

Botswana Market Watch

18 May 2021

GMT		International and Local Data	Period	Exp	Previous
12:00	BO	Botswana to place BWP10.9bn 7-day certificates			
09:00	EZ	GDP sa y/y	1Q P	-1.80%	-1.80%
09:00	EZ	Trade balance nsa (EUR)	Apr		17,70bn
12:30	US	Building permits	Apr	1770k	1766k
12:30	US	Housing Starts	Apr	1705k	1739k

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
Japanese Q1 GDP	Q1 GDP growth slumped more than expected, with the economy contracting an annualised 5.1%. The drop was mainly due to private consumption falling 1.4%	A slow vaccine rollout and a resurgence in infections all played a role in detracting from GDP	4/5 (economy)	Q2 is unlikely to reflect much of a recovery given that the wave of infections is ongoing and a state of emergency remains in full swing. Now, even the Olympics may be postponed
EZ bond yields	10yr Italian bond yields have now risen above an 8m high. French yields are at the highest since Mar 2020, while Spanish and Portuguese yields are the highest in almost a year	Concerns over fiscal reforms, coupled with fears that the recovery will see the ECB scale back bond-buying is weighing	4/5 (market)	Bond yields rising too rapidly will become a problem for the ECB and EZ authorities wanting to desperately safeguard the recovery that is underway or risk facing a significant fiscal challenge to encourage sustainability
Israel/Palestine conflict	Still no signs of an end to the conflict between Israel and Hamas. Mediators are urging a ceasefire and constraint, but rockets continue to be launched	The risk is that the violence against Israel spreads and further destabilises the region	5/5 (geopolitics)	Mediators continue to make the point that it is in no one's interests to continue in like this, Six shells were fired from Lebanon, and the risk is that attacks come from more launch sites

Local F.X. Opening Rates and Comment

	CUSTOMER				CUSTOMER				CUSTOMER				CUSTOMER			
	BUY		SELL		BUY		SELL		BUY		SELL		BUY		SELL	
	CASH		CASH		TT		TT		CASH		CASH		TT		TT	
BWPZAR	1.2507	1.3658	1.2748	1.3527	Benchmark Yield Curve				Forward Foreign Exchange							
BWPUSD	0.0890	0.0971	0.0907	0.0962	6m	1.5260	1m	-2.2230	BWPUSD	BWPZAR						
GBP/BWP	15.9007	14.5790	15.5567	14.8828	3y	4.7750	3m	-6.4643								
BW/PEUR	0.0732	0.0798	0.0749	0.0782	5y	5.3250	6m	-13.8450								
JPY/BWP			9.9429	10.3683	22y	6.7750	12m	-34.1835								
USD/ZAR	13.4917	14.6394	13.8080	14.3226	Equities				Economic Indicators							
EUR/USD	1.1676	1.2652	1.1950	1.2378	BSE Domestic Index	6585.55	GDP	-4.1	Bank Rate	3.75						
GBP/USD	1.3602	1.4740	1.3921	1.4421	BSE Foreign Index	1550.85	CPI	3.2								

- Xinhua has reported that Botswana has documented two cases of the COVID-19 B.1.617 variant which was first identified in India. The cases were confirmed on the 13th May and involved persons of Indian origin which arrived in the country on the 24th April according to health officials. The two persons are currently receiving medical care and are stable with no life-threatening symptoms.
- Internationally, pandemic focus has shifted to Asia where we have seen flare ups in the likes of Thailand. India is currently battling the worst of the pandemic with death rates still topping 4000 per day currently. Investors are cautious at the moment and this has resulted in assets such as gold finding favour once again. Gold is currently trading north of the \$1860.00/oz mark as we head into the EU open with a break of the \$1880.00/oz mark not out of the question.
- Following on from yesterday's comments surrounding inflation and the impact of energy on the basket, we would like to draw the readers attention to developments in the oil markets for context.
- The front-month Brent contract is nearing the \$70 per barrel mark this morning, while WTI rises after reaching its highest settlement level in more than two years. These gains have come from data suggesting that US air traffic numbers are picking up, with this weekend seeing the largest number of passengers passing through US airports since the pandemic began. This has added to the generally bullish outlook for oil, with the economic rebounds in the US, China, and Europe more than offsetting rising COVID cases and demand concerns in the rest of Asia, and Latin America to some extent.
- Moving onto FX markets, despite a broadly weaker US dollar, riskier assets were subdued through most of the day yesterday as recent signs of inflationary pressure in the US kept investors cautious of earlier monetary policy tightening. Commodity currencies were under greater pressure following softer than expected data out of China as well as renewed lockdown concerns in Asia which kept optimism in check earlier in the day. The local unit remained anchored below the 0.0930 mark in yesterday's session trading in a tight range.
- Looking at the day ahead, we have the standard T-Bill auction to contend with and investors will be keeping a close eye on the developments offshore which include tensions in the Middle East, and the threat of another wave of COVID-19 infections in Asia.

ZAR and Associated Comments

- Looking at the ZAR, investors were cautious on the local unit ahead of this week's SARB monetary policy announcement. However, the ZAR managed to snap earlier losses in late afternoon trade as the dollar lost more ground, ultimately ending domestic trading hours 0.20% stronger around the 14.1000/\$-handle.
- While both local stocks and bonds were firmer on the day, the ZAR struggled to make similar headway despite positive sentiment appearing to arise from progress on the COVID-19 vaccine rollout, rather taking direction from the dollar-leg later in the day. The market will remain fixed on the upcoming domestic MPC policy announcement, but it is unlikely to come with any immediate change to policy. Therefore, focus will be heavily on the SARB's updates to economic forecasts and the potential timeline for rate hikes. At the last meeting, the SARB's quarterly projection model (QPM) suggested a 25bps rate hike in Q2 and another in Q4 of this year. With the domestic recovery progressing somewhat smoothly, despite the structural challenges to growth many sectors face, the SARB may ultimately not want to impede the ongoing recovery and will likely maintain current policy for as long as inflation and ZAR stability allows. Last month, SARB Governor Lesetja Kganyago said that policymakers view risks to the inflation outlook as balanced and that there is still room to support the economy through lower rates.
- Even without ZAR-supporting rate hikes, it seems the ZAR's stability may continue for some time still, barring growing monetary policy tightening expectations in developed nations. According to the latest CFTC data, net speculative bets on the ZAR rose to \$0.20 billion in the week ending 11 May, a \$0.04 billion increase from the week prior. This is the most bullish the non-commercial futures market has been on the ZAR since the start of March, and keeps the recent bullish trend going. Surprisingly, this came on the back of recent comments made by ratings agencies highlighting South Africa's fiscal risks and the impending fiscal slip-page in years to come. On that note, one of the biggest risks to the ZAR and the fiscus hinges on government's ability to secure a public sector wage freeze. It was reported yesterday that Eskom's biggest labour union, the National Union of Mineworkers (NUM), rejected an offer by the SOE, amongst those being a 1.5% wage increase. Recall that NUM is demanding a 15% wage hike, and should the state-utility give in to unions' demands, this ultimately sets the stage for potential increases to the broader public wage bill.
- While market pessimism has been supporting the USD of late, this appears to be short-lived with the greenback back on the defensive in early morning trade. The overall dollar outlook remains to the downside and, according the same CFTC data above, the USD's net position weakened further to -\$15.85 billion as speculators continued to rotate back into its developed-market peers. This ultimately sets up riskier currencies for more near-term gains, however, in the ZAR's case the market may need a substantial catalyst on the broader reform front for material gains below 14.0000. That said, the local unit has continued to trade stronger overnight but may run into resistance as it heads towards the 14.0000/\$-handle ahead of this week's MPC meeting.

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