

Botswana Market Watch

11 May 2021

GMT		International and Local Data	Period	Exp	Previous
	BO	Botswana to place 11bn BWP worth of 7-day certificates			
09:00	EZ	ZEW economic sentiment	May		66,3
09:00	GE	ZEW economic sentiment	May	71	70,7
14:30	UK	BOE Governor Bailey Speaks on Labor			
14:30	US	Fed's Williams speaks at SOFR Symposium			
16:00	US	Fed's Brainard Discusses U.S. Economic Outlook			
17:00	US	Fed's Daly Speaks at Community Bankers Event			

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
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
US Pipeline closure	A ransomware attack on Friday forced the Colonial Pipeline to close, with no date for reopening. It's four mainlines remain closed, and operations are suspended	May hold consequence to the oil market given that the throughput to the US will be disrupted	3/5 (economy)	Efforts are being made to minimise the ultimate impact on supply, but this highlights the growing vulnerabilities of systemic companies in a world of cyber-attacks and the need for security
UK elections	Of the elections that unfolded this weekend, those in Scotland were arguably the most significant, with the SNP winning 64 seats, one short of an overall majority	The SNP will believe that it has a fresh mandate to push for a fresh referendum on the back of Brexit	4/5 (politics)	This is not the result Johnson would've been hoping for. He and other officials have sidestepped the issue and will not easily be coerced into agreeing to another referendum
US Payrolls miss	US non-farm payrolls rose by only 266k jobs vs the 978k estimated, leaving the unemployment rate at 6.1% and the number of unemployed at 9.8mn	The USD suffered losses as a result and may well lose a little more before the market stabilises	4/5 (economy, monetary policy)	This threw cold water on the expectation that the US economic recovery was gaining traction. This will be used as all the justification needed by the Fed to keep monetary policy accommodative

Local F.X. Opening Rates and Comment

	CUSTOMER BUY		CUSTOMER SELL		Benchmark Yield Curve	Forward Foreign Exchange	
	CASH	TT	CASH	TT		BWPUSD	BWPZAR
BWPZAR	1.2563	1.2805	1.3720	1.3588	6m	1.0700	
BWPUSD	0.0894	0.0911	0.0976	0.0966	3y	4.7750	1m -2.1255 0.0000
GBPZAR	15.7810	15.4395	14.4697	14.7711	5y	5.3250	3m -6.3570 0.0000
BWPEUR	0.0736	0.0754	0.0803	0.0787	22y	6.7750	6m -13.4745 0.0000
JPYBWP		9.9527		10.3785			12m -31.9849 0.0000
USDZAR	13.4940	13.8102	14.6417	14.3250			
EURUSD	1.1656	1.1930	1.2629	1.2356			
GBPUSD	1.3559	1.3877	1.4690	1.4372			

Equities		Economic Indicators			
BSE Domestic Index	6583.82	GDP	-4.1	Bank Rate	3.75
BSE Foreign Index	1550.93	CPI	3.2		

- Much fanfare was made over the opening of the Kazungula bridge yesterday which was well deserved. News vendors were out in full force to cover the event which has been in the making since the project began in December 2014. South Africa's IOL quoted President Mokgweetsi Masisi as saying that the bridge would open avenues for improved trade. The curved Kazungula bridge, which stretches for 923 metres over the Zambezi River, provides a long-needed alternative route for hauliers who have had to traverse Zimbabwe to access the Durban port for copper shipments.
- Pulling back the lens, the development of the Kazungula bridge may in time be marked as the turning point for intra-Africa trade. The African Union has long stressed that intra-Africa trade is needed to lift the continent out of its current economic malaise. Trade does however require infrastructure and hopefully the benefits of such endeavours are immediately evident and other partnerships are formed in order to foster cross border flow in due course.
- COVID-19 has caused a rethink in many governments across the continent with some more in debt than ever before as the pandemic ravaged economies. Botswana's government is well aware of the challenges and during a strategy session over the weekend we had the President state that the pandemic necessitated a re-evaluation of how the government had been doing things. *"The combination of the devastating global pandemic - COVID-19 - and the catastrophic economic recession it has caused the world over, dictates that we revisit our problem-solving strategies, that we regroup; that we reset," he stated.*
- We believe that the regional governments will focus heavily on moving away from one major source of income and push for a more diversified middle tier economy. Botswana is well on its way in terms of this strategy, as is the likes of Rwanda in becoming a regional services centre.
- Moving over to the local financial markets we cast our eye towards the 2031 government bond. Bloomberg data has shown that there has been a steady erosion in value of the bond since the start of 2021. Currently the bond is quoted at 6.24%, after starting the year at 4.935%. There are a couple of reasons for the rise in yields, there has been a general rise in developed market yields and there is increased issuance locally. Couple this with increased inflation concerns as well as the repricing of fiscal risk given the embedded debt profile reset following the COVID-19 pandemic and the rise in yields is understandable.
- Emerging market currencies remained on the front foot on Monday, with commodity currencies specifically on the rise, while the US dollar remained under pressure following last week's official US employment report release. The greenback managed to stem losses during US trade, but failed to materially reverse losses with a hard dampener being put on the world's number one currency at the end of last week
- The Pula had a good start to the week and cleared the 0.0930 handle in the interbank market, expectations are that the positive sentiment remains in tact for now.

ZAR and Associated Comments

- As for the local currency, broad dollar weakness saw the USD-ZAR dip temporarily below the 14.0000-handle during domestic trading hours, trading as low as 13.9650. While the currency pair quickly returned and ultimately closed back above the key technical level at 14.0100, continual testing of 16-month lows suggests the momentum remains to the downside. Although South Africa's fiscal risks remain heightened and will likely be a burden on the ZAR looking further out, the combination of rising commodity prices, which is bolstering hard currency flows into SA, improving global risk sentiment, and persistent dollar weakness suggests that the near-term outlook for the ZAR remains bullish.
- Nevertheless, it is unlikely to be smooth sailing for the local unit. According to CME data, speculators trimmed the net long ZAR position in the week ending May 4th, despite the market generally turning more bearish on the USD. This was, however, before the dollar slide at the end of the week, suggesting speculators may add to short bets on the dollar. As for the ZAR, although the net position dropped, the non-commercial futures position is still near its most bullish on the local currency since early March. All in all, given yesterday's moves in the spot market, the line in the sand is now below the 14.0000/\$-mark, suggesting speculators may begin to add to long ZAR bets, but will unlikely become overwhelmingly bullish given the choppy trade for the year so far.
- In addition to the weaker dollar, positive developments on the political front are providing support for the ZAR. Yesterday, the ANC confirmed the suspension of Secretary-General Ace Magashule, while President Ramaphosa said that further disciplinary action may follow should Magashule not apologise for his retaliation against the President for his suspension. Although tensions may be rising within the ranks of the ruling party, this ultimately strengthens Ramaphosa's control within the ANC which will aid in his re-election campaign next year.
- Ahead of today's trade, the USD has found its footing, holding steady near two-and-a-half-month lows. Emerging market currencies have traded slightly weaker during the Asian trading session after yesterday's gains saw MSCI's EM currency index hit a record high. The ZAR meanwhile is holding steady slightly above the 14.0500/\$-handle. The day ahead sees the domestic data card pick up with March's manufacturing production statistics. Expectations are for a minor y/y rebound following February's 2.1% decline. Despite manufacturing activity showing continued improvement when looking at PMIs, the market moving potential may be somewhat muted with market participants awaiting US CPI data tomorrow to gauge the extent to which inflationary pressures are manifesting. The dilemma remains whether these will be transitory as the Fed believes, suggesting markets will remain choppy in the near term. As a result, the market will likely take cues from a host of Fed speakers later today, in the run up to the awaited inflation release tomorrow.

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