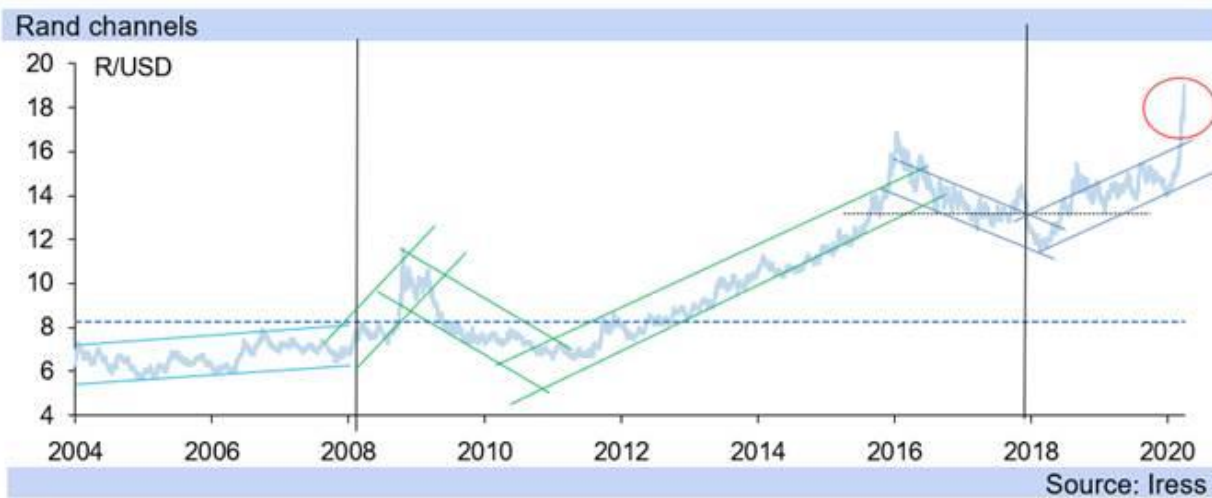


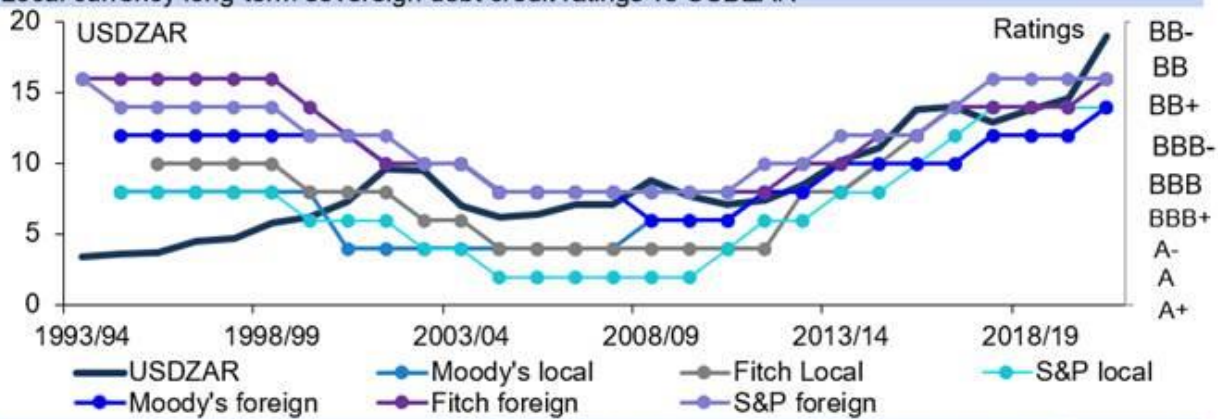
Rand Note

Monday 6 April 2020

South Africa's fall down the credit rating ladder weakened the rand, with the latest downgrade from Fitch at BB negative seeing the rand slide to R19.35/USD, then recovering somewhat this afternoon



Local currency long-term sovereign debt credit ratings vs USDZAR



Source: Credit rating agencies, National treasury, Bloomberg

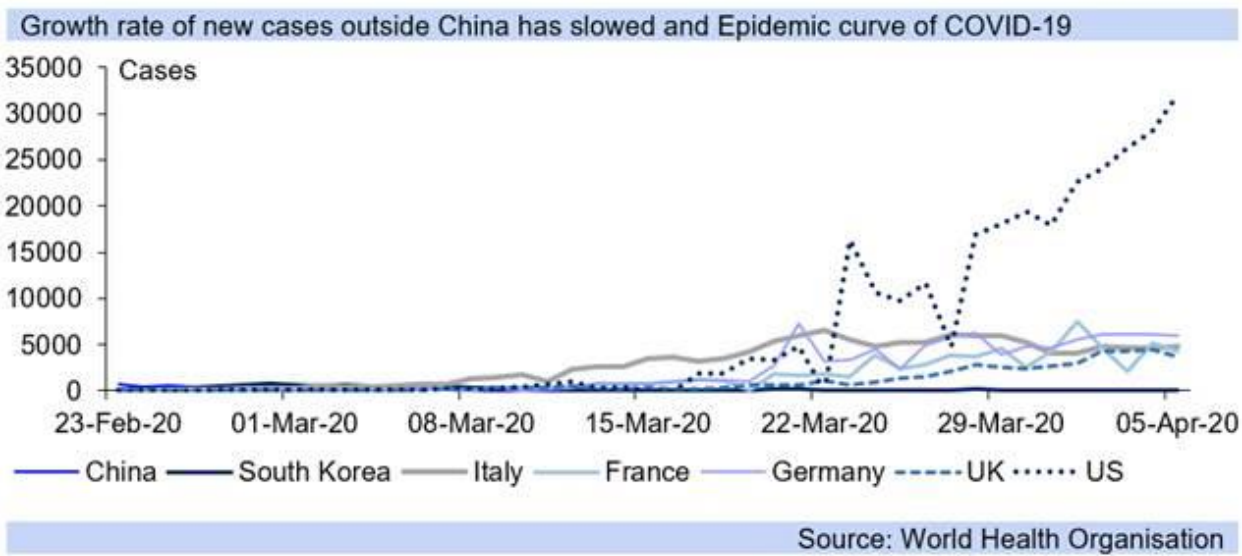
- After reaching R19.35/USD early this morning in thin trade, the rand pulled back briefly below R19.00/USD, then moved back towards R19.10/USD later in the morning (R23.46/GBP and R20.62/EUR) as the downgrade from Fitch saw increased risk aversion to South African financial market assets, in contrast to those of other emerging markets.
- Most emerging market currencies were stronger or flat against the USD this morning versus Friday, with the exception of the Turkish Lira, the rand, the Malaysian Ringgit and the Mexican Peso. Some measure of risk appetite later returned to global financial markets as the US indicated that its Covid-19 outbreak could hopefully be levelling off.
- Specifically, President Trump is reported as saying “we hope we're seeing a levelling off in the hottest spots of them all” and the US State department’s immunologist that: Italy and Spain have “crossed the apex” of their outbreaks (both Bloomberg), with some market players evincing some optimism.
- Firmer indications that the Covid-19 curve is flattening in the US in particular would reduce global risk sentiment more substantially, and aid economic forecasts to become clearer. However, reducing market risk aversion very substantially is needed for some recovery of the rand as it has the additional hurdle of a deteriorated ratings outlook now.
- Indeed, the rand has seen substantial, additional depreciation over and above that of a number of other emerging market currencies due to its downgrades from Moody’s and Fitch in the heat of the 2020 Covid-19 induced financial turmoil, and sharp loss in value of many assets. The volatility of the domestic currency has increased noticeably.
- Fitch’s key rating drivers for South Africa’s downgrade include the impact of Covid-19 on government finances and economic growth, and lack of a clear plan for the stabilisation of South Africa’s borrowing trajectory, which remains on an upwards path. That is, the planned level of government borrowings continues to rise, as opposed to stabilising, or falling.
- Such has been the escalation of South Africa’ projected government debt over the past decade and this year, that the three key rating agencies (Fitch, Moody’s and S&P) have repeatedly downgraded SA’s credit ratings. Even at sub-investment grade, the rating agencies have increasing doubts (negative outlooks) over the ability of SA to repay its debt.
- The rating agencies recognised resilience of South Africa’s sovereign debt to global shocks (Fitch defines this as South Africa’s low foreign currency debt as a % of total debt and its long average maturity of government debt) was seen as insufficient to provide enough of a counterbalance to avoid a downgrade.

- Fitch's negative outlook on South Africa's credit ratings signals that it will downgrade SA's ratings further without any planned realistic lowering of SA's projected debt trajectory. Instead it sees "the prospect of further significant upside pressure on government debt and additional downside risks associated with the global shock".

Situation in numbers (total and new cases in last 24 hours for 5th April)

Reporting regions	Confirmed	Total confirmed new cases	Total Deaths	Total new deaths
Globally	1 133 758	82 061	62 784	5 798
Western Pacific Region	111 396	1 034	3 838	29
European Region	621 407	38 266	46 416	4 082
South-East Asia	7 816	1 288	302	35
Eastern Mediterranean Region	70 293	4 328	3 794	201
Regions of the Americas	315 714	36 171	8 187	1 385
African Region	6 420	974	236	66

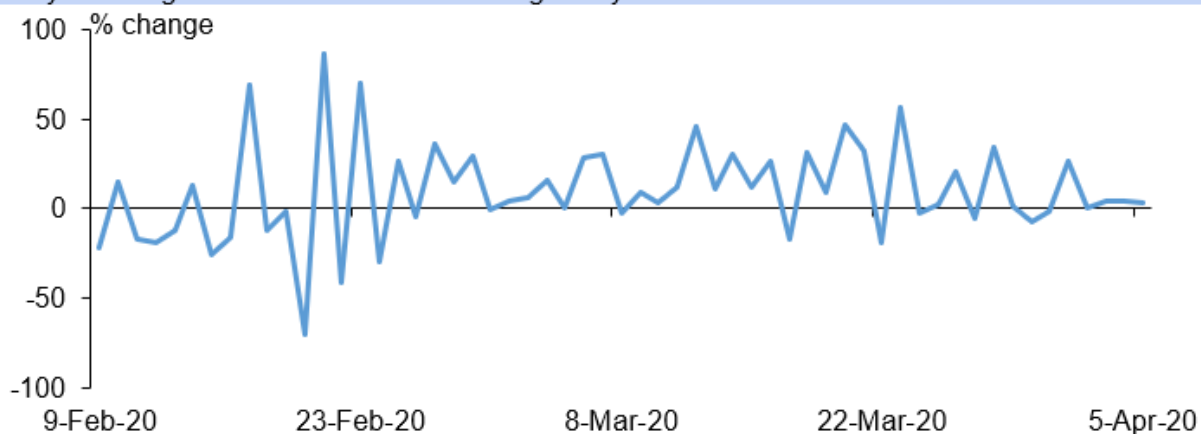
Source: World Health Organization



- In response, Finance Minister Mboweni has said that "government is seized with addressing and minimizing the impact of COVID-19, implementing measures to improve economic growth and setting government finances on a sustainable trajectory. This work requires close collaboration and coordination across various sectors of the economy".
- However, the rating agencies have downgraded SA's long-term debt ratings chiefly on the basis of planned further substantial growth in its debt. Government has not shown specific measures aimed at reducing the planned debt trajectory, and the rating agencies indicate further shocks to the system would likely see SA's debt projections climb even further.
- After Moody's recent downgrade, National Treasury said "over the short to medium term, government remains committed to implementing structural economic reforms to address the weak economic growth, constrained fiscus and the ailing state-owned companies."

- The South African Reserve Bank says “(t)he debt problem is not where we are”, “while our debt to GDP ratio has more than doubled over 10 years, it is still in the region of the emerging market average, which is 55%.” “The problem is where we are going.” “(O)ur fiscal deficits are over 6% of GDP, ... (with a projected) deficit of nearly 7% of GDP for 2020/2021.
- At that rate of borrowing, it doesn’t take long to get to a dangerous level of debt. Some analysts suggest we could get to a 100% debt to-GDP ratio within a few years.” “In that scenario, lenders might give up on us. Or we could see our interest bill claim even more of our scarce resources. ... We are suffering the consequences of past mistakes”.
- The SARB adds that “inflation does not appear to be falling much further, gaining more space for interest rate cuts means we would need to reduce the impact of country risk.” The credit rating downgrades from Moody’s and Fitch have raised South Africa’s country risk, and so reduced the likelihood of further interest rate cuts for South Africa.
- The SARB adds “South Africa borrows heavily from the world. ... Almost all our peer countries borrow less. If we try to cut rates too far, despite the country risk, investors won’t have enough reason to be in South Africa. They would be better off investing in less risky places. So we need to become less risky, to enjoy more of the benefits of low global rates.”
- This afternoon global financial markets have seen some improvement in risk appetite as investor confidence has increased. Covid-19 infection rates are seen to have flattened somewhat globally in new daily cases, and daily numbers of fatalities from Covid-19 in key European economies (France, Spain and Italy) are now reported as declining.
- The rand gained in particular from improved global risk sentiment, reaching R18.69/USD, R20.18/EUR and R22.94/GBP this afternoon, gaining by more than the majority of Bloomberg’s basket of twenty-four emerging market currencies versus Friday. Previous SARB signals on limited space for further interest rate cuts on rising country risk was also likely helpful.

Daily % change in COVID 19 – new cases globally



Source: World Health Organisation

African Region						
Reporting Country/territory/Area*	Total confirmed cases [#]	Total confirmed new cases	Total deaths	Total new deaths	Transmission classification ^Δ	Days since last reported case
South Africa	1585	80	9	2	Local transmission	0
Algeria	1251	265	130	47	Local transmission	0
Cameroon	555	309	9	2	Local transmission	0
Burkina Faso	302	41	15	0	Local transmission	0
Cote d'Ivoire	245	42	2	1	Local transmission	0
Senegal	219	12	2	1	Local transmission	0
Nigeria	210	20	4	2	Local transmission	0
Ghana	205	1	5	0	Local transmission	0
Mauritius	196	10	7	0	Local transmission	0
DR of the Congo	148	14	16	3	Local transmission	0
Niger	144	46	8	3	Local transmission	0
Kenya	122	0	4	0	Local transmission	1
Guinea	111	59	0	0	Local transmission	0
Rwanda	102	13	0	0	Local transmission	0
Madagascar	70	5	0	0	Local transmission	0
Uganda	48	3	0	0	Local transmission	0
Congo	45	4	5	2	Local transmission	0
Togo	40	1	3	1	Local transmission	0
Mali	39	3	4	1	Local transmission	0
Zambia	39	0	1	0	Local transmission	2
Ethiopia	38	3	0	0	Local transmission	0
Gabon	21	0	1	0	Imported cases only	1
Eritrea	20	0	0	0	Local transmission	2
United Republic of Tanzania	20	0	1	0	Local transmission	3
Guinea-Bissau	18	3	0	0	Imported cases only	0
Equatorial Guinea	16	1	0	0	Local transmission	0
Namibia	14	1	0	0	Local transmission	0
Benin	13	0	0	0	Imported cases only	3
Angola	10	0	2	0	Imported cases only	1
Liberia	10	3	1	1	Local transmission	0
Mozambique	10	0	0	0	Local transmission	3
Seychelles	10	0	0	0	Imported cases only	3
Central African Republic	9	1	0	0	Local transmission	0
Eswatini	9	0	0	0	Imported cases only	8
Zimbabwe	9	0	1	0	Local transmission	1
Chad	7	0	0	0	Imported cases only	4
Mauritania	6	0	1	0	Imported cases only	1
Cabo Verde	5	0	1	0	Imported cases only	8
Botswana	4	0	1	0	Imported cases only	2
Gambia	4	0	1	0	Imported cases only	2
Sierra Leone	4	2	0	0	Imported cases only	0
Burundi	3	0	0	0	Local transmission	1
Malawi	3	0	0	0	Local transmission	2
Territories***						
Reunion	334	13	0	0	Local transmission	0
Mayotte	147	19	2	0	Local transmission	0
Subtotal for all regions	1133046	82061	62773	5798		
International conveyance (Diamond Princess)	712	0	11	0	Local transmission	20
Grand total	1133758	82061	62784	5798		

- * Numbers include both domestic and repatriated cases
- ** The designations employed and the presentation of the material in this publication do not imply the expression of any opinion whatsoever on the part of WHO concerning the legal status of any country, territory, city or area of its authorities, or concerning the delimitation of its frontiers or boundaries. Dotted and dashes lines on maps represent approximate border lines for which there may not yet be full agreement.
- # Case classifications are based on WHO case definitions for COVID-19.
- \$ Transmission classification is based on WHO analysis of available official data and may be subject to reclassification as additional data become available. Countries/territories/areas experiencing multiple types of transmission are classified in the highest category for which there is evidence; they may be removed from a given category if interruption of transmission can be demonstrated. It should be noted that even within categories, different countries, territories/areas may have different degrees of transmission as indicated by the differing numbers of cases and other factors. Not all locations within a given country/territory/area are equally affected.

Terms:

- Community transmission is evidenced by the inability to relate confirmed cases through chains of transmission for a large number of cases, or by increasing positive tests through sentinel samples (routine systematic testing of respiratory samples from established laboratories).
 - Local transmission indicates locations where the source of infection is within the reporting location.
 - Imported cases only indicates locations where all cases have been acquired outside the location of reporting.
 - Under investigation indicates locations where type of transmission has not been determined for any cases.
 - Interrupted transmission indicates locations where interruption of transmission has been demonstrated (details to be determined).
- *** "Territories" include territories, areas, overseas dependencies and other jurisdictions of similar status