

Botswana Market Watch

12 May 2021

GMT		International and Local Data	Period	Exp	Previous
	BO	Botswana to place 11bn BWP worth of 7-day certificates			
09:00	EZ	Industrial production (wda) y/y	Mar	11,7%	-1,6%
11:00	US	MBA mortgage applications	May 7		-0,9%
12:30	US	CPI y/y	Apr	3,6%	2,6%
12:30	US	Real ave weekly earnings y/y	Apr		3,9%
13:00	US	Fed's Clarida Discusses U.S. Economic Outlook			
18:00	US	Monthly budget statement	Apr		\$-659,6bn

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
US Pipeline closure	Half the East coast is being heavily affected by the pipeline closure and reports of panic buying and feared shortages have now become prevalent	The pipeline may well restart by Friday, with 2mn barrels of gasoline procured for the restart	2/5 (economy, market)	The impact of this will be temporary and the ultimate effect on the regional economies affected will be minimal. People are being asked not to hoard gasoline
Middle-East tensions	35 people have been killed in Gaza and a further 5 in Israel in what has been described as the most intense aerial exchange in many years	Efforts are being made behind the scenes to de-escalate tensions and cease the military action	4/5 (geopolitics)	If war efforts are not de-escalated, this holds the potential to turn into a full-blown war in the region. It would be destabilising for the region and has prompted the UN to get involved
US job openings	Job openings increased to 597k to 8.1mn in March, rising to a record high, according to the JOLTS report. Layoffs on the other hand fell to a record low	The data shows that the labour market in the US is indeed tightening and will recover further	4/5 (economy)	One would expect to see this filter through into the official non-farm payrolls numbers. Reducing the amount of fiscal support, may prompt a quicker return to work for many workers

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	1.2500	1.3721	1.2741	1.3589	6m	1.0700	1m	-2.1548	0.0000	
BWPUSD	0.0890	0.0973	0.0907	0.0964	3y	4.7750	3m	-6.4448	0.0000	
GBP/BWP	15.8345	14.4409	15.4919	14.7417	5y	5.3250	6m	-13.6793	0.0000	
BW/PEUR	0.0734	0.0805	0.0752	0.0789	22y	6.7750	12m	-34.1933	0.0000	
JPY/BWP			9.9134	10.3887						
USDZAR	13.4813	14.6310	13.7972	14.3145						
EURUSD	1.1634	1.2605	1.1907	1.2332	Equities		Economic Indicators			
GBPUSD	1.3546	1.4679	1.3863	1.4361	BSE Domestic Index	6585.55	GDP	-4.1	Bank Rate	3.75
					BSE Foreign Index	1550.85	CPI	3.2		

- Today we have the release of the US CPI number for April. Now many will ask what the relevance is of this number to local markets or the broader status quo for that matter which is understandable.
- Currently the world is experiencing inflationary pressures as a result of a broad rise in commodity and energy prices. The fear is that this inflation takes hold in a meaningful way given the amount of stimulus that has been injected into the global economy which has skyrocketed money supply. Some \$8 trillion has been pumped into the system by the US Federal Reserve on its own.
- Currently the world's central banks are viewing the inflation spikes as transitory, there are however those central banks such as Brazil and Russia which have hiked already to contain pressures.
- Thus the US CPI reading, will set the tone ahead of the local CPI reading which is due during the coming week. We expect pressures to be evident in the local basket however domestic demand is still weak which will be the offset for now.
- Given this backdrop we would like to inform the reader of developments in the energy markets which are a strong driver of inflation globally. Oil markets are extending their overnight gains this morning following API data released yesterday, which showed another drop in US crude stockpiles. The data showed that stocks fell by a further 2.5 million barrels during the week ending 7 May. This was slightly less than expected but nevertheless affirms OPEC's view that demand remains robust. OPEC's latest report reveals that the cartel expects demand to rise by 5.95 million barrels per day this year, unchanged from its previous estimates. However, it cut its demand outlook for the second quarter by 300 000 barrels per day due to soaring COVID-19 infections in India.
- Moving onto the FX markets, the USD is showing signs of wanting to recover, but investors are trading cautiously ahead of the US inflation data later in the day. Given the economic and monetary distortions created by all the stimulus action by the Fed and the government, the potential for a surprise cannot be underestimated. Strong growth in money supply, QE and fiscal stimulation has raised the prospect of an inflation episode through the months ahead. To the extent that it might prompt some scaling back of stimulus, it may assist the USD stage a modest recovery.
- The Pula remains anchored ahead of the 0.0930 level as we start the trading session today. We expect markets to tread carefully ahead of the data out of the US and do not expect much in the way of risk taking.

ZAR and Associated Comments

- Riskier assets took a breather yesterday following several days of upbeat sentiment, with global equity markets taking a beating and emerging market currencies equally giving up some recent gains. Snapping broad risk-off trade, the ZAR swung losses sustained earlier in the day yesterday to test the 14.0000/\$-handle for the second time this week. The USD appeared to find its footing as risk-off trade persisted, but ultimately dipped on a trade-weighted basis as it was unaided by a slew of Fed officials maintaining the narrative of looser-for-longer policy until there are clear signs of their targets being met.
- Resultantly, EM currencies ended the day mixed while the ZAR managed to eke out a five-day winning streak, albeit marginally with a slim 0.15% gain yesterday. The local unit closed a touch below 13.9950/\$, marking the first time it has closed below the 14.0000/\$-handle since 2019. However, the market may ultimately struggle to justify stronger levels for the ZAR looking further out. Dampening ZAR gains, the associated risks that the economy is facing as a whole were reiterated by Fitch Ratings yesterday. Fitch noted that SA runs the risk of spending overruns and it expects the government to be unable to meet its goal of freezing state worker wages for the next three years. The ratings agency sees the public payroll and SOE reforms as crucial in reducing budget deficits and slow the growth of debt. With limited plans of structural reforms manifesting, electricity shortages and strained public finances, the ratings agency ultimately sees GDP growth trending below 2% going forward. This makes the primary goal of achieving a budget surplus and stabilize debt very difficult on account of low growth expectations, while there are also growing division in the ruling party affecting policy making as well as limited room to raise taxes.
- This may ultimately play out in the medium to long term due to the government's track record of weak implementation. In the near-term though, the South African economy continues to show signs of recovery in the face of expectations of a looming third wave of COVID-19 infections. Yesterday's manufacturing production data release showed output in the sector grew 4.6% y/y in March, beating expectations for a lesser rise and returning to expansion from February's 2.5% dip. Recall, however, that lockdown restrictions were first instituted at the end of March 2020, suggesting base effects may have played a role in the higher than expected growth. These distortions may be more prominent in future releases, so month-on-month growth will likely be the more appropriate figure to gauge the recovery going forward.
- As for the ZAR, the local unit has traded back above the 14.00/\$-handle overnight while we may see a bout of profit taking on the ZAR following recent gains and as risk off trade has persisted into the Asian trading session..

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