

Botswana Market Watch

4 May 2021

GMT		International and Local Data	Period	Exp	Previous
09:00	BO	Botswana to sell 11bn BWP of 7-day certificates			
04:30	AU	RBA rate decision	May 4	0.10% A	0.10%
08:30	GB	Markit manufacturing PMI	Apr F	60.70	60.70
12:30	US	Trade balance	Mar	\$-73,40bn	-\$71,10bn
14:00	US	Durable goods orders m/m	Mar F		0.50%
14:00	US	Factory orders	Mar	1.60%	-0.80%

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. Lingering 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
Fedspeak	Fed Chairman Powell confirmed that the economic outlook had brightened but that the economy had further to recover before the Fed might tighten	Powell highlighted the racial & educational disparities due to the pandemic that still need to close	4/5 (economy, monetary policy)	However, Powell was optimistic now that he could see clear signs that the economy was making real progress in its economic recovery as the economy reopens on a broad scale
US manufacturing	ISM manufacturing index fell to 60.7 in Apr from 64.7 in Mar. Although still a strong reading, the data also captured record-long lead times	New orders and employment measures decline, mainly due to bottlenecks	4/5 (economy)	This data should not be seen as a sign that underlying momentum is faltering. It is likely to pick up again much stronger in H2 when many supply chains normalise
RBA	As expected, the RBA held its target of 10bp for the 3yr bond yields and has maintained the parameters for the bond-buying programme	RBA will persist with this supportive policy until goals of full employment and inflation are met	3/5 (monetary policy)	The RBA does not expect that these goals will be met until 2024, implying that loose policy is here to stay. Any increase in inflation later this year is likely to be temporary

Local F.X. Opening Rates and Comment

	CUSTOMER BUY		CUSTOMER SELL		BENCHMARK YIELD CURVE				FORWARD FOREIGN EXCHANGE		
	CASH	CASH	TT	TT							
					6m	1.0700			BWPUSD	BWPZAR	
BWPZAR	1.2674	1.3824	1.2918	1.3691	3y	4.7550			1m	-2.1060	0.0000
BWPUSD	0.0878	0.0965	0.0895	0.0956	5y	5.3350			3m	-6.3375	0.0000
GBP/BWP	15.7762	14.4793	15.4349	14.7809	22y	6.6850			6m	-13.4453	0.0000
BW/PEUR	0.0730	0.0795	0.0747	0.0779					12m	-33.6083	0.0000
JPY/BWP			9.8250	10.2259							
USDZAR	13.8509	15.0262	14.1755	14.7011	Equities						
EUR/USD	1.1557	1.2522	1.1828	1.2251	BSE Domestic Index		6561.2	GDP	-4.1	Bank Rate	3.75
GBP/USD	1.3321	1.4435	1.3633	1.4123	BSE Foreign Index		1550.93	CPI	3.2		

- After many delays and funding issues all is set for the opening of the Kazungula Bridge next Monday which will formally link Botswana and Zambia as well as the One Stop Border Post facilities. This is a massive development in forging ahead with the north-south African corridor and logistics companies across the continent will be applauding the move.
- In addition, there is expected to be further regional economic integration and an enhancing of regional trade opportunities. Construction on the bridge began in 2014, funded by Japan International Cooperation Agency and the African Development Bank.
- Internationally the United States was the focal point given the absence of the Chinese and British due to public holidays.
- Fed Chairman Powell yesterday stuck to the Fed's line on monetary policy and reaffirmed the current stance of remaining ultra-accommodative for as long as the goals of full employment and inflation are not met. However, he spoke optimistically about the fresh signs of progress and the growing momentum in the economy. That will be given further perspective later this week through the release of the latest employment and labour market data. It is, however, true that the economy will continue to gain traction through the remaining months of the year and that the strong ISM results will continue, albeit off the recent highs.
- The US economy is opening up steadily, and arguably one of the strongest barometers is the reopening of the NY region on the 19th of May. As it was one of the hardest-hit cities in the US, the fact that it is now looking at lifting curbs gives one a clear sense of how far the US has come in its vaccination drive and assisting in driving the Covid-19 infection rate down. Retail stores, food services, and gyms are all due to open on the 19th, which will significantly boost overall economic activity in the region and the economy as a whole. The infections have fallen by half in the past month, with hospitalisations not far behind. Although the virus is still doing the rounds, it is now at a more manageable level, and hospitals will be able to cope with the new cases coming in.
- Moving over to the FX markets, although still strong, the ISM data missed market expectations and caused the USD to pause. It has since regained its composure and showing signs of nudging a little stronger this morning, possibly in anticipation of some strong labour data later this week. It is also true that the market needed more of a clear out of stale USD short positions to allow for a platform to rebuild. Trading off a small long USD base is likely to be favoured by many, although ahead of the ADP data tomorrow, underlying momentum will be limited.
- Given the USD strength seen in the Asian session this morning we could experience some pressure on the local unit with a potential test of 0.0910 not off the cards in the interbank market. Investors are also reminded of the 7-Day Certificate auction which takes place this morning at 11.00am.

ZAR and Associated Comments

- The ZAR strengthened yesterday in thinner trading conditions, paring last week's losses as it ended near the top of the EM basket of currencies with a 0.65% gain from Friday's close of 14.4950/\$. This was more a function of US dollar weakness though, rather than ZAR strength, as US manufacturing data came out slightly weaker than expected, tempering bets that the US economic recovery will continue at the current pace and denting the appeal of the greenback against most major currencies.
- However, emerging markets were more mixed against the USD yesterday, while the ZAR had some positive domestic data readings helping it to secure its spot amongst the gainers. The Absa manufacturing PMI moderated to 56.2 in April from a prior figure of 57.4, but thus still remains above the 50-mark for the ninth consecutive mark, signalling expansionary conditions for the manufacturing sector. That said, pressure on the industry is likely to remain as it continues its ongoing recovery. These range from power outages, a slow vaccine rollout, still subdued demand and further headwinds from surging commodity and input prices, which marginalise profits amid the already tough business environment. On the domestic demand front, Naamsa vehicle sales data released yesterday appeared to show massively rebounding vehicle sales on an annual basis in April, but recall this will be due to base effects as almost no vehicles were sold during last year's April lockdown. Upon closer inspection, vehicle sales fell month-on-month, recording a contraction of 17.6% from March. This goes to show the uneven nature of the domestic recovery amidst persistently weak business confidence.
- That SA's recovery is dependent on an effective vaccine rollout too may create an uneven path back to pre-pandemic levels of production, where more setbacks in vaccine procurement have recently been announced. On a positive note, third wave worries seem more at ease despite ongoing struggles elsewhere in the world. Recent studies by the South African COVID-19 Modelling Consortium show that 30-40% of the population have already been infected, which may result in a weaker third wave of infections.
- Overall, the rosier picture points to an improving domestic economy when compared to where it stood towards the end of 2020. That said, the ZAR is still more likely to shift on external developments and physical flows, rather than being overextended given an improving domestic economy. Potentially explaining the ZAR's moves through the latter half of April, where it traded sideways against a broadly depreciating USD, data compiled by Bloomberg showed SA recorded -\$6.4 million in asset outflows in the last week of April. This comprised of equity outflows amounting to \$10.1 million and bond market inflows of \$3.8 million. For the day thus far, the USD-ZAR has traded higher from its 14.4000/\$ close yesterday, with the dollar remaining bid in holiday-thinned trade during the Asian session. US factory data later in the day may provide some fresh impetus for markets, with the dollar catching a tailwind should it not corroborate yesterday's weaker manufacturing PMI.

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

Report produced by ETM Analytics for BancABC Botswana.

Disclaimer

The information provided herein has been prepared solely for informational purposes and is not an offer to buy or sell or a solicitation of an offer to buy or sell the securities or instruments mentioned or to participate in any particular trading strategy. These materials have been based upon information generally available to the public from sources believed to be reliable. No representation is given with respect to their accuracy or completeness, and they may change without notice. BancABC on its own behalf and on behalf of its affiliates disclaims any and all liability relating to these materials, including, without limitation, any express or implied representations or warranties for statements or errors contained in, or omissions from, these materials.