# Botswana Market Watch

# 5 May 2021

| GMT | | International and Local Data | Period | Exp | Previous |
|---|---|---|---|---|---|
| | BO | Nothing on the cards | | | |
| 08:00 | EZ | Markit composite PMI | Apr F | 53.70 | 53.70 |
| 11:00 | US | MBA mortgage applications | Apr 30 | | -2.50% |
| 12:15 | US | ADP employment change | Apr | 900k | 517k |
| 13:30 | US | Fed's Evans Speaks on Economy on Monetary Policy | | | |
| 13:45 | US | Markit services PMI | Apr F | 63.10 | 63.10 |
| 14:00 | US | ISM non-manufacturing composite PMI | Apr | 64.10 | 63.70 |

| 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 |
|---|---|---|---|---|
| Negative yields | The pool of negative-yielding EZ government debt shrank to the smallest in nearly a year as the economy shows signs of exiting the pandemic induced recession | As many as 75% of bonds were yielding negative through 2020. That has dropped to 59.8% | 4/5 (economy, monetary policy) | One would expect this trend to continue and for yield curves to normalise to some degree as stronger growth, the threat of inflation and less monetary stimulus is priced into bonds |
| US inflation | Treasury Secretary Yellen has weighed in on the inflation outlook saying that she sees no inflation problem brewing, downplaying earlier comments of an overheating economy | Talking about rate hikes being necessary will undermine the efforts the Fed is making to reflate | 3/5 (economy, markets, monetary policy) | Her comments about the necessity for interest rate hikes related to the longer-term and the need to prevent the economy from overheating, through a rapidly expanding credit cycle, fuelled by QE and low interest rates |
| German support | German Fin Min Scholz has indicated that the economic aid provided through the pandemic may well extend beyond the end of the pandemic | Scholz was not referring to fresh stimulus efforts, but rather a continuation of current efforts | 3/5 (fiscal policy) | Germany is one of the fortunate countries that used the good times to pay down debt and created spare capacity for the government to use countercyclical policy to great effect |

## Local F.X. Opening Rates and Comment

| | CUSTOMER BUY CASH | CUSTOMER SELL CASH | CUSTOMER BUY TT | CUSTOMER SELL TT |
|---|---|---|---|---|
| BWPZAR | 1.2655 | 1.3789 | 1.2899 | 1.3657 |
| BWPUSD | 0.0877 | 0.0955 | 0.0894 | 0.0946 |
| GBPBWP | 15.8298 | 14.5475 | 15.4874 | 14.8505 |
| BWPEUR | 0.0730 | 0.0794 | 0.0747 | 0.0778 |
| JPYBWP | | | 9.8152 | 10.2055 |
| | | | | |
| USDZAR | 13.8451 | 15.0208 | 14.1696 | 14.6959 |
| EURUSD | 1.1543 | 1.2506 | 1.1814 | 1.2235 |
| GBPUSD | 1.3355 | 1.4468 | 1.3668 | 1.4155 |

**Benchmark Yield Curve**

| | |
|---|---|
| 6m | 1.0700 |
| 3y | 4.7550 |
| 5y | 5.3350 |
| 22y | 6.6850 |

**Forward Foreign Exchange**

| | BWPUSD | BWPZAR |
|---|---|---|
| 1m | -2.1060 | 0.0000 |
| 3m | -6.3375 | 0.0000 |
| 6m | -13.4453 | 0.0000 |
| 12m | -33.6083 | 0.0000 |

**Equities**

| | |
|---|---|
| BSE Domestic Index | 6567.37 |
| BSE Foreign Index | 1550.93 |

**Economic Indicators**

| | | | |
|---|---|---|---|
| GDP | -4.1 | Bank Rate | 3.75 |
| CPI | 3.2 | | |

- There is a lack of market relevant local news flow at the moment but that does not mean that the international stage is equally calm.
- Comments made by the US Treasury Secretary Janet Yellen were closely watched yesterday. Earlier in the session she was quoted as saying the following by news vendors "it may be that interest rates will have to rise somewhat to make sure our economy doesn't overheat.", Later in the day she corrected herself with the original statement causing quite a stir by stating that she wasn't forecasting any interest rate increases to rein in inflation as a result of the huge monetary and fiscal stimulus.
- Emerging and frontier markets will be welcoming of the news that a rate hike is not expected soon as the economic recovery in the United States is key for the repairing of their own economies. Most frontier and emerging markets are net exporters of raw materials which will be key to the repairing of global economies, thus any threat to this status quo will be viewed in a negative light.
- Against this backdrop we would like to share with the reader movements in the copper markets which are seen as a global bellwether for economic health. Copper's relevance to Botswana is growing given the exploration in the Kalahari copper belt and in time it is likely to provide an additional source of hard currency earnings for the country in tandem with diamonds and tourism.
- Copper is on the front foot this morning after adding some 1.42% to close at $9966/tonne yesterday. The red metal has cleared the $10000/tonne mark with investors looking at comments surrounding inflation (Yellen) and global growth as a reason to go long.
- The broader market is firmly anchored in the view that we are entering an economic boom phase driven by the massive amounts of fiscal and monetary stimulus as a result of COVID-19, added to this we have a global decarbonisation drive which will push up demand for copper as electrification takes hold.
- We now shift focus to the broader financial markets. Some profit taking on global stock markets as well as the broader need for a market correction to clear out stale short USD positions has been enough to drive a rally in the USD. It is not a USD rise with much underlying momentum at this point, but it is enough to help squeeze some short USD positions for the market to better exhibit the conviction of those believing the USD must still correct weaker through the months ahead. The Fed will persist with its loose policy, and the Biden administration is committed to introducing more stimulus, all against a backdrop of an expanding credit cycle. All of this will detract from the USD's performance.
- The Asian session has rapidly reflected this narrative and the USD is on the backfoot as we enter the start of the local trading session. Thus we hold the view that the market will continue to hold above the 0.09100 in the interbank market for now as there are no local or international factors evident to push it weaker.

## ZAR and Associated Comments

- The ZAR slipped 0.5% yesterday as risk appetite was broadly subdued following a sell-off on Wall Street which bolstered US dollar demand in the latter half of domestic trading hours. However, the ZAR was already on the back foot against the greenback ahead of US economic data which ultimately fulfilled expectations of a robust US economic recovery. US factory activity advanced in March, following February's dip, while the US' trade deficit shot to a record high. This suggests healthy demand within the US, but is largely a function of extremely accommodative monetary and fiscal policy, expected to contribute to further downside for the USD in the longer term. Nevertheless, the ZAR weakened to close slightly below the 14.5000/$ handle at 14.4700/$ after moves above the key technical level failed to hold.
- On the domestic front, South Africa's budget deficit for the year ending March 2021 came out smaller than what government projected due to lower spending and higher tax revenue. The shortfall came in at R551.9 billion, or 11.2% of GDP, compared to the prior estimate at the February budget announcement of 12.3%. Being lower than projected and thus still fitting within National Treasury's (NT) targets to achieve an annual budget surplus by 2024-2025, it is still incredibly high and more than double the deficit seen in recent years. Thus, it remains an arduous task for government to stabilize the country's debt to GDP ratio at 88.9% by the 2024 fiscal year, and it will be interesting what picture Moody's investor services paints in its review of SA sovereign debt due to be released after domestic trading hours on Friday. Government bonds yields have recently ticked lower on account of lower auction issuance being announced, however negative comments from ratings agencies may keep some foreign investors cautious despite foreign inflows remaining buoyed.
- The political space is currently heating up as the ANC is reportedly in the process of suspending officials who are facing criminal charges and have ignored a previous order to step down from their posts, amongst those being the secretary-general of the ruling party, Ace Magashule. Depending on how these developments progress, rooting out graft will bode well for the country's reform prospects and may provide the ZAR bulls with some direction.
- Externally, US Treasury Secretary Janet Yellen's comments during US trade yesterday about potential rate hikes to stop the US economy overheating deepened the sell-off on Wall Street. While she later clarified her remarks that she does not see inflation being a problem for the US, the dollar was still bolstered by the risk-off sentiment. This has spilled over into the Asian session where global equity markets have remained subdued this morning, however exacerbated by thinner trading conditions with Japanese and Chinese markets closed for holidays.
- Meanwhile, the ZAR has recouped some of yesterday's losses in early trade against a steadier USD. The day ahead sees the economy-wide Standard Bank PMI on the domestic data card which has remained buoyed above the 50-neutral mark for six successive months now. However this is unlikely to have much market moving potential ahead of US private payroll data which is expected to set the tone of another strong month of hiring ahead of official US employment report due Friday. The USD may thus remain supported for the day ahead, if it can withstand several Fed officials due to speak later today.

**Contacts**


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|---|---|---|
| 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 |


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