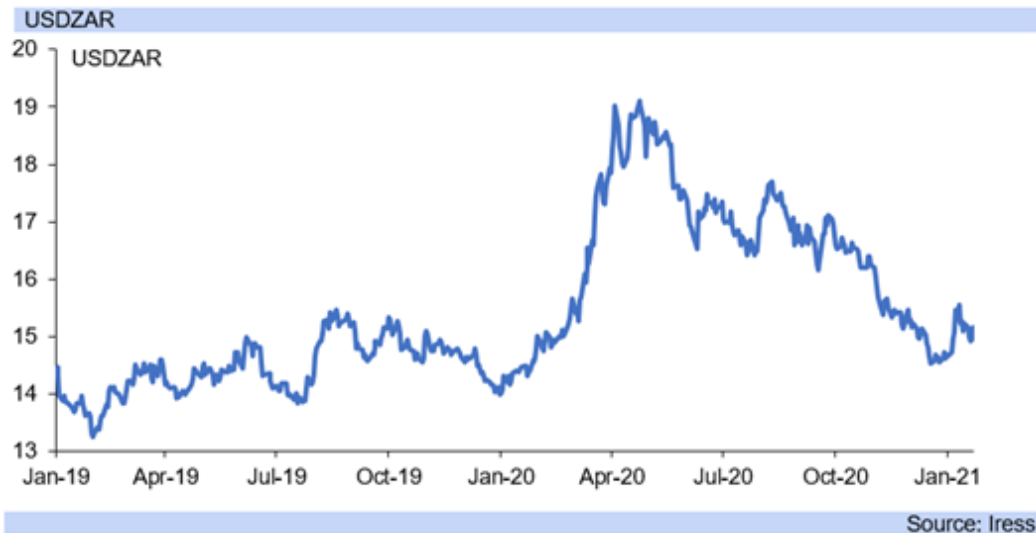
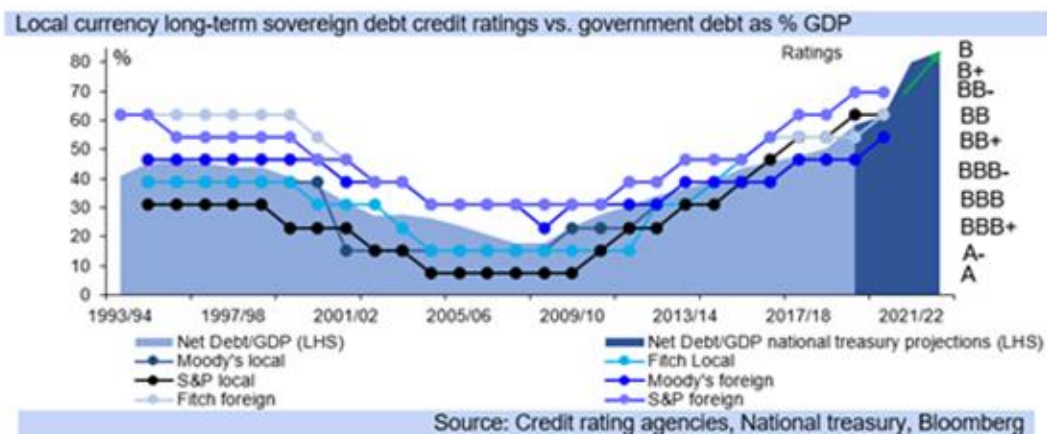


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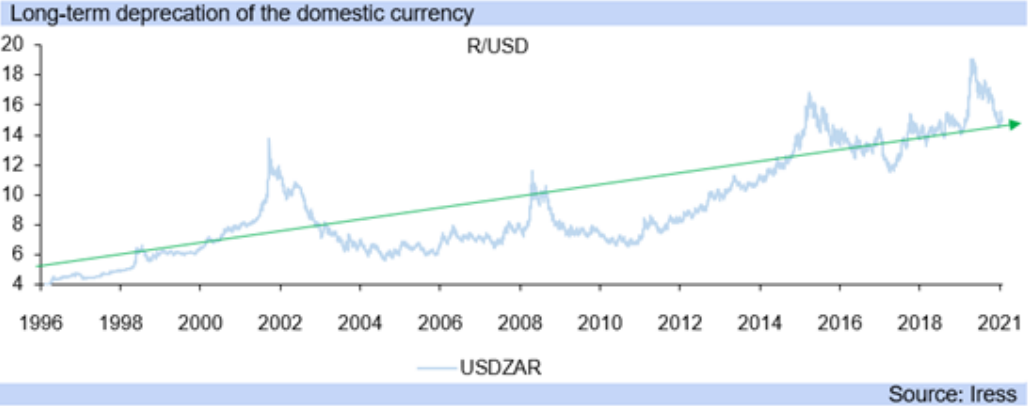
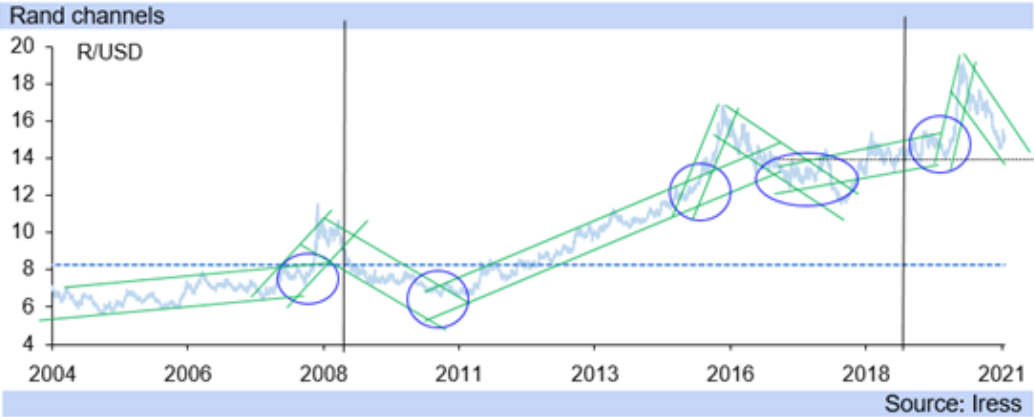


Monday 25 January 2021

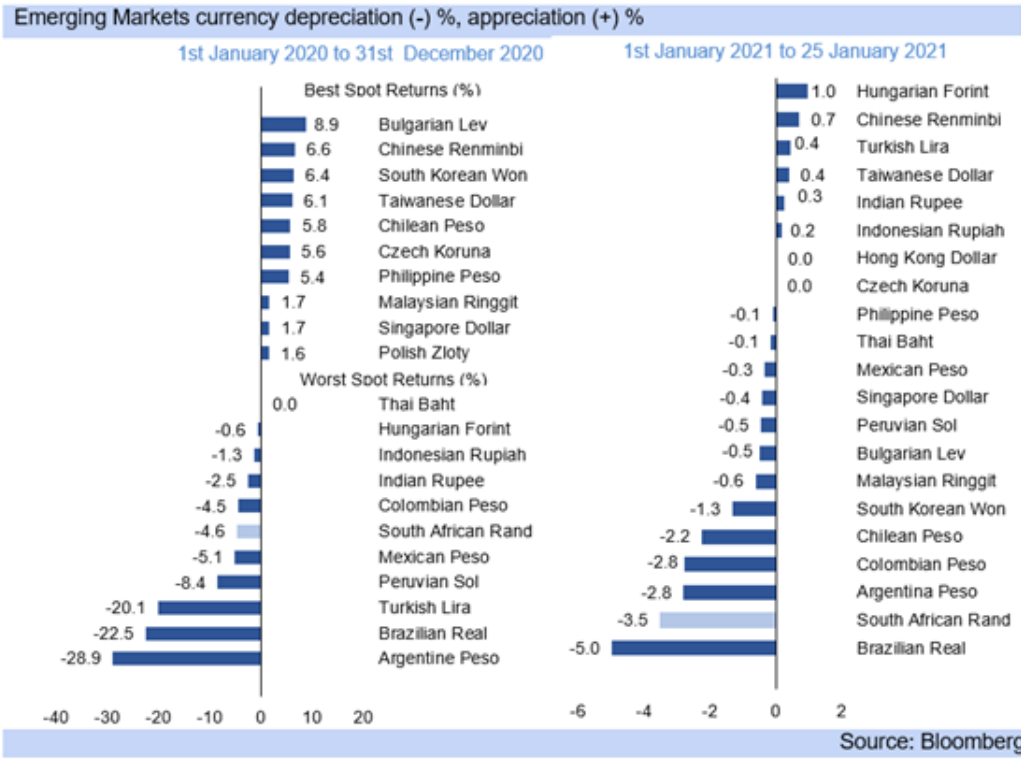
Rand note: the rand continues to stay mainly above R15.00/USD so far this month, despite market risk-on, as SA's high debt trajectory and path to single B credit ratings maintains pressure on the domestic currency



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- The rand currently averages R15.11/USD so far in January 2021, closer to R15.00/USD than the average of R15.14/USD a week ago, with our forecast for Q1.21 remaining an average of R15.00/USD. Q2.21 will likely average R15.40/USD or worse as SA is downgraded.
- The rand is the second worst performing emerging market currency today since the start of this year out of Bloomberg’s ranking of EM currencies, and remains in the worst quartile, with the Argentine, Columbian and Chilean Peso and Brazilian Real.
- Friday saw depreciation in the rand, as it weakened to R15.16/USD from R14.76/USD the day before, with markets also worried around the longevity of monetary policy support measures in the US, and the domestic currency is set to remain volatile.
- Today the rand weakened to R15.27/USD, after beginning the year at R14.66/USD, while other EM currencies have seen less weakness from the start of this year. That is, the vast majority of EM currencies are fairly flat since the year started (excluding the worst quartile).
- Fitch’s negative outlook warns of further downgrades for SA (Fitch and S&P BB-, Moody’s BB), with Brazil at BB- also one of South Africa’s (Fitch designated) rating peers, along with Turkey, Uzbekistan, Guatemala, Bangladesh, the Hashemite Kingdom of Jordan and Oman.

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- Fitch said at the end of last year that South Africa's "downgrade and Negative Outlook reflect high and rising government debt, exacerbated by the economic shock triggered by the COVID-19 pandemic".
- Fitch added at the start of this year that "South Africa's widening fiscal deficit will weigh on the currency capping potential gains". Moody's also has a negative outlook on SA, which means the next credit rating move from Moody's and Fitch will be a downgrade.
- Moody's next country review is likely around the end of this quarter, and this could see SA drop to ba3 (BB-) at that time, and while Fitch does not give a date for its review, it is normally around the same time with the negative outlook from Fitch signalling a downgrade to B+.
- SA could fall into the single B credit rating category from Fitch as early as the end of March, and S&P also has SA on BB-, with the next rung down B+. S&P's country review is also likely after February's 2021 Budget, and SA's government has indicated possible further borrowing.

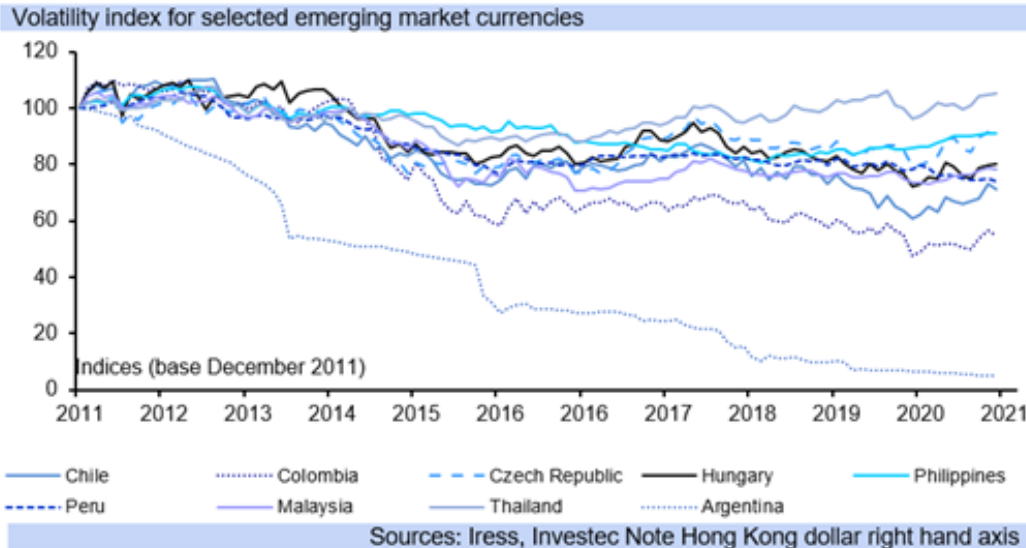
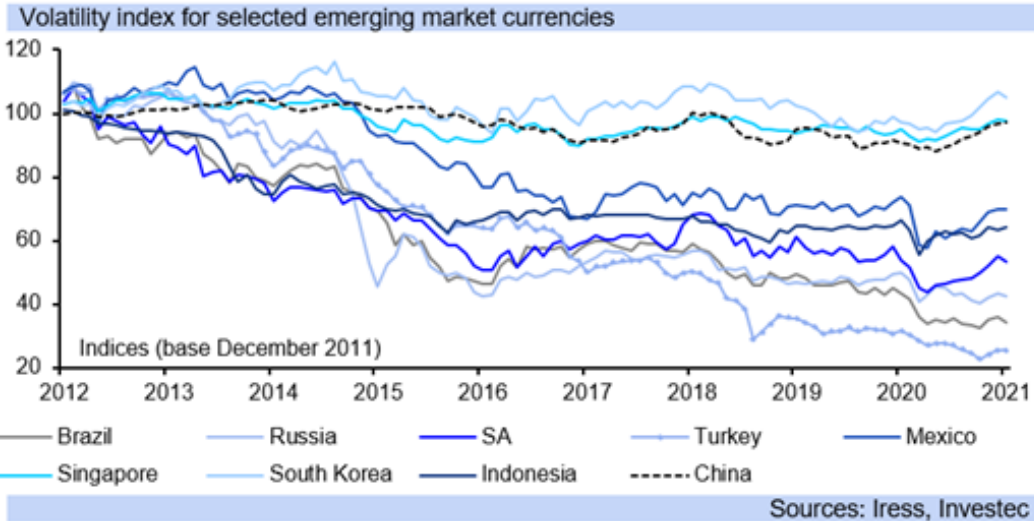
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Rating tier definitions							
Moody's		S&P		Fitch		Equivalent to SVO Designations NAIC	Rating description
Long-term	Short-term	Long-term	Short-term	Long-term	Short-term		
Aaa		AAA		AAA			Prime
Aa1		AA+		AA+			
Aa2		AA	A-1	AA	F1+		High grade
	P-1					1	
A1		A+		A+			
A2		A	A-1	A	F1		Upper medium grade
A3		A-		A-			Investment-grade
Baa1	P-2	BBB+	A-2	BBB+	F2		
Baa2	P-3	BBB		BBB		2	Lower medium grade
Baa3		BBB-	A-3	BBB-	F3		
Ba1		BB+		BB+			
Ba2		BB		BB		3	Non-investment grade speculative
Ba3		BB-		BB-			
B1		B+	B	B+	B		
B2		B		B		4	Highly speculative
B3		B-		B-			
Caa1	Not prime	CCC+					Substantial risks
Caa2		CCC				5	Extremely speculative
Caa3		CCC-	C	CCC	C		Non-investment grade AKA high-yield bonds AKA junk bonds
Ca		CC					Default imminent with little prospect for recover
		C					
C				DDD		6	
/		D	/	DD	/		In default
				D			

Source: Wikipedia

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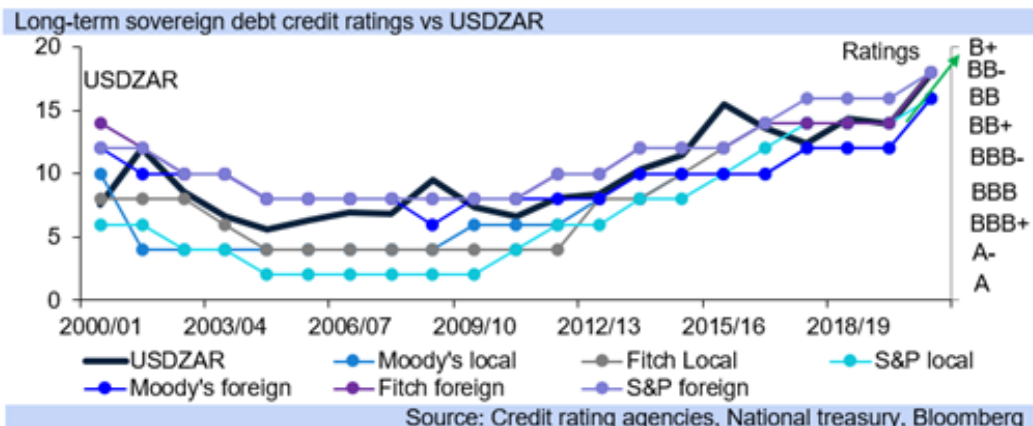


SA Economics



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	15.00	15.40	15.50	15.20	15.30	15.70	15.90	15.60	15.40	15.80	16.20	15.70
GBP/ZAR	20.20	20.79	21.24	21.13	21.65	21.51	21.78	21.53	21.25	21.96	22.68	21.98
EUR/ZAR	18.03	18.33	18.76	18.77	19.13	19.15	18.76	18.25	18.17	18.80	19.44	19.00
ZAR/JPY	7.04	6.98	6.84	6.88	6.80	6.69	6.60	6.73	6.88	6.71	6.54	6.75
CHF/ZAR	16.61	16.74	16.97	16.84	16.85	15.70	15.90	15.60	15.40	15.80	16.20	15.70
AUD/ZAR	11.26	11.24	11.39	11.25	11.40	10.99	11.29	11.08	10.93	11.38	11.66	11.78
GBP/USD	1.35	1.35	1.37	1.39	1.41	1.37	1.37	1.38	1.38	1.39	1.40	1.40
EUR/USD	1.20	1.19	1.21	1.24	1.25	1.22	1.18	1.17	1.18	1.19	1.20	1.21
USD/JPY	106	108	106	105	104	105	105	105	106	106	106	106

Note: averages, Source: Investec, Iress



- In particular Fitch says it has “29 EM sovereigns on a Negative Outlook at the beginning of 2021, up from 13 at end-2019, signalling that further downgrades are likely this year. In 2020, there were 45 downgrades of Fitch-rated sovereigns (across 27 different entities)”.
- More chilling is the addition that “(a) record five Fitch-rated sovereigns defaulted in 2020, and 11 are rated below 'B-', another record”. SA is one of the EM countries on a negative outlook and likely to see a downgrade this year into Fitch’s single B category.
- This report from Fitch specifically covers the countries “China, India, Malaysia, Sri Lanka, the UAE, Iraq, South Africa, Turkey, Russia, the impact of Next Generation EU on CEE sovereigns, Peru, Ecuador and low-rated sovereigns in central America”.
- Fitch specifies that “(t)he main factors that could, individually or collectively, lead to negative rating action/downgrade: A continued rise in government debt/GDP and failure to formulate a clear and credible path towards stabilising the government debt/GDP ratio.”
- And “(p)ersistent weak trend GDP growth rate that further undermines fiscal consolidation efforts and raises socioeconomic pressures in the face of exceptional inequality”, but expects “2.3% in 2021, reflecting base effects and the roll-out of Covid-19 vaccines” from H2.21.

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- Fitch also worries about a “(r)ising risk of a de-stabilising large net capital outflow that triggers sharp exchange rate depreciation, higher inflation and interest rates”, and with global financial market sentiment in risk-on, a switch to risk-off or extreme risk off would likely see outflows.
- “If these risks were to materialise, the rise in the government debt burden would become increasingly difficult to slow down let alone reverse.” Already government has indicated that it will fund the vaccines from borrowings as they are a “public good”.
- On the plus side Fitch notes “South Africa has made some progress with reforms, notably in terms of tackling corruption and improving governance, and fiscal consolidation efforts will require efforts to tackle the public-sector wage bill.”
- However, the agency still has SA on a negative outlook, indicating that the next move is a downgrade, and this risk of falling into the single B category continues to limit the rand’s gains, keeping it amongst the worst performing EM currencies.

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Economic Scenarios: historical updates included		Q1.21	Q2.21	Q3.21	Q4.21	Q1.22	Q2.22	Q3.22	Q4.22
Extreme Up case 1%	USD/Rand (average)	14.00	13.50	13.00	12.50	12.00	11.50	11.00	10.90
	Repo rate (end rate)	3.00	3.00	3.00	3.00	3.00	3.3	3.5	3.50
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 1%	USD/Rand (average)	14.50	14.00	13.50	13.00	12.50	12.40	12.50	12.60
	Repo rate (end rate)	3.25	3.50	3.50	3.50	3.75	4.00	4.00	4.00
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 44%	USD/Rand (average)	15.00	15.40	15.50	15.20	15.30	15.70	15.90	15.60
	Repo rate (end rate)	3.5	3.75	3.75	4.00	4.00	4.25	4.50	4.50
Recovery from the sharp global economic slowdown - sufficient global and domestic monetary and other policy supports to growth and financial markets occur and risk sentiment stabilises then improves. South Africa exits recession in Q3.20. 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)	16.30	16.80	17.00	17.50	18.00	18.50	18.50	19.00
	Repo rate (end rate)	4.00	4.00	4.25	4.25	4.5	4.75	4.75	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. More severe recession in SA than in the expected case. Expropriation of some private commercial sector property without compensation, with some small 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 CCC grade.									
Severe down case 10%	USD/Rand (average)	16.50	17.00	17.50	18.00	18.50	19.00	19.50	20.00
	Repo rate (end rate)	4.25	4.25	4.75	4.75	5.00	5.00	5.50	5.50
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 Q1.21. Source: Investec

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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	16.30	16.80	17.00	17.50	18.00	18.50	18.50	19.00	19.20	19.00	18.50	19.00
GBP/ZAR	21.96	22.68	23.29	24.33	25.47	25.35	25.35	26.22	26.50	26.41	25.90	26.60
EUR/ZAR	19.59	19.99	20.57	21.61	22.50	22.57	21.83	22.23	22.66	22.61	22.20	22.99
ZAR/JPY	6.48	6.40	6.24	5.97	5.78	5.68	5.68	5.53	5.52	5.58	5.73	5.58
CHFZAR	18.05	18.26	18.62	19.38	19.82	18.50	18.50	19.00	19.20	19.00	18.50	19.00
AUDZAR	12.24	12.26	12.50	12.95	13.41	12.95	13.14	13.49	13.63	13.68	13.32	14.25
GBP/USD	1.35	1.35	1.37	1.39	1.41	1.37	1.37	1.38	1.38	1.39	1.40	1.40
EUR/USD	1.20	1.19	1.21	1.24	1.25	1.22	1.18	1.17	1.18	1.19	1.20	1.21
USD/JPY	106	108	106	105	104	105	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	16.50	17.00	17.50	18.00	18.50	19.00	19.50	20.00	20.00	20.50	20.50	21.00
GBP/ZAR	22.23	22.95	23.98	25.02	26.17	26.03	26.72	27.60	27.60	28.50	28.70	29.40
EUR/ZAR	19.83	20.23	21.18	22.23	23.13	23.18	23.01	23.40	23.60	24.40	24.60	25.41
ZAR/JPY	6.40	6.32	6.06	5.81	5.62	5.53	5.38	5.25	5.30	5.17	5.17	5.05
CHFZAR	18.28	18.47	19.16	19.94	20.37	19.00	19.50	20.00	20.00	20.50	20.50	21.00
AUDZAR	12.39	12.41	12.86	13.32	13.78	13.30	13.85	14.20	14.20	14.76	14.76	15.75
GBP/USD	1.35	1.35	1.37	1.39	1.41	1.37	1.37	1.38	1.38	1.39	1.40	1.40
EUR/USD	1.20	1.19	1.21	1.24	1.25	1.22	1.18	1.17	1.18	1.19	1.20	1.21
USD/JPY	106	108	106	105	104	105	105	105	106	106	106	106

Note: averages, Source: Investec, Iress

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	14.50	14.00	13.50	13.00	12.50	12.40	12.50	12.60	12.45	12.10	12.30	12.70
GBP/ZAR	19.53	18.90	18.50	18.07	17.69	16.99	17.13	17.39	17.18	16.82	17.22	17.78
EUR/ZAR	17.43	16.66	16.34	16.06	15.63	15.13	14.75	14.74	14.69	14.40	14.76	15.37
ZAR/JPY	7.28	7.68	7.85	8.04	8.32	8.47	8.40	8.33	8.51	8.76	8.62	8.35
CHFZAR	16.06	15.21	14.78	14.40	13.77	12.40	12.50	12.60	12.45	12.10	12.30	12.70
AUDZAR	10.89	10.22	9.92	9.62	9.31	8.68	8.88	8.95	8.84	8.71	8.86	9.53
GBP/USD	1.35	1.35	1.37	1.39	1.41	1.37	1.37	1.38	1.38	1.39	1.40	1.40
EUR/USD	1.20	1.19	1.21	1.24	1.25	1.22	1.18	1.17	1.18	1.19	1.20	1.21
USD/JPY	106	108	106	105	104	105	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	14.00	13.50	13.00	12.50	12.00	11.50	11.00	10.90	10.60	10.65	10.60	10.65
GBP/ZAR	18.86	18.23	17.81	17.38	16.98	15.76	15.07	15.04	14.63	14.80	14.84	14.91
EUR/ZAR	16.83	16.07	15.73	15.44	15.00	14.03	12.98	12.75	12.51	12.67	12.72	12.89
ZAR/JPY	7.54	7.96	8.15	8.36	8.67	9.13	9.55	9.63	10.00	9.95	10.00	9.95
CHFZAR	15.51	14.67	14.24	13.85	13.22	11.50	11.00	10.90	10.60	10.65	10.60	10.65
AUDZAR	10.51	9.86	9.56	9.25	8.94	8.05	7.81	7.74	7.53	7.67	7.63	7.99
GBP/USD	1.35	1.35	1.37	1.39	1.41	1.37	1.37	1.38	1.38	1.39	1.40	1.40
EUR/USD	1.20	1.19	1.21	1.24	1.25	1.22	1.18	1.17	1.18	1.19	1.20	1.21
USD/JPY	106	108	106	105	104	105	105	105	106	106	106	106

Note: averages, Source: Investec, Iress