

Botswana Market Watch

1 June 2021

GMT		International and Local Data	Period	Exp	Previous
09:00	BO	BWP10.6bn 7-day certificates on offer			
08:00	EZ	Markit/BME manufacturing PMI	May F	62.80	62.80
08:30	GB	Markit manufacturing PMI	May F	66.10	66.10
09:00	EZ	CPI estimate y/y	May	1.90%	1.60%
09:00	EZ	Unemployment rate	Apr	8.10%	8.10%
13:45	US	Markit PMI manufacturing	May F	61.50	61.50
14:00	US	ISM manufacturing PMI	May	61.00	60.70

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
Cost of slow vaccine rollout	A study done by the World Bank showed that the slow rollout of COVID-19 vaccines in Africa could cost the continent \$14bn a month in economic output	Less than 0.5% of the continent's roughly 1.3bn people are fully immunized, according to Bloomberg data	4/5 (economy)	African is struggling to secure vaccines as wealthy countries hoard vaccines for their citizens. This has ultimately resulted in a much slower rate of vaccination in Africa than in other parts of the world
World Health Organization - Africa vaccine	The World Health Organisation reported that Africa needs at least 20mn doses of the Astra-Zeneca Plc vaccine by mid-July to complete the immunization of people who have had their first doses	The WHO noted that less than two doses per 100 people have been administered in Sub-Saharan Africa, well below the global average	4/5 (economy)	According to the WHO Regional Director for Africa Matshidiso Moeti, a further 200mn doses are needed for Africa to vaccinate 10% of its population by September. The pace of vaccine rollouts is a key determinant of the pace of economic recoveries
Global	What happened?	Relevance	Importance	Analysis
Japanese factory activity	Japan's final manufacturing PMI for May dropped to a reading of 53.0 from 53.6 in Apr but dipped from the flash estimate	The foundations of a recovery exist and will take hold when the economy reopens	3/5 (economy)	External demand and exports have helped to bolster Japan's economic activity, but stronger internal demand is needed to make it more permanent
German inflation	Germany's harmonised inflation reading rose 2.4% y/y in May, up from 2.1% in April, comfortably above the ECB's target	Given the weak state of the economy, the ECB is unlikely to respond	4/5 (economy, monetary policy)	The ECB will explain this away by blaming temporary cyclical increases in commodity prices as well as supply chain disruptions which will pass
RBA	The RBA has maintained its target of 10bp for 3yr bond yields and maintains the parameters for the government's bond purchase scheme	Will not increase the cash rate until actual inflation is sustainably within the 2-3% target range	3/5 (economy)	Board remains committed to remaining ultra-accommodative for as long as it takes the Aussie economy to return back to full employment and for wage growth to become more prevalent

Local F.X. Opening Rates and Comment

	CUSTOMER				Benchmark Yield Curve		Forward Foreign Exchange		
	BUY	SELL	BUY	SELL				BWPUSD	BWPZAR
	CASH	CASH	TT	TT					
BWPZAR	1.2329	1.3495	1.2567	1.3365	6m	1.5750			
BWPUSD	0.0900	0.0983	0.0917	0.0973	3y	4.4750	1m	-2.0183	0.0000
GBP/BWP	15.7986	14.4437	15.4568	14.7446	5y	5.3250	3m	-6.5033	0.0000
BW/PEUR	0.0735	0.0805	0.0753	0.0789	22y	6.7750	6m	-15.2783	0.0000
JPY/BWP			10.0805	10.5413			12m	-35.9580	0.0000
USDZAR	13.1579	14.2648	13.4662	13.9562					
EURUSD	1.1735	1.2717	1.2010	1.2442					
GBPUSD	1.3664	1.4803	1.3984	1.4483					
		Equities			Economic Indicators				
		BSE Domestic Index	6585.04	GDP	-4.1	Bank Rate	3.75		
		BSE Foreign Index	1550.85	CPI	3.2				

- Botswana has banned the importation of red meat from South Africa after a foot and mouth outbreak in the country. The highly contagious foot and mouth disease has been detected in northern Kwa-Zulu Natal, it is the first outbreak since 2019 and has thus far not spread to any other parts of South Africa.
- In other news, NatGAS World reported the following, *Australia's Pure Hydrogen Corp on May 31 said its joint venture partner BotsGas will spud the first of a six-well appraisal drilling campaign on Serowe coalbed methane (CBM) project in Botswana within the next few days. The campaign will consist of two separate stages of three appraisal wells each. Serowe 2, the first stage one well is scheduled to spud in the next few days. This will be followed up with Serowe 3 and 4. The campaign will exceed the minimum acreage commitments which should ensure permit renewals in the future, Pure Hydrogen said. Two of the wells are to be converted to production wells while the third is in an outlying region to test the presence of CBM. The plan is to drill the second stage three wells later in the year after considering the results and incorporate the knowledge learned from the first three wells, the company said.*
- Internationally markets are focusing currently on the weaker dollar, global economic recovery and the renewed thoughts of inflation being embedded in many parts of the world. This is having an impact on all asset classes as investors navigate the broader themes as they unfold.
- The continued manufacturing recovery in China and the rest of Asia has been broadly supportive of base metals which have relevance in Botswana given the investment the government is making in diversifying its mining industry. The Caixin Purchasers Managers Index edged up to record 52 which keeps the manufacturing sector in expansionary mode, granted Beijing has been vocal lately in an attempt to control price volatility but the underlying drivers remain the same. Stimulus and infrastructure coupled with the decarbonisation strategies are all providing the fundamental anchors for higher demand and thus higher prices.
- As we enter the first day of trade for the month, we have the dollar on the backfoot in the Asian session and this has translated to a better performance for emerging markets in general. Higher commodity prices coupled with better risk on conditions could well assist the BWP at the margin this morning.

ZAR and Associated Comments

- Emerging market currency sentiment was broadly positive yesterday while the US dollar held firm for most of the day during holiday-thinned trade as both UK and US markets were closed. However, the USD ultimately succumbed to losses by the end of London trading hours, and the ZAR managed to eke out minor gains, closing 0.15% stronger at 13.7450/\$. The ZAR strengthened despite the announcement of tighter COVID-19 restrictions Sunday evening. While any such restrictions will have an economic impact, the adjusted measures are far from the damaging restrictions instituted last year.
- However, the local unit also had a supportive trade balance figure during the day. South Africa's trade surplus narrowed in April to R51.2 billion, albeit marginally, from a record high the month prior of R52.6 billion. The minor reduction was underpinned by a less pronounced decline in outbound shipments in April when compared to imports. For context, exports fell by 3.9% on the month to R161.5 billion while imports contracted by 4.6% to R110.2 billion.
- While trade dynamics are ZAR supportive, the domestic economy remains plagued by subdued demand and depressed consumer and business confidence. Released earlier yesterday, M3 money supply and private sector credit growth continued to decline in April. Money supply growth fell from 3.62% y/y in March to 2.02% y/y in April, the fourth consecutive monthly decline and its lowest level of change in a decade. Meanwhile, private sector credit extension (PSCE) contracted further in April, declining by 1.76% y/y after contracting 1.52% y/y in March, marking four months of declining credit extension and putting it at its lowest level since 1966. As a result, the relatively weak demand levels and tightened liquidity conditions suggest that the rising price pressures witnessed in recent months will likely diminish as the end of Q2 draws near.
- Meanwhile, a stronger ZAR will also be offsetting inflationary pressures. With the contained inflation outlook, the SARB will unlikely be pressured to hike rates before the end of the year. Thus, while public sector wage negotiations play out, the primary factor likely to influence the ZAR in the coming months remains global monetary dynamics, namely any changes to policy coming from the US Federal Reserve.
- In the interim, there is scope for further upside for the ZAR, given trade dynamics and high real yields on offer, despite domestic fiscal risks. After ending April at 14.4950/\$, the ZAR strengthened 5.5% against the USD through May and has begun the new month where the last ended. Thus far, the USD remains on the back foot in this morning's trade while the local unit has continued to trade near last week's highs, pushing towards the 13.7000/\$-handle in the early hours. The day ahead sees further domestic economic updates from May's vehicle sales statistics and Absa manufacturing PMI, as well as Q1's unemployment rate. Eurozone inflation data will also be a notable release for the day ahead, after data yesterday showed German inflation jumped to 2.4% in May, its highest since October 2018. A higher than expected Eurozone inflation print could compound pressure on the USD, while Fed speakers later today may do the same should they stick with the Fed's dovish forward guidance.

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