

## Botswana Market Watch

## 6 May 2021

GMT		International and Local Data	Period	Exp	Previous
	<b>BO</b>	Nothing on the cards			
<b>06:00</b>	<b>GE</b>	Factory orders y/y	Mar	27.80% (a)	5.80%
<b>08:00</b>	<b>EC</b>	ECB Publishes Economic Bulletin			
<b>08:30</b>	<b>GB</b>	Markit composite PMI	Apr F	60.00	60.00
<b>09:00</b>	<b>EZ</b>	Retail sales y/y	Mar	9.00%	-2.90%
<b>11:00</b>	<b>GB</b>	BoE bank rate	May 6	0.10%	0.10%
<b>12:30</b>	<b>US</b>	Initial jobless claims	May 1		553k

Africa	What happened?	Relevance	Importance	Analysis
<b>Long-lasting fiscal impact of COVID</b>	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
<b>China debt relief for Africa</b>	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
<b>Africa vaccines</b>	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
<b>US private payrolls</b>	ADP data released yesterday showed an increase of 742k private-sector jobs in Apr. It was the largest increase since Sep of 2020	The data reflects clear improvement in labour market dynamics and a strong recovery	4/5 (economy)	Alongside the private sector payrolls numbers, we expect to see a similarly big improvement in the overall non-farm payroll stats as the economy gradually opens up and recovers
<b>G7 on China and Russia</b>	The G7 countries used a 12,400 word communique to highlight their criticism of Russia's malicious behaviour and China using its economic might to bully other countries into submission	Although the wording was critical, there was little in the way of concrete action that would trouble either country	3/5 (geopolitics)	Instead, the wording suggests that the G7 will work together in order to stop China's "coercive economic policies" and seek ways to counter Russian disinformation as they seek to safeguard democratic principles
<b>Vaccine latest</b>	As more progress is made in vaccinating more people, Moderna announced that early human trials data showed that a booster shot improves immunity against variants	New variants dictate that booster shots are needed, and it is encouraging to note that these are being developed	4/5 (economy, virus)	Data on the outcomes will be released in the upcoming months, and it is hoped the efficacy against the South African and Brazilian variants will be high. Distribution could take place before year-end

### Local F.X. Opening Rates and Comment

	CUSTOMER BUY		CUSTOMER SELL		Benchmark Yield Curve		Forward Foreign Exchange			
	CASH	CASH	TT	TT						
BWPZAR	1.2589	1.3769	1.2832	1.3636	6m	1.0700		BWPUSD	BWPZAR	
BWPUUSD	0.0877	0.0959	0.0894	0.0950	3y	4.7550	1m	-2.1255		
GBPZAR	15.8218	14.4771	15.4795	14.7787	5y	5.3350	3m	-6.4740		
BWPEUR	0.0731	0.0799	0.0748	0.0783	22y	6.6850	6m	-14.3033		
JPYBWP			9.8152	10.2564			12m	-31.7265		
USDZAR	13.7736	14.9333	14.0964	14.6102					Technical error	
EURUSD	1.1524	1.2488	1.1794	1.2218	<b>Equities</b>		<b>Economic Indicators</b>			
GBPUSD	1.3348	1.4461	1.3661	1.4148	BSE Domestic Index	6581.79	GDP	-4.1	Bank Rate	3.75
					BSE Foreign Index	1550.93	CPI	3.2		

- Given the latest developments globally it's perhaps worth pulling back lens and taking a more holistic look at the financial markets and removing ourselves from the daily headline driven price action. One point that is currently coming through strongly across the board is that inflation may not be transitory and that we will see inflation take hold more broadly.
- The likes of Warren Buffet have stated that companies in the Berkshire Hathaway portfolio have experienced price pressures, granted some of these may be related to supply constraints, but much of it will also be as a result of the broader stimulus, both monetary and fiscal.
- Many Central Bank's including the Bank of Botswana remain focused on repairing their respective economies following the COVID-19 pandemic. Raising interest rates too soon is something that they wish to avoid at all costs because this can have a devastating impact on the recovery process. Thus we expect the broader narrative to remain one of looking through any inflation pressures in the short term.
- 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.
- In a surprise move, President Biden supported waiving intellectual property rights for Covid-19 vaccines to allow poorer countries to mass-produce them. Shares in pharmaceutical companies fell on the news, but the impact will be minimal given that the rights will only be granted on a very narrow and defined basis to assist in fighting the pandemic. After that, they will likely fall away, and any production under license will take place under different commercial terms. Nonetheless, Biden's support has drawn strong praise from the WHO and others that would welcome the move.
- On the political front, Trump is moving to remain relevant and potentially run for another term in office. He is once again becoming vocal and will use his website to post and publish comments that might be distributed on social media by supporters. This might precede his own platform to disseminate information, raising some questions around the outlook for the Republican party and whether they will grant him the level of support needed, given the events of the 6th Jan and all the criticism of him that followed. Finally, it is also important to highlight that the economy is on the verge of an economic boom. Therefore, Trump's main calling card of being pro-business and good for growth will lose impetus in the next 2-3 years as vast amounts of stimulus still need to reflect in market pricing.
- Focusing on the global FX market, ahead of the payrolls data, the USD holds near a two-week high, but appears to have lost some momentum. The outcome of the payrolls numbers tomorrow may well determine direction for the week ahead on. It ultimately comes down to what clues the data will offer on the future Fed policy. Any indications that the Fed will remain accommodative for longer will hurt the USD. On the other hand, a strong result will have the opposite effect. Technicals on the weekly chart suggest that the USD is poised for more gains in the next two weeks.
- The BWP-USD pared back all the losses realised in the previous session on Wednesday. However, the cross remained anchored below the 0.092 mark, which appears to be a strong level of resistance for the cross. This suggests that topside momentum in the BWP-USD is relatively weak. Given the absence of local economic data, traders will look offshore for directional guidance.

## ZAR and Associated Comments

- The ZAR swung between gains and losses, tracking broader moves in the USD yesterday, ultimately settling firmer against the greenback after political developments appeared to provide the local currency with a tailwind towards the end of domestic trade. Yesterday, South Africa's ruling party followed through on reports it will suspend members facing criminal charges who failed to step aside last month as it served a letter of suspension to ANC Secretary-General Ace Magashule. While high-ranking officials will unlikely step aside without a fight, moves to oust corrupt officials and alleviate graft within the ruling party improves the broader reform narrative and would strengthen President Ramaphosa's credibility.
- SARB governor Lesetja Kganyago was also in the headlines yesterday as he noted in an online webinar that structural reforms are gravely important to ensure higher future economic growth potential and maintained that SA's stagnant growth is structural and not cyclical. On policy matters, while the SARB will keep rates low as long as inflation and ZAR stability allows, monetary policy alone cannot lift SA out of its current slump which technically preceded the pandemic's onset. Furthermore, fiscal consolidation is extremely necessary to improve sovereign debt projections, but is unlikely to benefit the economy and the budget deficit as much as the requisite reforms would.
- Having said that, while some measures of business confidence remain depressed, the economy as a whole seems to be progressing well following last year's pandemic dip. The economy-wide Standard Bank PMI surprised to the upside in April, rising to 53.7 from 50.3 in March. This is the highest reading for the index since March 2012 and the notable jump was a result of output and new orders rising sharply during the month. The forward looking component measuring future business sentiment also rose, suggesting further increases in the gauge in the months ahead as economic activity continues its upwards trajectory to pre-pandemic levels.
- Despite the somewhat improving domestic picture in the near-term, EM currencies and, notably, the ZAR are still to gain most directional impetus from global monetary dynamics in the short to medium term. Stateside, a host of Fed speakers yesterday confirmed a more optimistic outlook for the US economy, but reiterated that monetary policy is to remain extremely accommodative for some time, inflationary pressures are to be temporary and much more progress is needed in the jobs market for the Fed to consider tapering support. The market, though, appears to be more cautious when looking at US Treasury yield moves over the last month and the USD is currently biding its time near two-week highs ahead of the official US labour report due tomorrow. Yesterday, US private payroll data showed strong hiring in April, providing the USD with some support, and will likely be a precursor to an equally strong non-farm payrolls figure tomorrow.
- The day thus far has seen mixed sentiment during the Asian trading session as the USD holds steady. After the ZAR's 0.60% gain yesterday, the local unit has also held firm after attempting to strengthen through 14.3500/\$ overnight. The day ahead sees the Bank of England deciding policy where expectations are growing that the central bank may begin tapering monetary stimulus given the economic reopening. Following this, US initial jobless claims will be in focus after which another batch of Fed speakers may provide the USD with direction. Further upside moves for the ZAR, however, may be limited given the upcoming Moody's debt review tomorrow.

## Contacts

Mogamisi Nkate	+267 3674335	email: <a href="mailto:mnkate@bancabc.com">mnkate@bancabc.com</a>
Phillip Masalila	+267 3674621	email: <a href="mailto:pmasalila@bancabc.com">pmasalila@bancabc.com</a>
Kefentse Kebaetse	+267 3674336	email: <a href="mailto:kkebaetse@bancabc.com">kkebaetse@bancabc.com</a>
Maungo Sebonego	+267 3674338	email: <a href="mailto:msebonego@bancabc.com">msebonego@bancabc.com</a>

**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.