

Botswana Market Watch

7 June 2021

GMT		International and Local Data	Period	Exp	Previous
06:00	BO	Nothing on the cards			
08:30	GE	Factory orders y/y	Apr		27.80%
14:00	EZ	Sentix investor confidence index	Jun	25.00	21.00
19:00	UK	BOE's Breeden Speaks on Greening the Financial System			
	US	Consumer credit	Apr	\$22,50bn	\$25,84bn

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)	Africa 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
G7 tax reforms	G-7 nations reached a historic deal on a global minimum corporate tax of at least 15%, as the authorities try to tap into the tax revenue potential of the world's largest companies	It is no coincidence that the tax changes are announced now when most countries are struggling with high levels of debt	3/5 (economy, politics)	The lockdowns destroyed the public coffers just as they did private business. As a result, there has been a significant build-up of debt, and governments will be looking into all avenues of tax revenues to turn the fiscus sustainable
Italy rating	Fitch affirmed Italy's credit rating at BBB-, just one notch above junk, although warned that very high government debt and a structurally weak economy weigh	It is looking increasingly likely that Italy will slip into junk territory in the coming years	4/5 (economy, fiscal policy)	Italy's fragmented political landscape has meant that clear consensus on reforms has been absent. As a result, a slip into junk is inevitable and will require the ECB to backstop the govt.
Chinese imports	Chinese imports have grown at the fastest pace in a decade, fuelled by surging commodity prices, while exports grew rapidly, but by less than expected	The combination suggests that the global economy and supply chains are recovering	4/5 (economy)	H2 2021 is shaping up to be a vastly improved economic period that will be assisted by the reopening of economies that have made strong progress in their vaccination drives

Local F.X. Opening Rates and Comment

	CUSTOMER				Benchmark Yield Curve			Forward Foreign Exchange		
	BUY	SELL	BUY	SELL	6m	1.5750	1m	BWPUSD	BWPZAR	
	CASH	CASH	TT	TT						
BWPZAR	1.2142	1.3248	1.2376	1.3120	3y	4.7750	3m	-6.5618	0.0000	
BWPUSD	0.0905	0.0989	0.0923	0.0980	5y	5.1250	6m	-15.8438	0.0000	
GBP/BWP	15.6022	14.3100	15.2646	14.6081	22y	6.7750	12m	-35.1390	0.0000	
BW/PEUR	0.0744	0.0811	0.0761	0.0796						
JPY/BWP			10.1394	10.5718						
USD/ZAR	12.8764	13.9594	13.1782	13.6574						
EUR/USD	1.1680	1.2655	1.1954	1.2381						
GBP/USD	1.3580	1.4713	1.3898	1.4395						

Equities		Economic Indicators			
BSE Domestic Index	6596.6	GDP	-4.1	Bank Rate	3.75
BSE Foreign Index	1550.85	CPI	3.2		

- Additional support for businesses is on the cards as they battle to recover post the COVID-19 induced lockdowns. The government has announced that through Botswana Export Credit Insurance they will extend the BWP1bn loan guarantee scheme to the 31st March 2022. The scheme is designed to offer support and encourage bank lending to qualifying businesses by offering a partial guarantee of some 80% of the debt with the bank holding the balance of the risk.
- Keeping with COVID-19, the President Mokgweetsi Masisi stated on Friday that the government would be placing the vaccination of teachers and other front-line workers as a priority. Xinhua reported the following - *In his address during the commemoration of the National Teachers' Day held virtually, Masisi said he recognizes the enormous pressure that teachers in Botswana are operating under during this unprecedented and uncertain period of COVID-19. Due to limited internet connectivity in many schools across the country, Masisi said teachers are in enormous pressure since they are expected to provide face-to-face teaching and monitor learners to ensure that they follow the COVID-19 health protocols. With a view aimed at mitigating the threat posed by COVID-19, measures were undertaken to reduce class sizes, engage temporary teachers and employing Safety Health and Environment officers in all public schools, he said.*
- On the international front US jobs data held focus in the latter part of last week.
- Jobs data released last week strengthened the argument for an economic recovery. The private sector ADP, weekly jobless claims and the payrolls figures all alluded to a solid recovery in the labour market, albeit that a stronger recovery had been priced in. Econometric models have not been very good in gauging the recovery thus far and once again overestimated the propensity for the payrolls numbers to jump. However, that should not detract from the anticipated jump that will occur in H2 2021 when unemployment cheques cease, and households are forced to look for employment. Demand for employment appears to be reasonably strong, and therefore, any under-performance in the data currently is likely to be replaced by a stronger showing later this year. The USD responded negatively to the softer than expected payroll data, but that has just as much to do with economic policy and how it has exacerbated the twin deficits.
- After showing some early signs of staging a solid recovery, the USD's fragility shone through on Friday following the weaker than expected non-farm payrolls figures. Investors had anticipated more, and what they got instead was a sign that the economic recovery was proceeding slower than expected. This has given rise to speculation that the Fed will persist with its ultra-accommodative monetary policy stance for longer than first thought, which will promote the twin deficits that undermined the USD through the past year. Looking ahead, until the data starts to place the Fed under pressure to consider tapering, the underlying boost to the USD will be substantially less.
- Moving onto today's outlook we see the USD recovering mildly in Asia however the move is not excessive and should not place any major pressure on frontier and emerging markets. We hold the view that the 0.0940 mark is a strong support level and it expect it to hold for now in the interbank market.

ZAR and Associated Comments

- The ZAR entered the weekend on a solid note, primarily due to US dollar losses on Friday following May's US labour market report. The USD had initially traded on the front foot after private payroll data released the previous day showed strong hiring took place in May but rapidly dipped after the nonfarm payrolls print came out weaker than expected.
- Although the unemployment rate dropped and 559k jobs were added to the US economy last month, accelerating from April's disappointing employment figures, this was more than 100k less than average surveyed expectations. As the US economy recovers from the pandemic's economic damage, weak employment figures will temper expectations that inflation will run hot given the extent of fiscal and monetary policy easing over the past year. The market ultimately deemed May's employment statistics not strong enough to justify current prices and yields, resulting in US Treasury yields falling, with the 10-year bond yield falling to a one and a half month low, and the dollar weakening against most major currencies.
- As for the USD-ZAR, the currency pair dipped 1.55% on Friday to close at 13.4300. In addition, the ZAR remained a top emerging market currency performer over last week as it took advantage of dollar weakness to the sound of 2.50%. While recent data may be spurring on more dollar weakness, given that it points to the Fed not being much closer to reducing monetary policy support, that the ZAR has outperformed in light of this suggests a correction may be due in the coming months as tapering talks become more mainstream amongst Fed officials. That said, an equal source of ZAR strength has been South Africa's improving terms of data. Physically supportive trade flows may yet lead to further upside as May and June thus far have shown, but eventual Fed tapering would mean the end to cash-flush, yield-seeking investors providing support to EM currencies.
- In the spot markets presently, the USD-ZAR has hovered near last week's low of 13.4100 during a mixed-sentiment Asian trading session. The morning ahead sees the release of SARB reserve data, which the market will likely overlook ahead of first quarter GDP results scheduled for tomorrow. While domestic data picks up later in the week, so will the external data card, with the ECB deciding policy rates on Thursday ahead of US inflation data. On the stateside data, the dollar's dip due to weaker than expected employment data will be put to the test. Should US inflation still surprise to the upside, the dollar will receive some support in the latter half of the week, meaning FX markets may trade more tentatively in the run up.

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