

## Botswana Market Watch

## 17 May 2021

GMT		International and Local Data	Period	Exp	Previous
06:00	BO	Nothing on the cards			
12:30	JN	Machine tool orders y/y	Apr P		65.10%
14:00	US	Empire manufacturing	May	23,90	26,30
20:00	US	NAHB Housing market index	May	83,00	83,00
		Net long term TIC flows	Mar		\$4,20bn

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
Fitch warning	Global credit ratings agency Fitch warned that the slow pace of COVID-19 vaccination programs in Sub-Saharan Africa means that risks related to the pandemic remain high	While the vaccine rollout has been slow, Fitch noted that the region benefits from global support initiatives, including a new SDR allocation	4/5 (economy)	The median GDP growth rate for Sub-Saharan Africa is 4.3% in 2021 and 5.0% in 2022. The median debt-to-GDP ratio for the region meanwhile is expected to rise to 75% in 2022 from 68% in 2020
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 retail sales	Retail sales in China grew 17.7% y/y in April, missing expectations of nearly 25%. This marks another moderation in growth from 34.2% y/y growth in March	The recovery is still uneven and will need to be sustained for all sectors to recover to pre-covid levels	3/5 (economy)	The recovery remains intact, and as base factors unwind, so the growth rates will naturally moderate. China's economy is, however, still firmly in recovery mode and will remain that way
Bitcoin plunge	Bitcoin's price has plunged to the lowest levels in three months after Tesla boss Musk hints at selling the company's Bitcoin stock or has already sold it	Mining Bitcoin is an extremely expensive intensive exercise. This may pause the bull run to pause	4/5 (market)	A major correction lower in Bitcoin may prompt the authorities to act even sooner if they believe it is having a destabilising effect on households and financial markets
Israel/Palestine conflict	One of the most vicious conflicts in years has now entered its second week and shows no signs of abating as Israel confirms that it will continue with full force	Israel is targeting Hamas neutralisation No ceasefire for now. Middle East tensions set to escalate	5/5 (geopolitics)	Israel is coming in for massive criticism for its handling of the Palestinians. Israel, for its part, stands firm by its stance that it is defending its country and people from Hamas attacks

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

CUSTOMER BUY SELL BUY SELL					Benchmark Yield Curve		Forward Foreign Exchange			
	CASH	CASH	TT	TT				BWPUSD	BWPZAR	
BWPZAR	1.2608	1.3761	1.2851	1.3629	6m	1.5260				
BWPUSD	0.0891	0.0972	0.0908	0.0963	3y	4.7750	1m	-2.1548	0.0000	
GBP/BWP	15.7905	14.4812	15.4489	14.7829	5y	5.3250	3m	-6.4350	0.0000	
BW/PEUR	0.0734	0.0801	0.0752	0.0785	22y	6.7750	6m	-14.5811	0.0000	
JPY/BWP			9.9724	10.3989			12m	-32.3749	0.0000	
USDZAR	13.5859	14.7342	13.9043	14.4154						
EURUSD	1.1646	1.2617	1.1919	1.2344						
GBPUSD	1.3525	1.4654	1.3842	1.4337						
					<b>Equities</b>		<b>Economic Indicators</b>			
					BSE Domestic Index	6585.55	GDP	-4.1	Bank Rate	3.75
					BSE Foreign Index	1550.85	CPI	3.2		

- The global macro picture is becoming clearer as each passing reading of economic data sets the stage. The one underlying narrative that is currently being confirmed across the world is that we are currently experiencing a period of higher inflation. Major world economies have shown a rise in underlying inflation dynamics and this has certainly become evident in emerging and frontier markets.
- Botswana has not escaped this fate. The inflation reading for April showed an increase to 5.6% year on year versus 3.2% year on year in March. This major driver of the rise in inflation came from the Transport component which rose by 1.8% followed by Housing, Water, Electricity, Gas and other fuels at 1.1% Food and non-alcoholic beverages rose by 0.9%. The Trimmed mean core inflation reading came in at 5.4% year on year for April. ([full official release can be found here](#))
- Policymakers will be keeping a close eye on developments regarding inflation. Many Central Banks have adopted the view that any inflationary pressures are transitory and thus monetary policy need not adjust for now, others such as Brazil and Russia have taken a more proactive stance and tightened monetary policy already.
- Internationally, the COVID-19 pandemic remains front and centre of the news flow. India is currently reeling under the weight of the pandemic as daily deaths for the country stay above the 4000 mark. COVID-19 lockdowns will be extended in certain Indian states in an attempt to rein in the pandemic and Federal Health officials have warned against becoming complacent due to the plateauing in a rise of infection rates.
- Meanwhile, UNICEF asked the G7 this morning to donate supplies to the COVAX vaccine-sharing scheme following severe disruptions in Indian vaccine exports. The Indian administration has curbed exports of the AstraZeneca vaccine which is manufactured at its Serum Institute as it battles the massive second wave through the country.
- Moving over to the United States, the white House is ramping up its marketing campaign for its infrastructural spending plan as it seeks to persuade more people households and businesses that it will achieve its objectives without affecting the bulk of small businesses. In a report released on Friday, they state that less than 3% of 30mn small businesses will be affected by the increase in the corporate tax rate from 21% to 28% if they file taxes as a pass-through entity as a limited liability corporation. That is unlikely to pacify Republicans that are fundamentally opposed to the growing of the state and to raising taxes.
- The currency markets have started the week framed by a stronger USD. This has pressured emerging and commodity FX pairs during the Asian session and the expectation is that this tone is likely to filter through to the EU open. Thus we may well see the BWP come under a bit of pressure at the open and we may see levels closer to the 0.092500 in the interbank market as trade gets underway.

## ZAR and Associated Comments

- The ZAR failed to appreciate against a weaker US dollar on Friday, whereas the emerging market basket of currencies was stronger on aggregate on the last day of the week. The USD eased alongside Treasury yields which spiked earlier in the week as the US April inflation print exceeded expectations, prompting bets that the Fed would need to fast-track rate hikes. However, the bounce that the USD received earlier in the week faded with Fed officials doing well to play down rate hike expectations.
- In addition to the prior week's weak jobs report, the Fed had more data to justify an uneven recovery underway and the need for accommodative monetary policy to stay. Friday saw US industrial production undershoot expectations, while retail sales fell and a gauge of consumer confidence slipped. This saw the USD pare weekly gains and similarly allowed riskier currencies to trim weekly losses. However, ahead of a notable week for the ZAR with a domestic inflation reading due Wednesday and the SARB policy announcement Thursday, investors remained cautious at the end of the week. Moves in either direction for the USD-ZAR currency pair could not be sustained as it traded between a wide intraday range of 14.0200-14.1800, ultimately settling slightly higher on the day at 14.1300 and 0.50% higher week-on-week.
- While there is a SARB MPC meeting later this week and the domestic data card picks up Wednesday with inflation and retail sales prints to gauge the current recovery in domestic demand, potential catalysts for the ZAR at the start of the week are aplenty. The ongoing factional battle in the ruling political party continues after suspended ANC Secretary-General Ace Magashule filed a court application last week to get his suspension overturned. Meanwhile, yesterday Eskom announced another bout of load shedding to last until Tuesday after plant breakdowns. These may keep sentiment towards the ZAR and SA assets on the back foot at the start of the week, alongside returning pandemic risks as some areas around the country are officially entering a third wave of infections. On a positive note, SA is set to expand its vaccine rollout starting today. This will extend to more health-care workers and people over the age of 60, and is gravely needed to stave off a third wave country-wide which presents a clear short-term risk.
- For the day thus far, the resumption of risk appetite at the end of last week has failed to spill over into early morning Asian trade with mixed sentiment caused by softer Chinese retail sales and industrial production figures. As for the dollar, the greenback may yet face more near-term pressures. With Fed comments last week able to ease dollar bullishness, clues behind the Fed's thinking in the form of the last FOMC meeting minutes due Wednesday may have some further sway on the greenback. For the time being, however, the possibility of renewed restrictions in Asia is keeping optimism in check, while the USD has resultantly received support this morning at the expense of riskier currencies, including the ZAR..

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