

Botswana Market Watch

7 May 2021

GMT		International and Local Data	Period	Exp	Previous
	BO	Nothing on the cards			
10:00	EC	ECB's Lagarde Speaks			
12:30	US	Change in nonfarm payrolls	Apr	950k	916k
12:30	US	Unemployment rate	Apr	5.80%	6.00%
14:00	US	Wholesale inventories m/m	Mar F		1.40%
14:00	US	Wholesale sales m/m	Mar		-0.80%
19:00	US	Consumer credit	Mar	\$21,25bn	\$27,58bn

Africa	What happened?	Relevance	Importance	Analysis
Long-lasting fiscal impact of COVID	Pandemic containment measures have driven fiscal trajectories significantly higher in Sub-Saharan Africa as government revenues cratered and spending spiked as policymakers deployed a raft of fiscal stimulus measures aimed at cushioning the economic blow of the pandemic	Public finances on the continent for the most part were already weak prior to the global outbreak of the coronavirus. The pandemic amplified the fiscal problems on the continent	5/5 (fiscal)	Africa's major economies are expected to be 5% smaller by 2030 than they would have been if the pandemic never occurred as the impact of the pandemic on investment and productivity weighs on long-term growth prospects. Lingered effects of the pandemic suggest that the riskiest period for Africa's fiscal challenges is still ahead
China debt relief for Africa	A research piece published by Johns Hopkins University showed that China has played a significant role in helping African countries manage their debts in recent months as the COVID-19 pandemic continues to take its toll on public finances	Due to the coronavirus pandemic, many low-income African countries have been left in a precarious fiscal state and in desperate need of debt relief and will continue to require fiscal aid	4/5 (fiscal)	The researchers reported 16 cases of debt restructuring worth \$7.5bn in 10 African countries between 2000 and 2019, and found that China wrote off the accumulated arrears of at least 94 interest-free loans amounting to over \$3.4. Chinese lenders have not pursued lawsuits in cases of debt default or asset seizures
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	As anticipated, the BoE left monetary policy unchanged, gave more upbeat forecasts for the economy and steered clear of any tapering talk	So nothing new to report back on, but it is clear that asset purchases will slow in the months ahead	3/5 (economy, monetary policy)	As the economy recovers to pre-covid levels later this and inflation rises back up towards the target, the BoE will vote to slow the pace of asset purchases. That might be seen as a sign of progress
Chinese exports	China's export growth accelerated in April, according to official data. Exports in dollar terms surged 32.2% y/y, beating expectations of 24.1%	The trade surplus produced rose to \$42.85bn and will positively contribute to growth momentum	3/5 (economy)	China's economic recovery is gathering momentum as the global economy opens up and is well geared to meet escalating demand and grow market share as logistics remain constrained
British jobs	The monthly index of demand for staff from the Recruitment and Employment Federation rose to the highest levels in 23 years, with permanent staff placements the strongest since 1997	The economic recovery in the UK will gather momentum through H2 as consumption ramps up again	4/5 (economy)	The labour market recovery was always going to be a key driver of the recovery in the economy. That recovery is now firmly underway as consumption returns to households that have been under immense pressure for over a year

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	1.2458	1.3631	1.2698	1.3500	6m	1.0700	1m	-2.1255	0.0000	
BWPUSD	0.0877	0.0959	0.0894	0.0950	3y	4.7750	3m	-6.3570	0.0000	
GBP/BWP	15.8253	14.4802	15.4829	14.7818	5y	5.3250	6m	-14.4105	0.0000	
BWPEUR	0.0727	0.0795	0.0744	0.0779	22y	6.7750	12m	-31.7655	0.0000	
JPY/BWP			9.7955	10.2361						
USDZAR	13.6305	14.7844	13.9499	14.4646						
EURUSD	1.1584	1.2551	1.1856	1.2279						
GBPUSD	1.3351	1.4464	1.3664	1.4151						
					Equities		Economic Indicators			
					BSE Domestic Index	6581.79	GDP	-4.1	Bank Rate	3.75
					BSE Foreign Index	1550.93	CPI	3.2		

- Investment in the diamond sector remains robust and we have received word that Lucara Diamond Corp has received debt facilities of up to \$220mn to fund underground expansion of its Karowe Mine which will allow operations to continue until at least 2040. The investment is a show of commitment, both the prospects for the diamond sector, and second to the stability of the mining environment which is a function of the government creating a good platform of governance and fiscal stability.
- It is worth noting that the Karowe diamond mine has one of the highest margins for diamond mines globally and has produced some of the largest diamond finds in its eight years of operation. The mine has yielded 4 of the 10 largest diamonds ever found including the 1 758 ct Sewelô, the largest diamond recovered from Botswana, and the 1 109 Lesedi La Rona, which sold for \$53-million.
- We keep with mining with copper in focus given the metals long term significance to the Botswana economy and thus the reader.
- Copper rallied strongly hitting an all-time high this morning of \$10232/tonne and the expectation is that we could see further gains coming through for the metal as the stars align. Massive stimulus, the Fed tempering any thoughts of a taper or rate hike any time soon, and a weaker dollar have all provided the fuel needed for tactical and strategic longs to add to positions.
- It is not just copper which has received a boost, Bloomberg reported - *The Bloomberg Commodity Spot Index jumped to its highest since 2011 this week as growth bets boost demand, while poor weather hurts crop prospects and transportation bottlenecks crimp supplies.*
- It is hard to argue that we are in a commodity super cycle., there are raw material shortages, deficits are forecast for many commodities as the global economy comes out of the COVID-19 induced collapse, and policymakers are showing no signs of keeping the taps closed in terms of stimulus or monetary support.
- Looking at the day ahead, there is no local data on the cards, however the US is in focus given the release of the US Non-Farm Payrolls data. March's strong hiring is expected to have persisted into April, with the next official US labour report likely to show labour market improvement was on par with the prior month. In March, 916k jobs were added, beating expectations of 660k and a prior figure of 468k in February. The US' strong vaccination drive, extremely accommodative monetary and fiscal policy has seen businesses willing to rehire as the effects of the third wave of infections proved less devastating than prior waves. Nevertheless, the labour market is still showing a decent amount of slack and has a long way to go, as recently reiterated by the Fed at its last FOMC meeting. High-frequency indicators of the labour market show initial jobless claims remain much higher than pre-pandemic levels as well as 3.6 million Americans still registered for unemployment benefits. Additionally, the level of nonfarm payrolls remains roughly 8.4 million jobs below that of February last year, meaning we would need to see several more months of hiring similar to march before the Fed will begin discussions around tightening policy.
- Given importance of the data which will be released this afternoon we expect a very measured start to local markets and those in the EU. Investors will be reluctant to take positions ahead of this data as it has the potential to influence the broader macro narrative. We hold the view that the BWP-USD will hold through the 0.0910 mark for the session ahead.

ZAR and Associated Comments

- The ZAR slipped 0.5% yesterday as risk appetite was broadly subdued following a sell-off on Wall Street which bolstered US dollar demand in the latter half of domestic trading hours. However, the ZAR was already on the back foot against the greenback ahead of US economic data which ultimately fulfilled expectations of a robust US economic recovery. US factory activity advanced in March, following February's dip, while the US' trade deficit shot to a record high. This suggests healthy demand within the US, but is largely a function of extremely accommodative monetary and fiscal policy, expected to contribute to further downside for the USD in the longer term. Nevertheless, the ZAR weakened to close slightly below the 14.5000/\$ handle at 14.4700/\$ after moves above the key technical level failed to hold.
- On the domestic front, South Africa's budget deficit for the year ending March 2021 came out smaller than what government projected due to lower spending and higher tax revenue. The shortfall came in at R551.9 billion, or 11.2% of GDP, compared to the prior estimate at the February budget announcement of 12.3%. Being lower than projected and thus still fitting within National Treasury's (NT) targets to achieve an annual budget surplus by 2024-2025, it is still incredibly high and more than double the deficit seen in recent years. Thus, it remains an arduous task for government to stabilize the country's debt to GDP ratio at 88.9% by the 2024 fiscal year, and it will be interesting what picture Moody's investor services paints in its review of SA sovereign debt due to be released after domestic trading hours on Friday. Government bonds yields have recently ticked lower on account of lower auction issuance being announced, however negative comments from ratings agencies may keep some foreign investors cautious despite foreign inflows remaining buoyed.
- The political space is currently heating up as the ANC is reportedly in the process of suspending officials who are facing criminal charges and have ignored a previous order to step down from their posts, amongst those being the secretary-general of the ruling party, Ace Magashule. Depending on how these developments progress, rooting out graft will bode well for the country's reform prospects and may provide the ZAR bulls with some direction.
- Externally, US Treasury Secretary Janet Yellen's comments during US trade yesterday about potential rate hikes to stop the US economy overheating deepened the sell-off on Wall Street. While she later clarified her remarks that she does not see inflation being a problem for the US, the dollar was still bolstered by the risk-off sentiment. This has spilled over into the Asian session where global equity markets have remained subdued this morning, however exacerbated by thinner trading conditions with Japanese and Chinese markets closed for holidays.

- Meanwhile, the ZAR has recouped some of yesterday's losses in early trade against a steadier USD. The day ahead sees the economy-wide Standard Bank PMI on the domestic data card which has remained buoyed above the 50-neutral mark for six successive months now. However this is unlikely to have much market moving potential ahead of US private payroll data which is expected to set the tone of another strong month of hiring ahead of official US employment report due Friday. The USD may thus remain supported for the day ahead, if it can withstand several Fed officials due to speak later today.

Contacts

Mogamisi Nkate	+267 3674335	email: mnkate@bancabc.com
Phillip Masalila	+267 3674621	email: pmasalila@bancabc.com
Kefentse Kebaetse	+267 3674336	email: kkebaetse@bancabc.com
Maungo Sebonego	+267 3674338	email: msebonego@bancabc.com

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