

## Botswana Market Watch

## 2 March 2021

GMT		International and Local Data	Period	Exp	Previous
	<b>BO</b>	<b>Botswana to sell BWP10bn Pulas of 7-Day Certificates</b>			
07:00	<b>GE</b>	Retail sales y/y	Jan	1.40%	1.50%
07:00	<b>GB</b>	Nationwide house prices nsa y/y	Feb	5.50%	6.40%
08:55	<b>GE</b>	Unemployment rate sa	Feb	6.00%	6.00%
10:00	<b>EZ</b>	CPI estimate y/y	Feb	1.10%	0.90%

Africa	What happened?	Relevance	Importance	Analysis
<b>Oil surge</b>	International oil prices have continued to surge with the front month Brent contract reaching a 13-month high as market dynamics continue to tighten on the back of the OPEC production cuts and extreme weather in the US	The sharp rise in oil prices has provided a strong headwind for oil-producing countries' assets. Moreover, the rise in oil is also providing a boost to government revenues	<b>3/5</b> (commodities)	After underperforming for most of 2020, oil-producing nations' currencies and bonds have kicked off the new year amongst the top performers. With demand dynamics improving and dollar weakness likely to be sustained, we expect that oil prices will remain buoyed in the coming weeks
<b>SSA debt</b>	Fitch said in a report that the coronavirus pandemic has driven interest-to-revenue ratios among sovereigns in Sub-Saharan Africa close to levels seen before debt relief was extended in the 2000s	As the second wave of the pandemic emerges, fiscally constrained sovereigns have less room to provide stimulus than other economies	<b>4/5</b> (Fiscal)	Fitch said that the fiscal constraints would weigh on the region's economic recovery as governments are unable to offer additional support to cushion the economic blow of the second wave of the coronavirus
<b>Africa vaccines</b>	The African Union announced that they secured 300mn doses of Russia's Sputnik V COVID-19 vaccine. This deal adds to the 270mn doses that the group arranged to get from Pfizer Inc, Johnson & Johnson and Astra-Zeneca Plc earlier this year	Securing more vaccines will be welcomed as it prevents Africa from lagging in vaccinating its people and increases the prospect of a quicker economic recovery	<b>4/5</b> (economy)	According to the AU, the Russian vaccine shots will be available for 12 months starting in May, and finance has also been arranged for countries that want to purchase the vaccine. While the AU has secured a large number of vaccines, it is only enough to vaccinate less than half the population

Global	What happened?	Relevance	Importance	Analysis
<b>ECB bond buying</b>	Interesting to note the slowdown in net purchases of bonds last week even as bond markets were under tremendous strain	Moderation in buying raises questions around the ECB's commitment to QE	<b>3/5</b> (monetary policy, markets)	There may be a technical reason for the dip in buying, but it is sending mixed signals to investors that might've expected a show of force from the ECB
<b>Japanese Capex</b>	Q4 Capex fell 4.8% y/y vs 10.6% y/y drop in Q3. Although less bad, the Capex data is still disturbingly weak and highlights the caution being expressed by big business	Weak Capex deployment will constrain growth both in the short and longer term	<b>4/5</b> (economy)	There will likely be a recovery as the global economy opens up further and overall demand normalises. It is clear that manufacturers are still cutting costs and are still concerned by weak demand
<b>Cryptocurrency</b>	Large name banks are taking cryptocurrencies more seriously either opening desks to trade and broke it or by acknowledging its widespread adoption	As cryptocurrencies are adopted into the mainstream, markets will steadily become more sophisticated	<b>2/5</b> (market)	Widespread adoption will gradually turn cryptocurrencies into an international payment mechanism not requiring currency conversions between different jurisdictions

### Local FX Opening Rates and Comment

	CUSTOMER BUY		CUSTOMER SELL		Benchmark Yield Curve	Forward Foreign Exchange				
	CASH	CASH	TT	TT			BWPUSD	BWPZAR		
BWPZAR	1.3053	1.4283	1.3305	1.4146	6m	1.1240				
BWPUSD	0.0869	0.0950	0.0886	0.0940	3y	3.8750	1m	-2.1938 0.0000		
GBPGBP	15.9643	14.6061	15.6189	14.9104	5y	5.1250	3m	-6.2888 0.0000		
BWPEUR	0.0722	0.0789	0.0739	0.0774	22y	6.2650	6m	-13.7670 0.0000		
JPYBWP			9.4910	9.9206			12m	-29.8301 0.0000		
USDZAR	14.4229	15.6449	14.7610	15.3065	<b>Equities</b>					
EURUSD	1.1544	1.2510	1.1815	1.2240	<b>Economic Indicators</b>					
GBPUSD	1.3335	1.4448	1.3648	1.4135	BSE Domestic Index	6670.1	GDP	-6.0	Bank Rate	3.75
					BSE Foreign Index	1550.93	CPI	2.3		

- Botswana believes there is a strong business case for the country to participate in the South African automotive sector. The opportunity was highlighted by the Botswana high commissioner to South Africa Tshenolo Modise who stated the following “Around 60% of the components used in South African vehicles are still imported from outside Africa. Given Botswana’s proximity to South Africa, we see this as an opportunity to vertically integrate into the ever-growing South African automotive value chain,”
- The strategy forms part of the government’s diversification strategy with the aim of creating sustainable job opportunities over the long term. One of Africa’s greatest failings has been its regional integration. Intra-African trade is poor by global standards and it is something that needs to be focused on should the continent move away from just being a raw material provider to the rest of the world.
- Botswana is especially attractive given its low tax structure which can be made even more attractive by the use of special economic zones and the fact that fiscally Botswana is one of the most stable in Africa with low corruption rates and good quality power supply.
- Moving over to the United States, Politically, the Democrats have smoothed the passage for the stimulus package by removing the minimum wage bill adjustment. That threatened to tie up the entire package in legal debate and challenges. It will need to be tackled in a separate piece of legislation at some point in the future. For now, the stimulus package will be debated this week and it is likely that it could be passed and signed into law before mid-March. That would give the US economy a tremendous boost heading into Q2.
- Some of the economic data has improved considerably. The latest ISM manufacturing data saw the index jump to a very impressive 60.8 in Feb, with new orders and employment rising. That is the good news in the report. The less positive news is the jump in the prices paid component. A quick assessment of the acceleration in monetary aggregates shows that US M1 and M2 are growing at nearly 53% and 25% y/y respectively, some of the highest growth rates on record. Such strong growth in money supply will translate into more monetary space to accommodate inflation when demand returns. Given the base off which the new stimulus package will be implemented, the risk of an inflation surge is significant.
- Stronger data out of the US and the recent rise in bond yields has helped the USD stage a recovery. The ISM data showed that US manufacturing activity had recovered to a three-year high and this appears to have bolstered prospects for the greenback. The USD has gained ground against other low-yielding currencies, while risk currencies have also lost some ground as risk aversion generally has recently ticked back up. Although there is still some speculation on whether the bond market sell-off is over, some investors are more comfortable that the USD has formed a near-term base.
- The BWP has held above the 0.0900 mark as the new week and month started yesterday. Risk aversion is very much at play at the moment which has taken the shine off frontier and emerging markets. Expect a cautious start to the day.

## ZAR and Associated Comments

- After the volatile trading of last week due to a frenzy in global bond markets, risk appetite appeared to recover at the start of the new week as the US dollar lost ground against riskier and commodity-exposed currencies, but held steady against major currencies. Despite these losses, the greenback nonetheless remained bid and went on to another daily gain on a trade-weighted basis as investors continue to bet US growth and inflation outpacing other developed nations, potentially accelerating the tightening of Fed policy.
- The ZAR, meanwhile, found some support early on in the day likely from the easing of restrictions announced by President Ramaphosa on Sunday night. However, sustaining this momentum remains a difficult task for the market at present, given the vast uncertainty surrounding South Africa’s fiscal risks and growing debt levels. The local unit, thus, proceeded to trade in a narrow range between 14.95/\$ and 15.10/\$ through most of domestic hours, and ultimately settled 0.72% stronger around the 15.00/\$-handle.
- Further aiding the ZAR during the day, the Absa manufacturing PMI for February rose to 53.0 from 50.9 in January, marking the seventh consecutive month that the gauge remains above the 50-neutral level. While activity in the manufacturing sector continues to show signs of improvement as vaccine rollout gains momentum and global demand picks up, the road ahead for South Africa as a whole appears to be less clear-cut. The PMI’s employment subcomponent fell deeper into contraction while, as economic activity continues to normalise, we may see South Africa’s structural risk come to the fore once again.
- On the fiscal front, wage talks between public sector labour unions and government have reportedly commenced, with unions issuing a list of demands including salary increases of inflation plus 4%. Containing the public sector wage bill is arguably critical to National Treasury’s fiscal consolidation plans and the wage freeze announced by Finance Minister Tito Mboweni last October will be the main sticking point in negotiations going forward. This should be closely followed by market participants as it will likely set the tone for future negotiations and will be government’s first major test of commitment to fiscal consolidation.
- The domestic data card takes a breather in the day ahead until tomorrow’s release of the economy-wide Standard Bank PMI. The morning ahead sees the release of Eurozone CPI data, which is expected to show inflation edged slightly higher in February and may sap some of the dollar’s recent demand in the event it comes out stronger than anticipated. However the dollar may remain broadly bid as focus for the remainder of the week turns to US stimulus proceedings as the Senate is set to start debating President Biden’s \$1.9 trillion coronavirus relief bill.

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