotments.
- Moving onto news of international significance, Base metals received a shot in the arm yesterday with most of the group finishing the session higher tracking developments out of China, the United States and Chile.
- Ferrous metals traded higher driven by promises by the Chinese authorities to curb emissions from the vast steel sector leading to fears of shortages. This set the ball in motion yesterday with other base metals tracking ferrous metals higher in the EU session.
- Adding weight to the move was the news that US President Biden is scheduled to make an announcement on a $6trn budget announcement which is likely to focus on stimulus programmes which will include infrastructure projects. The New York Times reported that Biden is aiming to raise the US Federal spending to $8.2trn by 2031, which will boost consumption and growth.
- Oil markets as always hold interest given the impact on inflation and thus we keep a close eye on developments here. Oil is on course for a fourth monthly gain out of five this year, with demand optimism still generally outweighing any concerns over increased supply as production cuts are eased and talks with Iran progress. The front-month Brent contract is nearing the $70 per barrel mark this morning as a result, while the benchmark WTI contract remains bid after closing yesterday at its highest in more than two years.
- Moving over to the financial markets, US Treasury yields have ticked up over the past few days following slightly less dovish Fed commentary this week, offering the greenback some support after an overwhelmingly bearish start to the week. However, it has become apparent that the Fed is in no hurry to reduce the amount of stimulus being pumped into the US economy, with sentiment is merely swinging towards the idea of when to begin tightening policy once the data shows sufficient progress. As such, the overall bias remains to the downside for the dollar after what is most likely a technical bounce this week. The US is still nursing major twin deficits, with a large trade deficit and high government expenditure resulting in wide budget deficits. The latter deficit is unlikely to go away anytime soon
- We are unchanged on our BWP View. 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 USD-ZAR snapped its five-day losing streak yesterday as ZAR bullish momentum appeared to fade, while the USD held steady after the previous day's bounce. The local currency strengthened as high as 13.6780/$ in intraday trade, but reversed its advance later in the day, ultimately settling 0.25% weaker on the day at 13.7900/$. Nevertheless, the ZAR remains roughly 1.40% stronger this week at the time of writing, with yesterday's pullback resulting from a steadier USD ahead of crucial US inflation data later today.
- On the domestic front, producer price growth matched expectations yesterday as the April reading accelerated to 6.7% y/y from 5.2% y/y in March. Month-on-month, though, growth slowed to 0.7% from a prior figure of 1.3%, highlighting the extent of annual base effects due to last year's pandemic-related dip. In addition, producers' inability to pass on higher costs to consumers in the current economic environment suggests the acceleration in factory prices is unlikely to raise consumer inflationary pressures materially. Thus, from an inflationary perspective, the implications are for the SARB to favour lower rates for longer, especially given the ZAR's recent strength which should further offset inflationary pressure. While lower rates not ZAR positive, elevated fiscal risks have kept real yields on government bonds amongst the highest in the EM sample, supporting foreign investment flows while offshore funding rates remain low.
- While this supports the ongoing domestic recovery, the SARB's financial stability review released late yesterday afternoon warned of the longer-term economic damage of the COVID-19 pandemic. The SARB noted higher levels of debt and greater inequality as potential longer-term structural effects. The high level of government borrowing and trajectory of debt levels have resulted in higher domestic interest rates, which adversely affects domestic investment activity. Thus, once global monetary dynamics begin to tighten, domestic assets may face some selling pressure, with implications on the currency being a resumption of gradual depreciation. However, the ZAR may experience more upside until that time, given current trade dynamics and a weaker dollar.
- As for the day ahead, despite trading slightly stronger in early morning trade, the market may be a bit more cautious for gains heading into the weekend ahead of US inflation data due later today. US personal consumption expenditure (PCE) inflation is the Fed's favoured measure of inflation and will thus be significant in assessing current inflationary pressures. Domestically, April's government budget balance is on the domestic data card. In the new fiscal year, revenue collection should return to more favourable levels in line with the economic recovery. However, limited state reform, such as SOE privatisation and state job shedding, suggests that expenditure will remain buoyed. Thus, the large deficit may yet stay in place for the foreseeable future. This will undoubtedly raise the risks of further rating downgrades in the near term…

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Report produced by ETM Analytics for BancABC Botswana.

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