

SA Economics

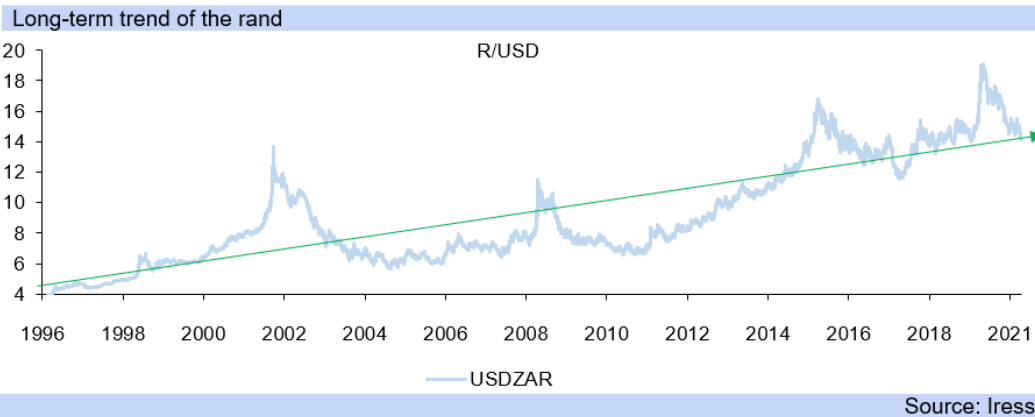


Monday 19 April 2021

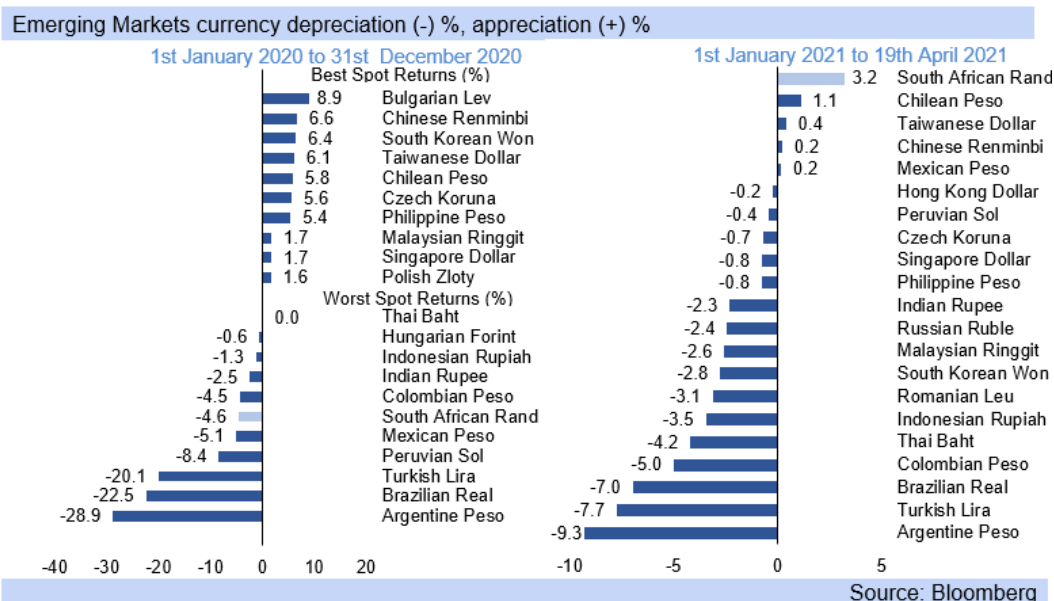
Rand note: Base effects and US dollar weakness continues to provide a support to EM currencies, while the carry trade in particular favours the rand, and commodity prices provide further support

| Expected Case: Exchange Rate forecasts | | | | | | | | | | | | |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | 2021 | | | | 2022 | | | | 2023 | | | |
| | Q1.21 | Q2.21 | Q3.21 | Q4.21 | Q1.22 | Q2.22 | Q3.22 | Q4.22 | Q1.23 | Q2.23 | Q3.23 | Q4.23 |
| USD/ZAR | 14.96 | 15.30 | 15.50 | 15.20 | 15.30 | 15.70 | 15.90 | 15.60 | 15.40 | 15.80 | 16.20 | 15.70 |
| GBP/ZAR | 20.50 | 20.96 | 21.24 | 21.13 | 21.72 | 22.45 | 22.90 | 22.31 | 21.87 | 22.44 | 23.00 | 22.29 |
| EUR/ZAR | 18.13 | 18.36 | 18.76 | 18.77 | 19.20 | 19.78 | 20.19 | 19.66 | 19.25 | 19.75 | 20.25 | 19.63 |
| ZAR/JPY | 7.09 | 6.86 | 6.77 | 6.88 | 6.80 | 6.62 | 6.60 | 6.73 | 6.88 | 6.71 | 6.54 | 6.75 |
| CHF/ZAR | 16.44 | 16.77 | 16.97 | 16.84 | 16.95 | 17.44 | 17.71 | 17.14 | 16.74 | 16.99 | 17.23 | 16.53 |
| AUD/ZAR | 11.53 | 11.78 | 12.01 | 11.86 | 11.93 | 12.25 | 12.24 | 11.86 | 11.55 | 11.85 | 12.15 | 11.78 |
| GBP/USD | 1.37 | 1.37 | 1.37 | 1.39 | 1.42 | 1.43 | 1.44 | 1.43 | 1.42 | 1.42 | 1.42 | 1.42 |
| EUR/USD | 1.21 | 1.20 | 1.21 | 1.24 | 1.26 | 1.26 | 1.27 | 1.26 | 1.25 | 1.25 | 1.25 | 1.25 |
| USD/JPY | 106 | 105 | 105 | 105 | 104 | 104 | 105 | 105 | 106 | 106 | 106 | 106 |

Note: averages, Source: Investec, Iress



SA Economics



- The rand reached R14.14/USD, R16.93/EUR and R19.49/GBP last week, approaching January 2020's R13.99/USD and R19.83/GBP, but exceeding its performance against the euro early last year, as the domestic currency strengthens against the crosses.
- The rand is by far still the best performing EM currency, both on a year-on-year basis and since the start of the year, with the Bloomberg EM currency ranker showing the Mexican and Chilean Pesos, and Czech Koruna well up but nowhere near the rand's appreciation.
- Base effects are at play for currencies, and emerging market assets which saw sharp disinvestment a year ago on differentiated risk perceptions, and so substantial weakening of their currencies, are now seeing differentiated strength. But the rand is still an outperformer.
- In general emerging market currencies continue to strengthen against the US dollar as the greenback has weakened, however the ZAR is also benefiting from R1.5bn in foreign net purchases of SA bonds over the last two days alone.
- However, a year ago the rand was close to R19.00/USD, which is aiding its current 32.4% y/y appreciation against the USD, although there is also likely market appreciation on how SA handled its bond market rout a year ago, as well as its recent improved fiscal plans.
- In particular, the reduction in government debt projections on the recent corporate tax led revenue overrun has doubtless improved investor confidence towards SA on the bond side, although markets will still be watching intently to see if fiscal consolidation is achieved.
- Risk-on sentiment in global financial markets remains a key driver however of the rand's appreciation as well, while SA is showing some progress in structural reform, but these

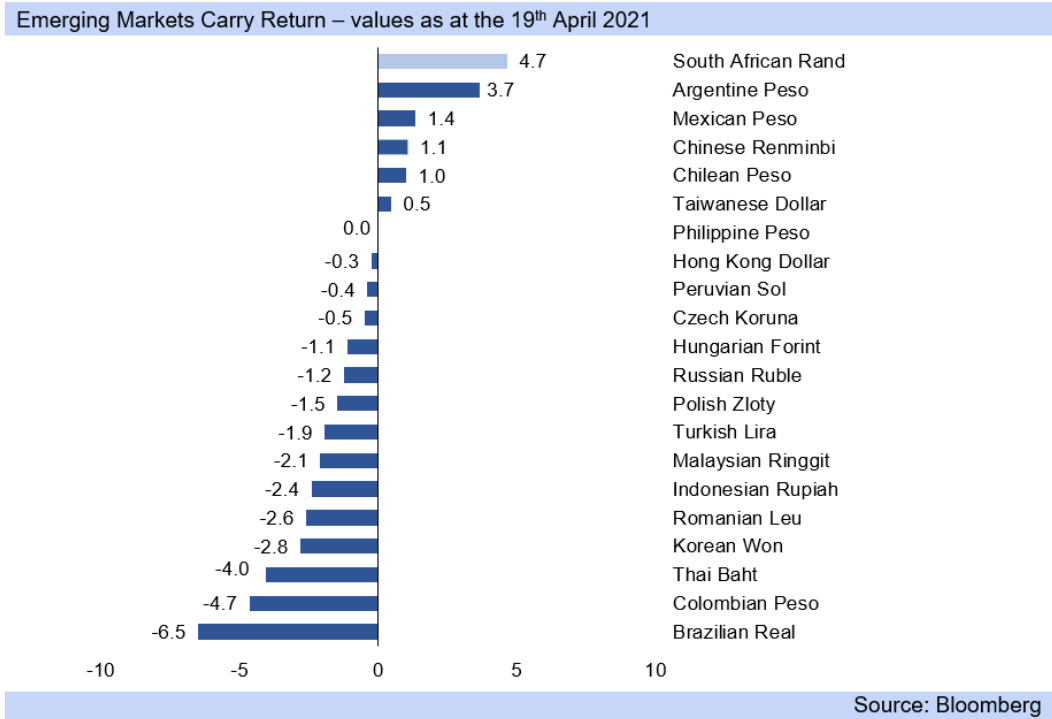
SA Economics



factors are all unlikely sufficient drivers of the domestic currency's recent marked strength.

- Instead, it is likely that while foreign investors may be feeling slightly more comfortable on SA as an investment prospect, overwhelmingly there is still very good return offered on the carry trade which is a key support in the current run in strength on the rand.
- Instead, it is likely that while foreign investors may be feeling slightly more comfortable on SA as an investment prospect, overwhelmingly there is still very good return offered on the carry trade which is a key support in the current run in strength on the rand.

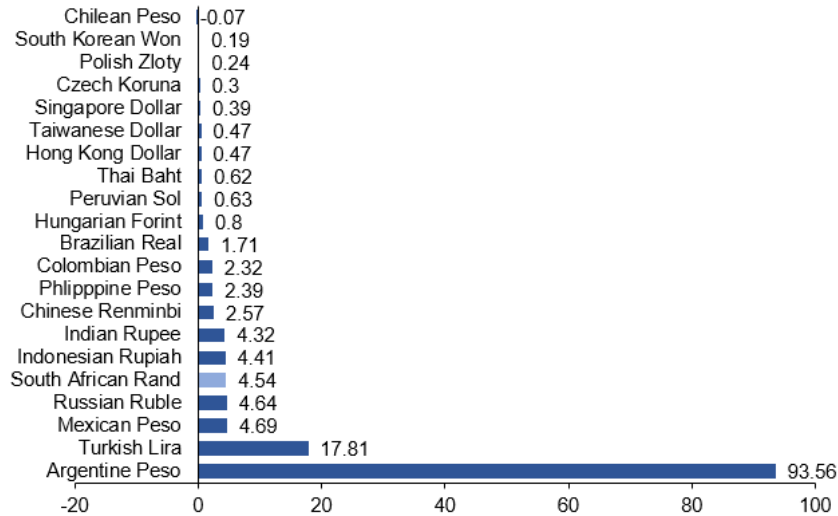
Please scroll down to the second section below



SA Economics

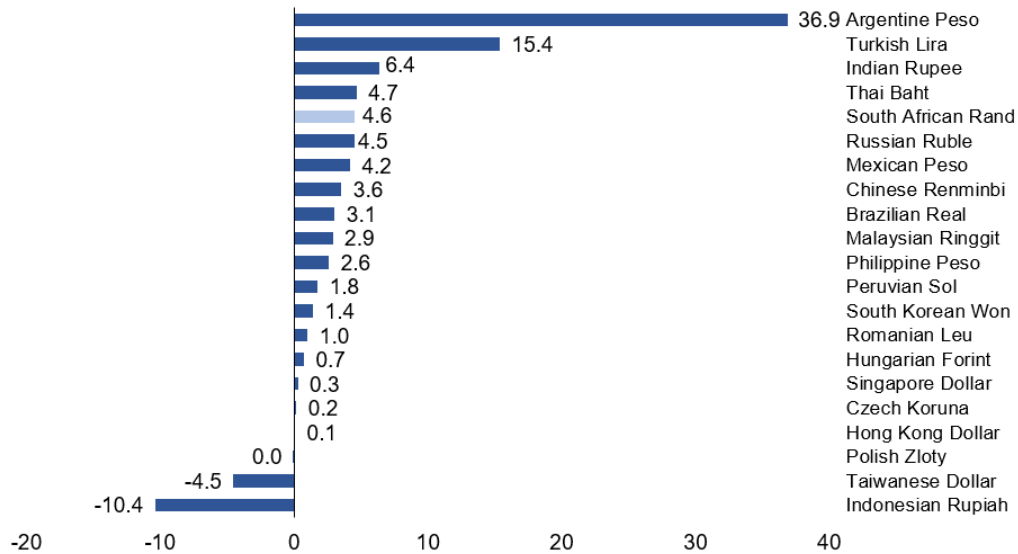


Emerging Markets Interest Return – values as at 19th April 2021 vs. 20th April 2020



Source: Bloomberg

Emerging Markets Implied Rates – values as at 19th April 2021

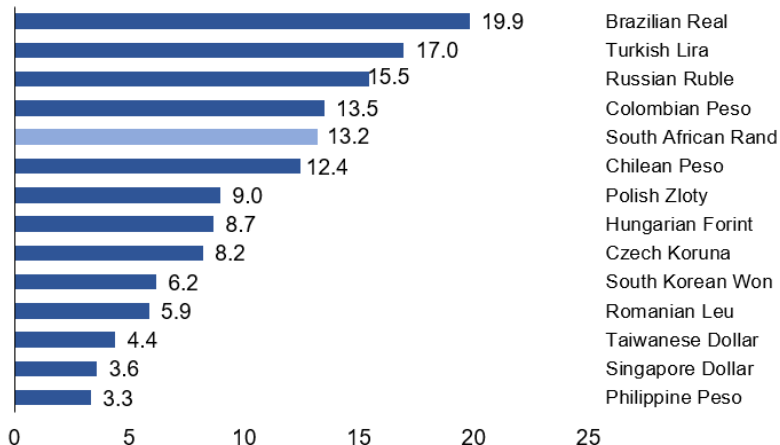


Source: Bloomberg

SA Economics

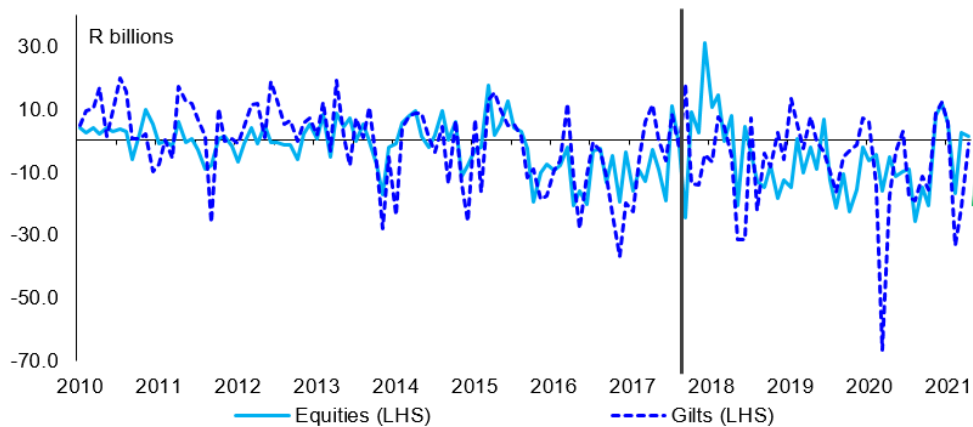


Emerging Markets Implied Volatilities – values as at 19th April 2021



Source: Bloomberg

Volatile non-resident portfolio net purchases (+)/ sales (-) vs USD/ZAR (monthly averages)



Source: Iress, Investec

- The heightened instability in Turkey's political and governance environment also sparked a differentiation in the rand a few weeks back, allowing the domestic currency to come to the fore as a leader in the EM currency pack.
- The sharp elevation in commodity prices have also benefited the domestic currency, which is both an EM and commodity currency, with the run in commodity prices not yet expected to be over as global markets anticipate ongoing marked global economic recovery.
- While it is key to note that the markets' strong risk taking behaviour will not last, and the domestic currency is not strengthening on fundamentals, benefiting from market sentiment and so remains at risk of weakness, April looks like it could average closer to R14.50/USD.

SA Economics



- That is, while the rand has been forecast to average R15.30/USD for April, with an outcome of closer to R14.50/USD for this month possible instead, the second quarter of this year could average below, as opposed to above, R15.00/USD.
- Furthermore, the traditional sell-in-May and-go-away phenomena, which typically weakens EM currencies each year and often starts in April, could be replaced this year by buy-in-May and-stay-at-home as Covid continues to keep many investors at home.
- That is, the Northern Hemisphere summer, which traditionally sees market investors take time off to travel on vacation, and so park investment in less risky assets, is limited this year in terms of travel destinations by lockdown restrictions.
- Global financial market players in the Northern Hemisphere may this year instead choose to continue to seek risk/return gains over Q2.21, and even Q3.21, causing the domestic currency to run stronger, although at some point it will then correct.
- Both materially higher inflation and credit ratings downgrades remain risks for the rand in May, and these are still expected to limit the domestic currency's gains in that month. While the rating agencies may choose not to downgrade SA in May, the risk remains.
- A 1% lift in SA's inflation rate in April – but published in May, is one of the key risks for the rand domestically, with only at most a 25bp hike in the repo rate expected. The domestic currency continues to refuse to remain still, and will instead remain volatile in either direction.

SA Economics



Economic Scenarios: updated for Q2.21

| | | Q1.21 | Q2.21 | Q3.21 | Q4.21 | Q1.22 | Q2.22 | Q3.22 | Q4.22 |
|---|--|-------|-------|-------|-------|-------|-------|-------|-------|
| Extreme Up case 1% | USD/Rand (average) | 14.96 | 14.40 | 13.80 | 13.50 | 13.10 | 12.90 | 12.70 | 12.50 |
| | Repo rate (end rate) | 3.50 | 3.00 | 3.00 | 3.00 | 3.00 | 3.25 | 3.25 | 3.25 |
| | Impact of Covid-19 pandemic very rapidly resolved - economic growth of 3-5%, then 5-7% for SA. Good governance, growth-creating reforms (structural constraints overcome), strengthening of property rights - individuals obtain title deeds in EWC – no nationalisation. High business confidence and fixed investment growth, substantial FDI inflows, strong fiscal consolidation (government debt falls back to low ratios of 2000s). Strong global growth, commodity boom. Stabilisation of credit ratings, then credit rating upgrades. | | | | | | | | |
| Up case 2% | USD/Rand (average) | 14.96 | 14.71 | 14.50 | 14.00 | 13.50 | 14.00 | 14.50 | 13.50 |
| | Repo rate (end rate) | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 |
| | Quick rebound from Covid-19 pandemic, rising confidence and investment levels - structural problems worked down. No further credit rating downgrades, rating outlooks move to stable and eventually positive, strong fiscal consolidation (government debt projections fall substantially). Global risk-on, global demand quickly returns to trend growth. Limited impact of expropriation (without compensation) to abandoned, unused, labour tenants' and government land (individuals are new owners and receive title deeds) does not have a negative effect on economy - no nationalisation. | | | | | | | | |
| Base case 48% | USD/Rand (average) | 14.96 | 15.30 | 15.50 | 15.20 | 15.30 | 15.70 | 15.90 | 15.60 |
| | Repo rate (end rate) | 3.50 | 3.50 | 3.50 | 3.75 | 3.75 | 4.00 | 4.50 | 4.50 |
| | Recovery from the sharp global economic slowdown by 2024 in real terms– sufficient global and domestic monetary and other policy supports to growth and financial markets occur and risk sentiment stabilises then improves. Expropriation of private sector property is limited and does not have a negative impact on the economy or on market sentiment. SA remains in the BB category rating bracket for Moody's – fiscal consolidation (debt to GDP stabilisation) occurs. | | | | | | | | |
| Lite (domestic) Down case 44% | USD/Rand (average) | 14.96 | 15.50 | 16.25 | 16.60 | 16.70 | 17.00 | 17.50 | 17.00 |
| | Repo rate (end rate) | 3.50 | 3.75 | 3.75 | 3.75 | 4.00 | 4.00 | 4.25 | 4.75 |
| | The international environment (including risk sentiment) is that of the base case. South Africa fails to see its debt projections stabilise and falls into single B credit ratings from all three agencies for local and foreign currency. Recession occurs. Expropriation of some private commercial sector property without compensation, with some negative impact on the economy. Business confidence depressed, rand weakness, significant load shedding and weak investment growth. Substantial fiscal consolidation ultimately occurs, preventing ratings falling into the C grades. | | | | | | | | |
| Severe down case 5% | USD/Rand (average) | 14.96 | 16.00 | 16.50 | 17.00 | 17.50 | 18.00 | 18.50 | 19.00 |
| | Repo rate (end rate) | 3.50 | 4.00 | 4.00 | 4.00 | 4.50 | 4.50 | 4.50 | 5.00 |
| | Lengthy global recession, global financial crisis – insufficient monetary and other policy supports to growth domestically and internationally. Depression in SA, unprecedented rand weakness. Nationalisation of private sector property (title deeds not transferred to individuals). SA rated single B from all three key agencies, with further rating downgrades eventually occurring into CCC grade and lower to D (default) as government finances deteriorate (debt projections elevate even further - fail to ever stabilise. Government borrows from increasingly wider sources as it sinks deeper into a debt trap), eventually include widespread services load shedding, strike action and civil unrest. | | | | | | | | |

Note: Event risk begins Q2.21. Source: Investec

SA Economics



| Up Case: Exchange Rate forecasts | | | | | | | | | | | | |
|----------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | 2021 | | | | 2022 | | | | 2023 | | | |
| | Q1.21 | Q2.21 | Q3.21 | Q4.21 | Q1.22 | Q2.22 | Q3.22 | Q4.22 | Q1.23 | Q2.23 | Q3.23 | Q4.23 |
| USD/ZAR | 14.96 | 14.71 | 14.50 | 14.00 | 13.50 | 14.00 | 14.50 | 13.50 | 13.30 | 13.70 | 14.10 | 13.60 |
| GBP/ZAR | 20.50 | 20.15 | 19.87 | 19.46 | 19.17 | 20.02 | 21.03 | 19.31 | 18.89 | 19.32 | 19.74 | 19.04 |
| EUR/ZAR | 18.13 | 17.65 | 17.55 | 17.29 | 16.94 | 17.64 | 18.42 | 17.01 | 16.63 | 17.13 | 17.63 | 17.00 |
| ZAR/JPY | 6.96 | 7.14 | 7.24 | 7.46 | 7.70 | 7.43 | 7.24 | 7.78 | 7.97 | 7.74 | 7.52 | 7.79 |
| CHFZAR | 16.71 | 16.12 | 15.88 | 15.51 | 14.95 | 15.56 | 16.15 | 14.84 | 14.30 | 14.42 | 14.54 | 13.60 |
| AUDZAR | 11.53 | 11.33 | 11.24 | 10.92 | 10.67 | 11.06 | 11.31 | 10.26 | 9.98 | 10.28 | 10.58 | 10.20 |
| GBP/USD | 1.37 | 1.37 | 1.37 | 1.39 | 1.42 | 1.43 | 1.44 | 1.43 | 1.42 | 1.42 | 1.42 | 1.42 |
| EUR/USD | 1.21 | 1.20 | 1.21 | 1.24 | 1.26 | 1.26 | 1.27 | 1.26 | 1.25 | 1.25 | 1.25 | 1.25 |
| USD/JPY | 106 | 105 | 105 | 105 | 104 | 104 | 105 | 105 | 106 | 106 | 106 | 106 |

Note averages, Source: Investec, Iress

| Lite Down Case: Exchange Rate forecasts | | | | | | | | | | | | |
|---|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | 2021 | | | | 2022 | | | | 2023 | | | |
| | Q1.21 | Q2.21 | Q3.21 | Q4.21 | Q1.22 | Q2.22 | Q3.22 | Q4.22 | Q1.23 | Q2.23 | Q3.23 | Q4.23 |
| USD/ZAR | 14.96 | 15.50 | 16.25 | 16.60 | 16.70 | 17.00 | 17.50 | 17.00 | 16.80 | 17.20 | 17.60 | 17.10 |
| GBP/ZAR | 20.50 | 21.23 | 22.26 | 23.07 | 23.71 | 24.31 | 25.38 | 24.31 | 23.86 | 24.25 | 24.64 | 23.94 |
| EUR/ZAR | 18.13 | 18.60 | 19.66 | 20.50 | 20.96 | 21.42 | 22.23 | 21.42 | 21.00 | 21.50 | 22.00 | 21.38 |
| ZAR/JPY | 6.96 | 6.77 | 6.46 | 6.30 | 6.23 | 6.12 | 6.00 | 6.18 | 6.31 | 6.16 | 6.02 | 6.20 |
| CHFZAR | 16.71 | 16.99 | 17.79 | 18.39 | 18.50 | 18.89 | 19.50 | 18.68 | 18.06 | 18.11 | 18.14 | 17.10 |
| AUDZAR | 11.53 | 11.94 | 12.59 | 12.95 | 13.19 | 13.43 | 13.65 | 12.92 | 12.60 | 12.90 | 13.20 | 12.83 |
| GBP/USD | 1.37 | 1.37 | 1.37 | 1.39 | 1.42 | 1.43 | 1.44 | 1.43 | 1.42 | 1.42 | 1.42 | 1.42 |
| EUR/USD | 1.21 | 1.20 | 1.21 | 1.24 | 1.26 | 1.26 | 1.27 | 1.26 | 1.25 | 1.25 | 1.25 | 1.25 |
| USD/JPY | 106 | 105 | 105 | 105 | 104 | 104 | 105 | 105 | 106 | 106 | 106 | 106 |

Note: averages, Source: Investec, Iress

| Severe Down Case: Exchange Rate forecasts | | | | | | | | | | | | |
|---|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | 2021 | | | | 2022 | | | | 2023 | | | |
| | Q1.21 | Q2.21 | Q3.21 | Q4.21 | Q1.22 | Q2.22 | Q3.22 | Q4.22 | Q1.23 | Q2.23 | Q3.23 | Q4.23 |
| USD/ZAR | 14.96 | 16.00 | 16.50 | 17.00 | 17.50 | 18.00 | 18.50 | 19.00 | 18.80 | 19.20 | 19.60 | 19.10 |
| GBP/ZAR | 20.50 | 21.92 | 22.61 | 23.63 | 24.85 | 25.74 | 26.64 | 27.17 | 26.70 | 27.26 | 27.83 | 27.12 |
| EUR/ZAR | 18.13 | 19.20 | 19.97 | 21.00 | 21.96 | 22.68 | 23.50 | 23.94 | 23.50 | 24.00 | 24.50 | 23.88 |
| ZAR/JPY | 7.09 | 6.56 | 6.36 | 6.15 | 5.94 | 5.78 | 5.68 | 5.53 | 5.64 | 5.52 | 5.41 | 5.55 |
| CHFZAR | 16.44 | 17.53 | 18.07 | 18.83 | 19.38 | 20.00 | 20.61 | 20.88 | 20.43 | 20.65 | 20.85 | 20.11 |
| AUDZAR | 11.53 | 12.32 | 12.79 | 13.26 | 13.65 | 14.04 | 14.25 | 14.44 | 14.10 | 14.40 | 14.70 | 14.33 |
| GBP/USD | 1.37 | 1.37 | 1.37 | 1.39 | 1.42 | 1.43 | 1.44 | 1.43 | 1.42 | 1.42 | 1.42 | 1.42 |
| EUR/USD | 1.21 | 1.20 | 1.21 | 1.24 | 1.26 | 1.26 | 1.27 | 1.26 | 1.25 | 1.25 | 1.25 | 1.25 |
| USD/JPY | 106 | 105 | 105 | 105 | 104 | 104 | 105 | 105 | 106 | 106 | 106 | 106 |

Note: averages, Source: Investec, Iress

SA Economics



| Extreme Up Case: Exchange Rate forecasts | | | | | | | | | | | | |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | 2021 | | | | 2022 | | | | 2023 | | | |
| | Q1.21 | Q2.21 | Q3.21 | Q4.21 | Q1.22 | Q2.22 | Q3.22 | Q4.22 | Q1.23 | Q2.23 | Q3.23 | Q4.23 |
| USD/ZAR | 14.96 | 14.40 | 13.80 | 13.50 | 13.10 | 12.90 | 12.70 | 12.50 | 12.30 | 12.70 | 13.10 | 12.60 |
| GBP/ZAR | 20.50 | 19.73 | 18.91 | 18.77 | 18.60 | 18.45 | 18.42 | 17.88 | 17.47 | 17.91 | 18.34 | 17.64 |
| EUR/ZAR | 18.13 | 17.28 | 16.70 | 16.67 | 16.44 | 16.25 | 16.13 | 15.75 | 15.38 | 15.88 | 16.38 | 15.75 |
| ZAR/JPY | 6.96 | 7.29 | 7.61 | 7.74 | 7.94 | 8.06 | 8.27 | 8.40 | 8.62 | 8.35 | 8.09 | 8.41 |
| CHF/ZAR | 16.71 | 15.78 | 15.11 | 14.95 | 14.51 | 14.33 | 14.15 | 13.74 | 13.23 | 13.37 | 13.51 | 12.60 |
| AUD/ZAR | 11.53 | 11.09 | 10.70 | 10.53 | 10.35 | 10.19 | 9.91 | 9.50 | 9.23 | 9.53 | 9.83 | 9.45 |
| GBP/USD | 1.37 | 1.37 | 1.37 | 1.39 | 1.42 | 1.43 | 1.44 | 1.43 | 1.42 | 1.42 | 1.42 | 1.42 |
| EUR/USD | 1.21 | 1.20 | 1.21 | 1.24 | 1.26 | 1.26 | 1.27 | 1.26 | 1.25 | 1.25 | 1.25 | 1.25 |
| USD/JPY | 106 | 105 | 105 | 105 | 104 | 104 | 105 | 105 | 106 | 106 | 106 | 106 |

Note: averages, Source: Investec, Iress