



## Rand Note

Monday 13 January 2020

Rand volatility persists ahead of material risks for SA in 2020, with the proposed changes to the constitution on EWC, Moody's country review and the Budget. Global events will also continue to materially impact the rand

Expected case: Exchange	2020	2020	2020	2020	2021	2021	2021	2021	2022	2022	2022	2022
Rates forecasts	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
USD/ZAR	14.30	14.60	14.80	14.45	13.90	14.05	14.55	14.15	13.75	14.40	14.70	14.00
GBP/ZAR	18.78	19.07	19.26	19.21	18.77	19.25	20.29	19.73	19.17	20.08	20.50	19.52
EUR/ZAR	15.87	16.50	16.95	16.62	16.40	16.86	17.90	17.69	17.19	18.00	18.38	17.50
ZAR/JPY	7.45	7.26	7.13	7.23	7.63	7.54	7.29	7.49	7.71	7.43	7.28	7.64
ZARCHF	14.43	14.86	15.06	14.71	14.33	14.64	15.16	14.74	14.47	15.16	15.47	14.74
ZARAUD	9.72	9.78	9.99	9.83	9.73	10.26	10.91	11.04	10.73	11.23	11.47	10.92
GBP/USD	1.31	1.31	1.30	1.33	1.35	1.37	1.39	1.39	1.39	1.39	1.39	1.39
EUR/USD	1.11	1.13	1.15	1.15	1.18	1.20	1.23	1.25	1.25	1.25	1.25	1.25
USD/JPY	107	106	106	105	106	106	106	106	106	107	107	107

Note: averages, Source: IRESS, Investec

Lite Down case: Exchange	2020	2020	2020	2020	2021	2021	2021	2021	2022	2022	2022	2022
Rates forecasts (domestic event)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
USD/ZAR	15.50	16.50	16.80	16.10	15.80	15.90	15.70	15.30	15.00	15.10	15.05	14.80
GBP/ZAR	20.36	21.55	21.86	21.40	21.33	21.78	21.89	21.34	20.92	21.06	20.99	20.64
EUR/ZAR	17.21	18.65	19.24	18.52	18.64	19.08	19.31	19.13	18.75	18.88	18.81	18.50
ZAR/JPY	6.87	6.42	6.28	6.49	6.71	6.67	6.75	6.93	7.07	7.09	7.11	7.23
ZARCHF	15.64	16.80	17.10	16.38	16.29	16.56	16.35	15.94	15.79	15.89	15.84	15.58
ZARAUD	10.54	11.06	11.34	10.95	11.06	11.61	11.78	11.93	11.70	11.78	11.74	11.54
GBP/USD	1.31	1.31	1.30	1.33	1.35	1.37	1.39	1.39	1.39	1.39	1.39	1.39
EUR/USD	1.11	1.13	1.15	1.15	1.18	1.20	1.23	1.25	1.25	1.25	1.25	1.25
USD/JPY	107	106	106	105	106	106	106	106	106	107	107	107

- After seeing some recovery last week to R14.11/USD, R15.66/EUR and R18.38/GBP as the US and Iran evinced a desire for more peaceful relations, the rand weakened to R14.39/USD, R16.00/EUR and R18.72/GBP today, as the markets increasingly factor in SA's weakening growth outlook on supply-side issues. The rand is likely to remain volatile.
- This quarter also risks insufficient fiscal consolidation in the Budget (towards the end of February), a Moody's credit rating downgrade on 27<sup>th</sup> March 2020 and proposed changes to the constitution on EWC (Expropriation Without Compensation), with this year also likely seeing Parliament vote on a constitutional amendment.
- The President's advisory panel on EWC already contained a number of recommendations, including identifying and releasing state land for EWC, conducting a land audit and a land register for (land) donations, sub division of land already required by the state, tenure grants for certain existing occupiers and finalising restitution and labour tenant claims.
- This appears to dovetail with the previous indications from the ANC on expropriating state owned land without compensation, as well as EWC of abandoned properties and land occupied by labour tenants on farms, and proposed EWC of speculative property.
- The Presidential advisory panel's report also includes recommendations to reallocate water rights in conjunction with land allocation and splitting the budget between reforming the commercial sector vis-à-vis land reform for social considerations, as well as rooting out corruption.
- A two thirds majority is needed for a change to the constitution. All three key SA political parties differ on their stance to EWC, and consequently a proposed change to the existing wording in the constitution on EWC is not a certainty, due to these differences, when Parliament does vote on it.
- The rating agencies do not anticipate a marked negative impact on the economy from EWC, Moody's has said "(s)hould the expropriation remain selective and conditional to economic interests, such a reform would on balance be credit positive." In the interim however, lack of formal resolution of EWC adds to policy uncertainty, weakening confidence.

		Q1.20	Q2.20	Q3.20	Q4.20	Q1.21	Q2.21	Q3.21	Q4.21
Extreme	USD/Rand (average)	11.50	10.30	9.50	8.60	7.90	7.60	7.40	7.10
Jp case	Repo rate (end rate)	6.00	6.00	5.75	5.75	5.50	5.50	5.25	5.25
%	Fast, sustainable econom								
	reforms that structurally life								
	(including commodities),								
	employment and incomes,								
	title deeds in EWC without	disruption to	economy	. Fiscal c	onsolidatio	on, credit i	rating upg	rades to	A grade.
Jp case		Q1.20	Q2.20	Q3.20	Q4.20	Q1.21	Q2.21	Q3.21	Q4.21
%	USD/Rand (average)	13.00	11.50	10.00	9.95	9.90	9.70	9.65	9.45
	Repo rate (end rate)	6.25	6.25	6.25	6.00	6.00	6.00	6.00	6.00
	Persistent growth of 3-59	6, higher pro	bability of	f extreme	up case.	Better go	vernance	, growth	-creating
	reforms (structural constru	aints overco	me), grea	ter socio	-economic	stability,	strength	ening in	property
	rights, individuals obtain ti								
	credit. High business confi								
	Strong global growth and		cycle, 'tr	ade war'	subsides.	Stabilisa	tion of cr	edit ratir	ngs, with
	ultimately credit rating upg	rades.							
		Q1.20	Q2.20	Q3.20	Q4.20	Q1.21	Q2.21	Q3.21	Q4.21
Base	USD/Rand (average)	14.30	14.60	14.80	14.45	13.90	14.05	14.55	14.15
case	Repo rate (end rate)	6.50	6.25	6.25	6.25	6.25	6.25	6.25	6.25
2004	Annual growth approaches	> 2 0% why he	2021 Di	eina confi	dence and	investme	ont levels	over the	five-vear
1370	minual grown approaches	5 2.070 yry D	1 2021. NI	sing com	uchice and	a myesum	CLUE ICACIO	0101 1110	nvc ycai
3370	forecast period. SA retains								
3378		one investm	ent grade	(Moody's	) rating on	its local ci	urrency lo	ng-term s	overeign
3370	forecast period. SA retains	one investm a negative o	ent grade utlook. Av	(Moody's roids seve	rating on re global	its local co risk-off en	urrency lo vironmen	ng-term s t, neutral	to globa
3370	forecast period. SA retains debt in 2019 and 2020 on	one investm a negative o ening globa	ent grade utlook. Av I demand	(Moody's roids seventiation to trend	) rating on re global i growth. Li	its local co risk-off en mited imp	vironment vironment vironment	ng-term s t, neutral NC (expr	to global
JJ 76	forecast period. SA retains debt in 2019 and 2020 on risk-on. Modestly strength	one investm a negative o ening globa abandoned,	ent grade utlook. Av I demand unused, I	(Moody's roids seve to trend abour ten	rating on re global growth. Li ets and g	its local contrisk-off en mited impovernmen	vironment vironment vironment	ng-term s t, neutral NC (expr	to global
JJ 70	forecast period. SA retains debt in 2019 and 2020 on risk-on. Modestly strength without compensation) to	one investm a negative o ening globa abandoned, eeds) does n	ent grade outlook. Av I demand unused, I ot have a	(Moody's roids seve to trend abour ten negative	rating on reglobal growth. Li ets and g effect on e	its local cr risk-off en mited imp overnmen conomy.	vironmen oact of E\ at land (in	ng-term s t, neutral WC (expr dividuals	overeign to global opriation are new
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- Moody's says SA's negative rating outlook "reflects the material risk that the government will not succeed in arresting the deterioration of its finances through a revival in economic growth and fiscal consolidation measures. The challenges the government faces are evident in the continued deterioration in South Africa's growth and public debt trends".
- While markets are believed to expect SA will see its ratings downgraded to sub-investment grade by Moody's, this does not mean there will be no, or even little market reaction. Countries that are ranked sub-investment grade tend to have more volatility in their financial indicators, and more severe reactions to negative events, particularly at the lower ratings.

- Moody's has said its negative outlook reflects that "government will absorb some of the costs related to capital support to Eskom and that tax elasticity will strengthen thanks to improved efficiency at ... (SARS) ... consistent with ... the 2019 medium-term budget policy statement (MTBPS), ... (which) shows debt rising to 73% of GDP by fiscal 2023".
- It said it "would .. change the rating outlook back to stable if the government's efforts to rein in spending, improve tax compliance and lift potential growth became increasingly likely to successfully stabilize debt ratios. In this respect, ... (it) will focus on the government's progress ... in delivering the additional fiscal adjustments the MTBPS identifies".
- However, government will also need to make significant progress "in addressing long-standing issues related to corruption and the financially weak SOEs sector, especially Eskom. If achieved, these would ultimately enhance business confidence and private sector investment prospects."
- Market expectations that Moody's will likely downgrade SA are also likely providing a drag on the rand, as are likely the weak performance of the economy in 2020 (see "Q1.20 Macro-economic outlook 2020–2025: South Africa sees its growth outlook sag further on lack of sufficient regulatory reforms and repair", 10<sup>th</sup> January 2020).
- We increased the tilt to the downside in the probabilities of the scenario table this year (see "Bond note", 8<sup>th</sup> January 2020). We would reduce the probability of the expected case further, to an even weighting with the lite down case, if insufficient progress is made in the Budget. SA risks the lite down case becoming the expected case.

Up case: Exchange Rates	2020	2020	2020	2020	2021	2021	2021	2021	2022	2022	2022	2022
forecasts	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
USD/ZAR	13.00	11.50	10.00	9.95	9.90	9.70	9.65	9.45	9.30	9.15	9.00	9.20
GBP/ZAR	17.08	15.02	13.01	13.23	13.37	13.29	13.46	13.18	12.97	12.76	12.55	12.83
EUR/ZAR	14.43	13.00	11.45	11.44	11.68	11.64	11.87	11.81	11.63	11.44	11.25	11.50
ZAR/JPY	8.19	9.22	10.55	10.50	10.71	10.93	10.98	11.22	11.40	11.69	11.89	11.63
ZARCHF	13.12	11.71	10.18	10.13	10.21	10.10	10.05	9.84	9.79	9.63	9.47	9.68
ZARAUD	8.84	7.71	6.75	6.77	6.93	7.08	7.24	7.37	7.25	7.14	7.02	7.18
GBP/USD	1.31	1.31	1.30	1.33	1.35	1.37	1.39	1.39	1.39	1.39	1.39	1.39
EUR/USD	1.11	1.13	1.15	1.15	1.18	1.20	1.23	1.25	1.25	1.25	1.25	1.25
USD/JPY	107	106	106	105	106	106	106	106	106	107	107	107
							Note: a	verage	s, Sour	ce: IRE	ESS, Inv	vestec

2020 2020 2021 2021 2021 2022 2020 2020 2021 2022 2022 2022 Extreme Up case: Exchange Rates forecasts Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 USD/ZAR 10.30 9.50 7.90 7.60 7.10 6.95 6.75 6.95 7.15 11.50 8.60 7.40 GBP/ZAR 15.11 13.46 12.36 10.67 10.32 9.90 9.69 9.41 9.69 9.97 11.43 10.41 EUR/ZAR 12.77 11.64 10.88 9.89 9.32 9.12 9.10 8.88 8.69 8.44 8.69 8.94 ZAR/JPY 9.26 10.29 11.11 12.15 13.42 13.95 14.32 14.93 15.25 15.85 15.40 14.97 ZARCHF 9.67 7.92 7.32 7.53 11.60 10.49 8.75 8.14 7.71 7.40 7.11 7.32 6.41 ZARAUD 7.82 6.90 5.85 5.53 5.55 5.55 5.54 5.42 5.27 5.42 5.58 GBP/USD 1.30 1.39 1.39 1.31 1.31 1.33 1.35 1.37 1.39 1.39 1.39 1.39 EUR/USD 1.11 1.13 1.15 1.15 1.18 1.20 1.23 1.25 1.25 1.25 1.25 1.25 USD/JPY 107 106 106 105 106 106 106 106 106 107 107 107 Note: averages, Source: IRESS, Investec

Severe Down case:	2020	2020	2020	2020	2021	2021	2021	2021	2022	2022	2022	2022
Exchange Rates forecasts global event/s)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
USD/ZAR	16.00	17.50	18.50	19.80	19.50	18.90	18.50	18.00	17.50	17.00	16.60	16.2
GBP/ZAR	21.02	22.86	24.07	26.32	26.33	25.89	25.80	25.10	24.40	23.71	23.15	22.66
EUR/ZAR	17.76	19.78	21.18	22.77	23.01	22.68	22.76	22.50	21.88	21.25	20.75	20.3
ZAR/JPY	6.66	6.06	5.70	5.28	5.44	5.61	5.73	5.89	6.06	6.29	6.45	6.58
ZARCHF	16.15	17.82	18.83	20.15	20.10	19.69	19.27	18.75	18.42	17.89	17.47	17.1
ZARAUD	10.88	11.73	12.49	13.46	13.65	13.80	13.88	14.04	13.65	13.26	12.95	12.6
GBP/USD	1.31	1.31	1.30	1.33	1.35	1.37	1.39	1.39	1.39	1.39	1.39	1.39
EUR/USD	1.11	1.13	1.15	1.15	1.18	1.20	1.23	1.25	1.25	1.25	1.25	1.25
USD/JPY	107	106	106	105	106	106	106	106	106	107	107	107