

## Botswana Market Watch

## 2 June 2021

GMT		International and Local Data	Period	Exp	Previous
	<b>BO</b>	<b>BWP10.6bn 7-day certificates on offer</b>			
11:00	US	MBA mortgage applications	May 28		-4.20%
16:00	US	Fed's Harker Speaks at Fed Forum on Racism and the Economy			
16:00	US	Fed's Harker Discusses the Economic Outlook			
18:00	US	U.S. Federal Reserve Releases Beige Book			
18:00	US	Evans, Bostic and Kaplan on Panel at Fed Forum on Racism			

Africa	What happened?	Relevance	Importance	Analysis
<b>Agriculture funding gap</b>	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	<b>3/5</b> (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
<b>Cost of slow vaccine rollout</b>	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	<b>4/5</b> (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
<b>World Health Organization – Africa vaccine</b>	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	<b>4/5</b> (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
<b>UK Covid deaths</b>	The UK announced zero daily Covid deaths within 28-days of a positive test for the first time since the start of the pandemic	It is an indication that the vaccine rollout is bearing fruit allowing the UK to reopen	<b>3/5</b> (economy)	Britain retains its vigilance in so far as its stance on the pandemic is concerned and will hold some level of restriction until at least the 21 <sup>st</sup> June
<b>Vaccine latest</b>	The WHO has approved a vaccine produced by Sinovac Biotech with an efficacy of 51% - 84% in preventing symptomatic disease depending on region/country	More vaccines will allow for Covax to start and assist poorer countries gain some immunity	<b>4/5</b> (economy)	More vaccines will come to market and the current backlogs will ease. Russia's Sputnik vaccine is also awaiting approval and will be ready for distribution in the coming months
<b>Aussie economy</b>	Australia's economy has recovered to pre-pandemic levels with Q1 GDP recording growth of 1.8% q/q vs 1.5% consensus. Q4 GDP was revised up to 3.2% q/q	Australia is one of only 5 countries that has recovered to pre-pandemic levels, with more growth to come	<b>3/5</b> (economy)	Australia's effective management of its economy mean that it has been able to apply substantial monetary and fiscal stimulus to help overcome the effects of the pandemic with ease

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

CUSTOMER BUY SELL BUY SELL					Benchmark Yield Curve		Forward Foreign Exchange			
	CASH	CASH	TT	TT				BWPUSD	BWPZAR	
BWPZAR	1.2374	1.3504	1.2613	1.3375	6m	1.5760				
BWPUSD	0.0900	0.0982	0.0918	0.0972	3y	4.4750	1m	-2.2133	0.0000	
GBP/BWP	15.6965	14.3960	15.3569	14.6959	5y	5.3250	3m	-6.4935	0.0000	
BW/PEUR	0.0736	0.0804	0.0754	0.0788	22y	6.7750	6m	-15.2588	0.0000	
JPY/BWP			10.1001	10.5311			12m	-35.9434	0.0000	
USDZAR	13.1920	14.3051	13.5012	13.9956						
EURUSD	1.1730	1.2712	1.2005	1.2437						
GBPUSD	1.3590	1.4723	1.3908	1.4405						
					<b>Equities</b>		<b>Economic Indicators</b>			
					<b>BSE Domestic Index</b>	6589.18	<b>GDP</b>	-4.1	<b>Bank Rate</b>	3.75
					<b>BSE Foreign Index</b>	1550.85	<b>CPI</b>	3.2		

- With the month-end flows out of the way, we would like to draw the reader's attention to developments in China and Russia which longer term could have an impact on the way raw materials are sold.
- China is a central planning master, and Beijing has made it clear that it will not tolerate volatility in commodities over the past couple of weeks. It would like to curb the speculative element that has been apparent in the market as it restocks following the dislocations caused by swine-flu and COVID-19.
- Interestingly we see Russia holding talks with its metal producers about purchasing their metals for a state stockpile. This comes as Moscow looks to smooth the costs in the construction sector, which is impacted by higher commodity prices.
- So what does this all mean? Well, it's early days yet, but from what we can see, there will be more state intervention in individual domestic commodities markets, which may well filter through to African countries rich in natural resources. State-owned trading entities could be the favoured transactors in an environment like this, suggesting more opaque markets in many cases.
- There have been some developments in terms of US-Sino relations, granted relations are still frosty, but some cooperation is taking place on other levels. Chinese Vice Premier Liu He has reportedly exchanged views with Treasury Secretary Yellen on issues of mutual concern. In a statement, the Treasury Department was quoted as saying "Secretary Yellen discussed the Biden-Harris administration's plans to support a continued strong economic recovery and the importance of cooperating on areas that are in U.S. interests, while at the same time frankly tackling issues of concern." This comes after U.S. trade representative Katherine Tai said that the U.S. still faced "very large challenges" in its relationship with China.
- Moving over to the FX markets, ahead of some key labour data on Thursday and Friday, the USD enjoyed some support from the improvement in the manufacturing data that was released yesterday. It recovered slightly off its lows to help strengthen the recent base. Technically, the base is now becoming a lot more substantial and the downside momentum on the USD does appear to be losing some momentum. Buying dips towards 89.7 on the USD index appears to be favoured at the moment, even though the longer-term prognosis is weak. Strong outcomes in the labour data later this week may prove to be the catalyst to help the USD stage a mini-recovery.

## ZAR and Associated Comments

- While the ZAR made progress in the earlier hours of yesterday, trading close to last week's high around 13.6800/\$, weak employment stats highlighting an economy still recovery from the pandemic as well as the resumption of load shedding dampened sentiment. The ZAR ultimately reversed gains, while the dollar rebounded off one-week trade-weighted lows yesterday as a gauge of the US manufacturing sector climbed higher in May. However, the dollar's moves were techy as Eurozone inflation rose to the highest in more than two years, signalling an ongoing recovery in Eurozone demand. Resultantly, the USD-ZAR currency pair swung between gains and losses, eventually ending the day flat just below the 13.7500/\$-handle.
- Yesterday's domestic quarterly employment report showed unemployment rose to another record high in the first quarter of the year. Despite total employment increasing by 144 000 jobs, this was offset in the headline unemployment rate by an increasing labour force participation rate. Total unemployment rose to 32.6% from a prior figure of 32.5%. Although a marginal increase, this still highlights risks to South Africa's consumptive dynamics in the event the private sector is unwilling or unable to take up the massive amount of labour market slack. Low employment levels ultimately mean tax intake will remain weak, with the associated fiscal implications being that government's efforts to slow debt growth and reduce budget deficits will be hampered.
- Nevertheless, other gauges continue to point to ongoing economic recovery. Absa's manufacturing PMI rose higher than expected in May to 57.8 from 56.2 in April, marking the tenth consecutive month the gauge has remained in expansionary territory. The continued improvement in the manufacturing sector is likely to support the economic recovery in the second quarter. However, with the economy on a recovery path from its most significant downturn in decades, this hides aspects of an underlying weak economy. Factors including the unstable power supply, tightening of restrictions amid rising COVID-19 infections, still subdued domestic demand and lack of investments remain critical risks to the manufacturing sector.
- All in all, weak economic growth post the pandemic recovery and persistent structural challenges implies the local currency's long term trend remains to the downside. On a more positive note, however, the near term outlook includes the possibility of further ZAR strength. Though, there are risks to this outlook both domestically and externally. Namely, public sector wage negotiations will indicate the government's commitment to fiscal consolidation, while eventual US Fed monetary policy tapering holds the risk of capital outflows for all emerging markets. On the latter front, market participants will be awaiting US labour market data tomorrow and Friday to provide an update as to how far the US remains from the Fed's employment targets. As such, markets may begin to trade more cautious in the run-up to the private payrolls release and official employment report. Later today, the market will have the Fed's Beige Book and Fed speakers for commentary on current US economic conditions. In the spot markets this morning, the USD has gapped higher and traded stronger against most major currencies. This has seen the USD-ZAR trade slightly higher as well from yesterday's close, although it remains well within its current narrow range around 13.7500/\$.

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**Report produced by ETM Analytics for BancABC Botswana.**

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