

## Botswana Market Watch

## 31 May 2021

GMT		International and Local Data	Period	Exp	Previous
05:00	<b>BO</b>	Nothing on the cards	May	33.00	34.70
08:00	<b>JN</b>	Consumer confidence index	Apr	9.60%	10.10%
08:30	<b>EZ</b>	M3 money supply sa y/y			
09:00	<b>EC</b>	ECB's Visco speaks in Rome			
12:00	<b>EC</b>	OECD Publishes Economic Outlook	May P	2,4%	2.00%
	<b>GE</b>	CPI y/y			

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	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
<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	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
<b>World Health Organization - Africa vaccine</b>	The World Health Organisation reported that Africa needs at least 20mn doses of the Astra-Zeneca Plc vaccine by mid-July to complete the immunization of people who have had their first doses	The WHO noted that less than two doses per 100 people have been administered in Sub-Saharan Africa, well below the global average	4/5 (economy)	According to the WHO Regional Director for Africa Matshidiso Moeti, a further 200mn doses are needed for Africa to vaccinate 10% of its population by September. The pace of vaccine rollouts is a key determinant of the pace of economic recoveries

  

Global	What happened?	Relevance	Importance	Analysis
<b>Chinese factory activity</b>	China's manufacturing PMI for May dipped to 51.0 from April's 51.1 following the rise in raw materials cost which grew at the fastest pace since 2010	It is slightly weaker than expected, but services PMI was up which denotes an expanding economy	3/5 (economy)	External demand is strong in some recovering regions but offset by difficulties in other regions like the ASEAN countries that are not. China still in a strong position to grow.
<b>US Core PCE</b>	Core PCE index jumped 0.7% in April, accelerating 3.1% y/y. This was the spike in inflation that everyone feared as prices blew past Fed's 2.0% target	The Fed has been preparing the market for a spike in inflation and will not act on this news	4/5 (economy, monetary policy)	The Fed now enjoys a more flexible mandate that will allow it to jawbone its way through the spike in inflation. It will not respond unless the data shows that it is becoming deeply entrenched
<b>Italian reforms</b>	Italy's government approved a decree on Friday setting how investments by the EU will be funded, with deep reforms required to unlock the support	Italy will be the biggest beneficiary of the EU's fund as it secures €205bn in grants and loans	3/5 (economy)	Reforms needed will include reforms of the tax system, the justice system and anti-trust measures, while other efforts on broadband and infrastructure will all contribute to the growth objective

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

	CUSTOMER BUY		CUSTOMER SELL		Benchmark Yield Curve		Forward Foreign Exchange				
	CASH	TT	CASH	TT							
BWPZAR	1.2400	1.2639	1.3530	1.3400	6m	1.5745	1m	BWPUSD	-2.0865	BWPZAR	0.0000
BWPUSD	0.0900	0.0917	0.0980	0.0970	3y	4.4750	3m		-6.4935		0.0000
GBP/BWP	15.7554	15.4145	14.4499	14.7510	5y	5.3250	6m		-15.7073		0.0000
BW/PEUR	0.0737	0.0755	0.0804	0.0788	22y	6.7750	12m		-34.8660		0.0000
JPY/BWP		10.1001		10.5210							
USDZAR	13.2337	13.5439	14.3478	14.0374							
EURUSD	1.1708	1.1983	1.2688	1.2414							
GBPUSD	1.3626	1.3946	1.4763	1.4443							

  

Equities		Economic Indicators			
BSE Domestic Index	6585.04	GDP	-4.1	Bank Rate	3.75
BSE Foreign Index	1550.85	CPI	3.2		

- The government entered the debt capital markets once again on Friday. Demand was strong for the 2027 issuance with the bid to cover ratio coming in at 5.9, with BWP39m allotted at an average yield of 5.923%. The longer dated 10yr experienced less demand with the bid to cover ratio recorded at 1.25. The government did however place more of this bond issuing BWP160m at an average yield of 10.91%. The market will welcome the greater issuance in the longer end of the curve as it does build out a more robust fixed income market with potential availability of stock in longer durations.
- The local FX market remained contained into the close of the week with the BWP holding just below the 0.0940 mark into the close. Not much to report back at present with month end flow dynamics still the driver for now. Pulling back the lens, the view is that the dollar is poised for further weakness given its structural challenges and as such we envisage a BWP north of the 0.0940 mark in due course.
- Internationally focus has been on China this morning as it released its official PMI numbers. Factory activity slowed slightly in May in the world's second largest economy as raw material costs grew at their fastest in almost 10 years which pressured small and export focused enterprises. The PMI reading for May came in at 51.0, off the 51.1 recorded in April. What is encouraging is that the number remains above the 50 mark which is the number which separates growth from contraction.
- Moving over to global financial markets is worth taking a look at gold given that it really does reflect the broader macro backdrop that we are currently experiencing whether it be from a risk or pricing perspective.
- Gold has started the final day of May on the front foot and is set for its best month since July 2020 as the USD falters and structural inflation fears underpin the metal's status as a hedge.
- Bullion is currently holding around the \$1908.00/oz mark as we enter the start of the EU session, investors favouring gold are looking to build on the current momentum with the YTD high of \$1912.50/oz now firmly in the cross-hairs.
- Strategic investors have been averaging in their long positions since the lows of \$1680.00/oz in March and are aiming for \$2000.00/oz before the year is out. We remain bullish on the underlying fundamentals being broadly supportive of gold however we acknowledge that there will be periods where the bears take control.
- Today, the US will be enjoying a public holiday for Memorial Day, which will give foreign investors some time to digest developments on Friday, most notably the jump in core PCE, which rose to 3.1% y/y. The Fed had warned that inflationary pressures were building and that there would be a jump in prices soon. They do, however, enjoy a more flexible mandate now and will not respond mechanically to the jump in prices. This would explain why the markets did not capitulate on the outcome and rather chose to take the data in their stride. Looking forward, focus will turn to any signs that might offer perspective on the strength of inflationary pressures, such as the tightening in the labour market.

## ZAR and Associated Comments

- The ZAR encountered turbulent trade heading into the weekend as momentum faded from a run earlier in the week which saw the unit hit a two-year high against the US dollar of 13.6780. Broad dollar strength earlier on Friday ahead of a key US inflation release saw the ZAR dip to 13.8700/\$ after opening at 13.7900/\$. At the same time, domestic monthly government budget balance statistics also put the local currency on the back foot. The first month of the 2021/2022 fiscal year saw the government's budget deficit widen to R80.4 billion from March's deficit of R29.8 billion, the largest deficit since the July 2020 record of R134.5 billion.
- However, the overall bias for the USD-ZAR according to current market positioning remains bearish. The ZAR ultimately managed to pare losses later in the day, securing a marginal gain against the USD as it closed at the 13.7600/\$-handle. This concluded another strong week for the ZAR as it strengthened roughly 1.45% against the USD, bested only by the volatile Brazilian real in the emerging market sample of currencies.
- Meanwhile, the USD held steady for most of last week as US Treasury yields rose during the latter half of the week. Providing the dollar some support on Friday was US inflation data, where core personal consumption expenditure (PCE) rose 3.1%, up from a prior reading of 1.8% for the Fed's preferred measure of inflation. Although this is buoyed well above the Fed's 2% target level of inflation, how long this lasts will be important in readings over the next several months. The Fed believes these base effects will be transitory; however, the market remains sceptical given the amount of monetary easing in the US over the past year. Should inflation continue to run high, this may prompt earlier Fed policy tightening – a risk to emerging markets that have reveled in the past year's ample liquidity and easy monetary dynamics.
- The week has kicked off with mixed performances in the EM basket, as losses in Asian equity markets this morning has contributed to lower risk appetite. The ZAR, meanwhile, has traded weaker amongst the laggards. Last night, President Cyril Ramaphosa announced that South Africa would return to stricter lockdown measures due to current rising COVID-19 cases. He said some parts of the country, including Johannesburg and Pretoria, were experiencing third waves and announced limitations on the number of people at social gatherings, lengthened curfew hours, and earlier closing hours for non-essential businesses.
- It is a data-filled start to the week domestically, with private sector credit growth and M1 money supply due this morning ahead of April's trade balance due later, which remains in surplus and continues to offer clues as to the ZAR's resilience. Markets may trade more tentatively in the day ahead due to market closures in the UK and the US markets, which are shut for holidays. For the week ahead, US jobs data will be a highlight. Private payroll data is due Thursday ahead of the nonfarm payrolls print from the official US employment report, which will be used to gauge the extent of the US' ongoing recovery and potential implications for future monetary policy.

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