## ⊕ Investec



Inflation rate note: rand weakness will slow inflation descent on state geopolitical choices

## Thursday 1 June 2023

SA inflation forecasts	2022	2023	2024	2025	2026	2027
Consumer Inflation (Av: %)	6.9	6.0	4.8	4.3	4.6	4.7
(year-end: %)	7.2	5.3	4.2	4.4	4.7	4.5
Producer Inflation (Av: %)	14.4	7.1	5.0	5.1	5.1	5.0
(year-end: %)	13.5	4.7	4.9	4.8	5.3	4.9
Salary & wage increases (%)	3.6	4.8	5.0	5.4	5.2	5.4
			S	ource: Inve	estec, SAR	B, Stats SA

Inflation expe	ectations su	urvey Q4.22	and Q1.2	23				
Survey	2022Q4							
conducted during	Analysts	Business people	Trade union officials	Average	Analysts	Business people	Trade union officials	Average
Headline CP	I inflation d	uring the ye	ear					
2023	5.6	6.5	6.1	6.1	5.6	6.8	6.5	6.3
2024	4.9	6.0	5.8	5.6	4.9	6.6	6.1	5.8
2025	-	-	-	=	4.6	6.2	5.8	5.5
							Sou	ırce: BER

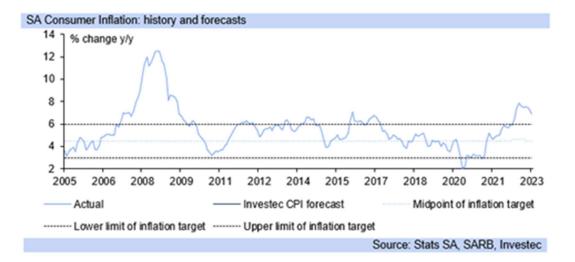
Dates when s	surveys were condu	ucted					
	Analysts, busin	nesses and tra	ide unions		H	ouseholds	
	Mail	Date of	Process		Fieldwo	ork	Process
	questionnaire	return	results				results
2018Q1	06-Feb	13-Mar	14-Mar	26-Feb	-	08-Mar	05-Apr
2018Q2	29-May	03-Jul	04-Jul	20-Apr	-	07-Jun	06-Jul
2018Q3	31-Jul	06-Sep	06-Sep	24-Oct	-	08-Nov	19-Nov
2018Q4	30-Oct	04-Dec	06-Dec	23-Oct	-	07-Dec	10-Jan
2019Q1	05-Feb	12-Mar	13-Mar	04-Mar	-	25-Mar	15-Apr
2019Q2	28-May	02-Jul	04-Jul	21-Mar	-	18-Apr	15-May
2019Q3	30-Jul	05-Sep	06-Sep	12-Sep	-	20-Sep	27-Sep
2019Q4	29-Oct	03-Dec	04-Dec	12-Nov	-	18-Nov	26-Nov
2020Q1	09-Jan	20-Feb	21-Feb	17-Feb	-	27-Feb	02-Mar
2020Q2*	08-Jun	25-Jun	26-Jun	01-Jun	-	12-Jun	19-Jun
2020Q3*	11-Aug	27-Aug	28-Aug	11-Aug	-	21-Aug	25-Aug
2020Q4	08-Oct	03-Dec	04-Dec	23-Nov		04-Dec	07-Dec
2021Q1	13-Jan	25-Feb	26-Feb	22-Feb	-	05-Mar	10-Mar
2021Q2	12-May	24-Jun	25-Jun	07-Ju	-	14-Jun	17-Jun
2021Q3	21-Jul	02-Sep	03-Sep	16-Aug	-	30-Aug	01-Sep
2021Q4	13-Oct	09-Dec	10-Dec	14-Nov	-	25-Nov	30-Nov
2022Q1	12-Jan	24-Feb	25-Feb	21-Feb	-	04-Mar	08-Mar
2022Q2	11-May	23-Jun	24-Jun	06-Jun	-	20-Jun	22-Jun
2022Q3	20-Jul	01-Sep	02-Sep	15-Aug	-	22-Aug	25-Aug
2022Q4	21-Nov	08-Dec	09-Dec	14-Nov	-	23-Nov	25-Nov
2023Q1	20-Feb	09-Mar	10-Mar	27-Feb	-	09-Mar	13-Mar
							Source BER

\*Online survey only



- CPI excluding administered prices

Source: Stats SA

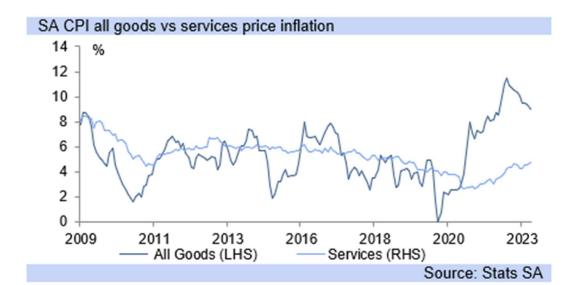


- While SA's CPI inflation trajectory is expected to be one of falling inflation this year, there are a number of upside risks, which include the operating costs of load shedding to the economy and marked rand weakness.
- The extreme rand depreciation over the past fourteen months has supported CPI inflation at a higher rate than would have occurred in a stable currency environment, and the currency deprecation pass through impact has increased.
- Load shedding has placed extreme strain on the economy, which has added to costs
  and so inflationary pressures, while also severely subduing economic growth and so
  job creation and business confidence.
- The Council for Scientific and Industrial Research (CSIR) notes "(p)ower from a generator is as much as 408% more expensive than power from the municipal grid", which is damaging business activity and placing upwards pressure on inflation.
- The South African Reserve Bank (SARB) notes "load-shedding may add 0.5 percentage points to headline inflation in 2023. Severe stages of load-shedding ... (are) inflationary ... (with) higher operating costs ... passed to consumers."
- "Load-shedding concerns will continue to weigh on investor sentiment, in turn raising South Africa's risk premium and placing pressure on the exchange rate." Rand weakness raises the cost of imported goods, and goods prices in hard currency.
- The rand's weakness has been impacted by the greylisting, along with SA's involvement with Russia on a number of fronts, including looking to host the Russian President at a BRICS summit this year in SA.

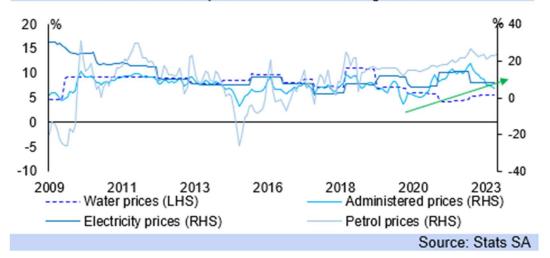
- A number of government officials have visited Russia this year and US Secretary Yellen warned SA on "(v)iolation of ... sanctions by local businesses or by governments" will see the US "respond to quickly and harshly."
- SA remains in a high risk environment, with many of the domestic factors specific to South Africa dragging down the economic outlook, worsening the exchange rate and exerting upwards pressure on inflation, as well as on interest rates.

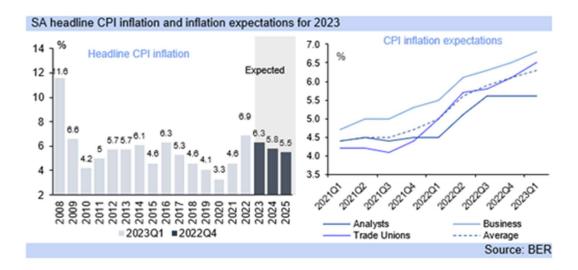
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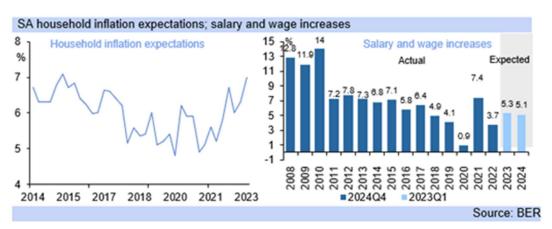
		Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24
xtreme	USD/Rand (average)	17.76	17.60	16.50	15.50	15.00	14.60	14.50	14.40
p case	Repo rate (end rate)	7.75	7.50	7.25	7.00	6.50	6.50	6.25	6.00
%	SA economic growth very	quickly rises	to 3-5%	then 5-7	%. Good	governanc	e, growth	-creating	reforms
	(structural constraints erac compensation. High busine drives debt to low ratios of favourable weather condition ratings to investment grade	ss confidence of 2000s. V ons. Strong	ce and fixe /ery subd global gro	ed investmed dome with, risk-	ent growth estic inflat on, commo	n, substantion on ex odity boom	tial FDI, fi treme ra n. Rapid u	scal cons nd streng upgrades	olidation of credit
p case	1100/01/	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24
%	USD/Rand (average)	17.76	18.20	17.40	17.00	16.90	17.10	16.90	16.60
	Repo rate (end rate) Economic growth lifts towar	7.75	7.75	7.75	7.50	7.00	7.00	6.75	6.50
	eroded, global growth stror compensation. Low domes inflation on increased pri- borrowings. Substantial tra measures to alleviate clima	tic inflation vatisation. ansition to	on favour Credit rat renewable	able weat ing upgra e energy	her and gl ides on fi away from	obal cond iscal cons n fossil fi	litions, ran solidation, uel usage	marked c, compre	th, lower ly lower ehensive
		Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24
ase	USD/Rand (average)	17.76	19.00	18.40	18.00	17.65	17.75	17.95	17.65
ase	Repo rate (end rate)	7.75	8.25	8.25	8.25	8.00	7.50	7.50	7.00
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## Inflation rate of administered prices in SA - inflation target 3-6%

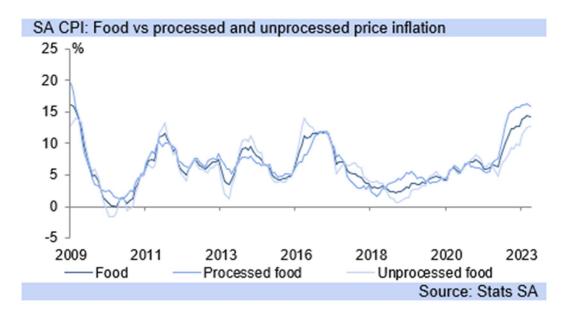




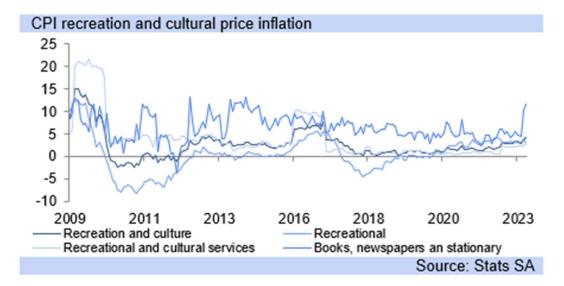


- The Reserve Bank warns of the negative effect on economic growth of damaging relations with SA's largest trading partners, specifically Europe, the US and the UK. The rand has reached R19.92/USD, weakening SA's economic fundamentals.
- The SARB warns "(t)he double impact of secondary sanctions and the recent FATF greylisting may cause severe and long-lasting damage to South Africa's reputation in the global financial system, with a range of adverse consequences."
- "As at 31 December 2022, 82.5% of foreign direct investment (FDI) into South Africa
  originated from the US, EU and UK, compared to 0.003% from Russia". Losing FDI
  from the UK, US and Europe would see substantial further rand weakness.
- As the rand weakens substantially it erodes the downwards path of inflation, with fuel prices determined by both the exchange rate and the international US dollar price of petroleum products, as SA imports its fuel, the country's largest import.

- Additionally, "South Africa's favourable access to the US market in terms of the US
  African Growth and Opportunity Act (AGOA) may not be renewed when it expires in
  2025, which will have severe consequences for corporates and industries".
- "The South African banking sector's claims on the UK amounted to R324 billion at the end of 2022, or close to 38% of the total banking sector's claims on the rest of the world, while banking sector claims on the US was R70 billion, or 8% of total South African banking sector claims. Claims on Russia were immaterial".
- "Foreign markets (in particular European markets) are a stable source of term funding for South African banks. Any secondary sanctions would constrain or even completely close off access to international capital markets for South African banks, other financial institutions and corporates. This will also spill over into the cost and availability of funding for the rest of the financial sector and the real economy".
- "International market participants providing USD clearing, settlement and payment services to South African banks would either fundamentally reduce or completely halt such transactions and services, based on the aspects related to the imposition of secondary sanctions as described above."
- "Many of the above factors would significantly increase regulatory capital requirements for banks and constrain revenues due to a loss of business, counterparties and clients."







forecast ave					Calandar	
	Index Base	Annual	Monthly	Quarterly	Calendar Year	
Date	2016	The second secon	m/m		7 7 7 7 7 7 7	
Date	2010	y/y	mvm	y/y	y/y	
Jan 2023	107.1	6.9	-0.1			
Feb 2023	107.9	7.0	0.7			
Mar 2023	109.0	7.1	1.0	7.0		
Apr 2023	109.4	6.8	0.4			
May 2023	109.8	6.5	0.4	6.2		
Jun 2023	110.2 111.0	5.7 5.0	0.4 0.8	6.3		
Jul 2023 Aug 2023	111.5	5.0	0.8			
Sep 2023	111.8	5.4	0.3	5.2		
Oct 2023	112.3	5.4	0.4	0.2		
Nov 2023	112.6	5.4	0.3			
Dec 2023	112.8	5.3	0.2	5.4	2023	6.0
Jan 2024	113.4	5.9	0.5			
Feb 2024	113.7	5.4	0.3			
Mar 2024	114.4	5.0	0.6	5.4		
Apr 2024	114.9	5.0	0.4			
May 2024	115.2	5.0	0.3			
Jun 2024	115.5	4.8	0.2	4.9		
Jul 2024	116.4	4.8	0.8			
Aug 2024	116.6	4.6	0.2			
Sep 2024	117.0	4.6	0.3	4.7		
Oct 2024	117.2	4.4	0.2			
Nov 2024	117.5	4.4	0.3			
Dec 2024	117.6	4.2	0.1	4.3	2024	4.8
Jan 2025	118.4	4.4	0.7			
Feb 2025	118.9	4.5	0.4			
Mar 2025	119.5	4.4	0.5	4.5		
Apr 2025	119.7	4.2	0.2			
May 2025	119.9	4.0	0.1			
Jun 2025	120.1	4.0	0.2	4.1		
Jul 2025	121.4	4.3	1.1			
Aug 2025	121.8	4.4	0.3			
Sep 2025	122.2	4.4	0.3	4.4		
Oct 2025	122.3	4.3	0.1			
Nov 2025	122.5	4.2	0.2			
Dec 2025	122.8	4.4	0.2	4.3	2025	4.3
Jan 2026	123.5	4.3	0.6			
Feb 2026	124.0	4.3	0.4			
Mar 2026	124.6	4.3	0.5	4.3		

Source: Stats SA, Investec

2020				
2.5	2021	2022	2023	2025
2.5	4.0	8.0	6.1	4.3
				2.6
				2.7
				2.3
				1.6
				9.8
				10.3
1.9	6.7		7.3	5.6
2.4	2.3		4.4	3.2
2.4	4.2	5.2	3.6	1.9
11.4	9.0	9.3	11.7	7.8
20.3	26.8	33.9	29.9	18.2
8.7	10.0	31.9	36.3	16.0
5.4	6.1	7.7	7.9	6.4
3.5	6.4	10.3	8.1	6.8
13.2	17.0	18.8	20.0	15.4
9.9	-0.4	17.7	23.1	7.6
2.5	2.2	9.7	6.3	2.8
3.3	4.6	6.9	5.8	4.8
3.3	3.7	4.2	4.7	4.2
2.8			7.1	4.6
15.7	22.0	11.0	10.4	9.3
	98.6	193.4	126.0	67.3
	2.4 11.4 20.3 8.7 5.4 3.5 13.2 9.9 2.5 3.3 3.3 2.8	0.3 2.6 2.5 0.9 0.0 -0.2 17.2 12.5 22.3 25.8 1.9 6.7 2.4 2.3 2.4 4.2 11.4 9.0 20.3 26.8 8.7 10.0 5.4 6.1 3.5 6.4 13.2 17.0 9.9 -0.4 2.5 2.2 3.3 4.6 3.3 3.7 2.8 2.2 15.7 22.0	0.3       2.6       8.4         2.5       0.9       2.0         0.0       -0.2       2.5         17.2       12.5       14.6         22.3       25.8       21.4         1.9       6.7       12.2         2.4       2.3       6.2         2.4       4.2       5.2         11.4       9.0       9.3         20.3       26.8       33.9         8.7       10.0       31.9         5.4       6.1       7.7         3.5       6.4       10.3         13.2       17.0       18.8         9.9       -0.4       17.7         2.5       2.2       9.7         3.3       4.6       6.9         3.3       3.7       4.2         2.8       2.2       7.2         15.7       22.0       11.0         557.2       98.6       193.4	0.3       2.6       8.4       5.6         2.5       0.9       2.0       2.0         0.0       -0.2       2.5       2.6         17.2       12.5       14.6       13.8         22.3       25.8       21.4       11.1         1.9       6.7       12.2       7.3         2.4       2.3       6.2       4.4         2.4       4.2       5.2       3.6         11.4       9.0       9.3       11.7         20.3       26.8       33.9       29.9         8.7       10.0       31.9       36.3         5.4       6.1       7.7       7.9         3.5       6.4       10.3       8.1         13.2       17.0       18.8       20.0         9.9       -0.4       17.7       23.1         2.5       2.2       9.7       6.3         3.3       4.6       6.9       5.8         3.3       3.7       4.2       4.7         2.8       2.2       7.2       7.1         15.7       22.0       11.0       10.4