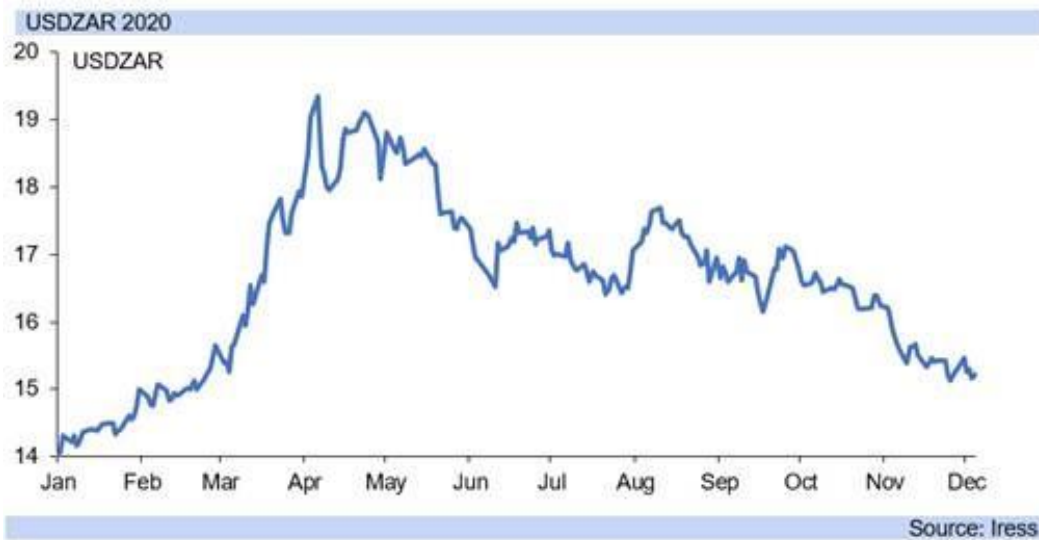


# SA Economics

Monday 7 December 2020

Rand note: the rand remains around R15.25/USD to R15.30/USD since mid-November, consolidating after its strong appreciation trend from April, with the domestic currency unlikely to see much strength beyond R15.00/USD on a sustained basis

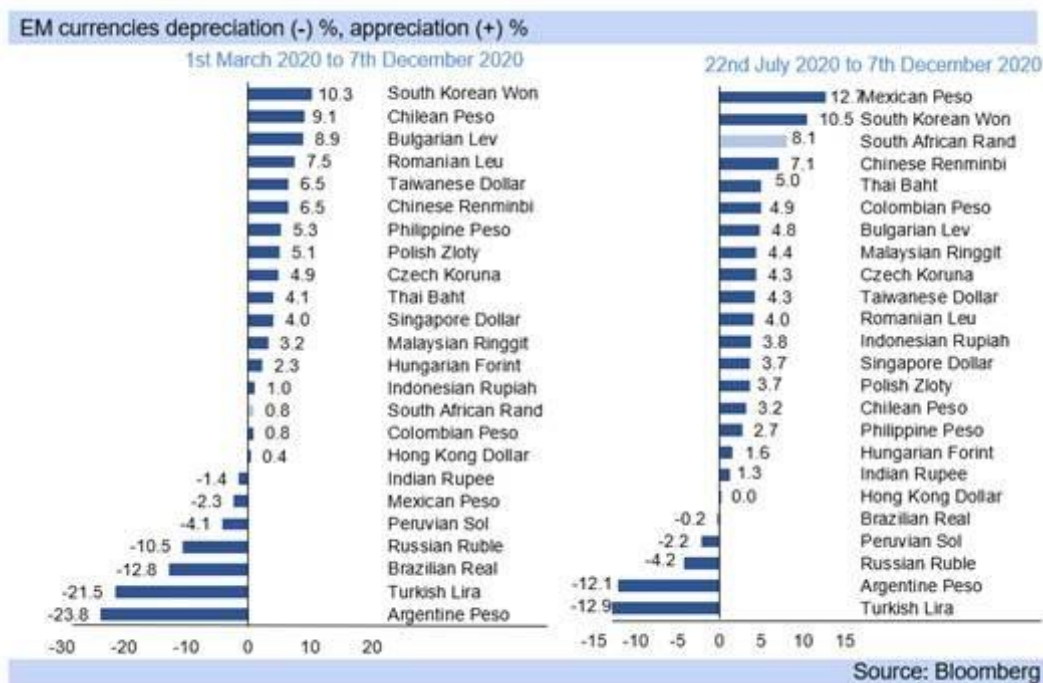


	Expected Case: Exchange Rate forecasts											
	2020				2021				2022			
	Q1.20	Q2.20	Q3.20	Q4.20	Q1.21	Q2.21	Q3.21	Q4.21	Q1.22	Q2.22	Q3.22	Q4.22
USD/ZAR	15.38	17.95	16.91	15.80	15.40	15.20	15.50	15.10	15.00	15.20	15.50	15.20
GBP/ZAR	19.64	22.28	21.84	20.79	20.64	20.52	21.24	20.99	21.22	20.82	21.24	20.98
EUR/ZAR	16.95	19.77	19.76	18.59	18.17	18.09	18.76	18.65	18.75	18.54	18.29	17.78
ZAR/JPY	7.12	5.99	6.28	6.69	6.95	7.07	6.84	6.92	6.93	6.91	6.77	6.91
CHF/ZAR	15.89	18.63	18.38	17.21	16.75	16.52	16.97	16.73	16.52	15.20	15.50	15.20
AUD/ZAR	10.09	11.79	12.09	11.35	11.17	11.10	11.39	11.17	11.18	10.64	11.01	10.79
GBP/USD	1.28	1.24	1.29	1.32	1.34	1.35	1.37	1.39	1.41	1.37	1.37	1.38
EUR/USD	1.10	1.10	1.17	1.18	1.18	1.19	1.21	1.24	1.25	1.22	1.18	1.17
USD/JPY	109	108	106	106	107	108	106	105	104	105	105	105

Note: averages, Source: Investec, Iress

Up Case: Exchange Rate forecasts												
	2020				2021				2022			
	Q1.20	Q2.20	Q3.20	Q4.20	Q1.21	Q2.21	Q3.21	Q4.21	Q1.22	Q2.22	Q3.22	Q4.22
USD/ZAR	15.38	17.95	16.91	15.50	15.00	14.00	13.50	13.00	12.50	12.40	12.50	12.60
GBP/ZAR	19.64	22.28	21.84	20.40	20.10	18.90	18.50	18.07	17.69	16.99	17.13	17.39
EUR/ZAR	16.95	19.77	19.76	18.23	17.70	16.66	16.34	16.06	15.63	15.13	14.75	14.74
ZAR/JPY	7.12	5.99	6.28	6.82	7.13	7.68	7.85	8.04	8.32	8.47	8.40	8.33
CHF/ZAR	15.89	18.63	18.38	16.88	16.31	15.21	14.78	14.40	13.77	12.40	12.50	12.60
AUD/ZAR	10.09	11.79	12.09	11.13	10.88	10.22	9.92	9.62	9.31	8.68	8.88	8.95
GBP/USD	1.28	1.24	1.29	1.32	1.34	1.35	1.37	1.39	1.41	1.37	1.37	1.38
EUR/USD	1.10	1.10	1.17	1.18	1.18	1.19	1.21	1.24	1.25	1.22	1.18	1.17
USD/JPY	109	108	106	106	107	108	106	105	104	105	105	105

Note averages, Source: Investec, Iress



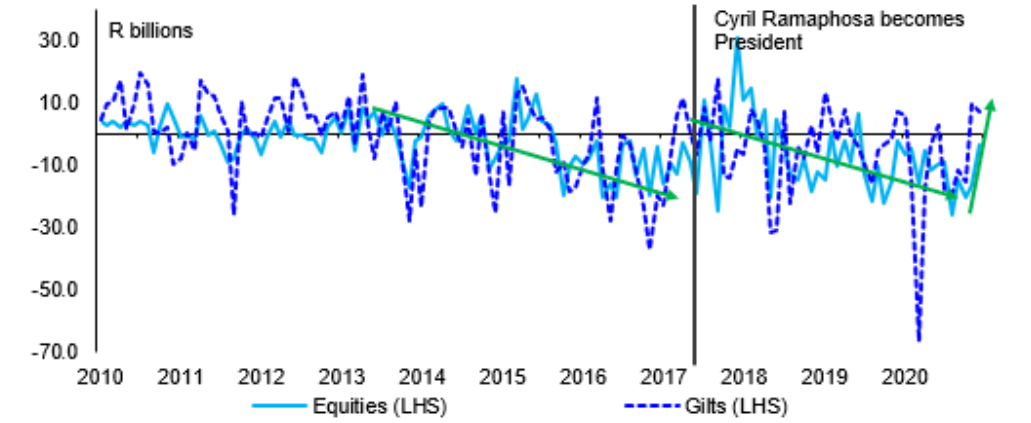
- The rand averages R15.93/USD so far this quarter. Since mid-November it has averaged R15.31/USD, but failed to make further, sustained gains, as markets' have discounted the expected positive impact of vaccinations on economic recovery.
- Further marked advancement in the rand will require additional, substantial good news which has not already been discounted, and indeed the rand is still at risk of depreciation in the year ahead, and will remain subject to the risk of high volatility as well.
- While most of the news on vaccines has already been discounted by financial markets, structural problems remain to trip up sentiment, particularly the build-up of sovereign debt in most countries over the past year, while economic recoveries are by no means complete.
- Additionally, vaccines themselves are not the panacea, with a lengthy time period still needed for the global population to be vaccinated in total, which could take the course of

2021, if not into 2022 as well to effectively reach all the populations of poor nations as well.

- Strong policy support measures will consequently still be needed through 2021, and hastily removing these will create an even more uneven recovery than is already occurring, with a patchy revival still expected both between economies, and within economies' sectors as well.
- Risk-on sentiment cannot be taken for granted in global financial markets. With the Northern Hemisphere autumn, winter and spring typically a risk-on period anyway, the positive sentiment that has supported the rand cannot be relied on to continue throughout 2021.
- Interest rates are expected to remain low globally for a very protracted period, and markets have factored this in, adding to the impetus for recovery in financial market indicators that has occurred, as have expectations of contained inflation and additional fiscal stimulus.
- However, very low interest rates discourage lending, despite strong appetite for borrowing, particularly when policy rates are zero bound or close to it. This is a risk to the speed and sustainability of global recovery, as is disregarding needs in the face of climate change.
- Additionally, trade tensions are on the radar for 2021, with the US, even under a presidential change, still looking to contain trade with China via sanctions if its requirements are not met, although markets hope less aggressively than occurred under Trump.

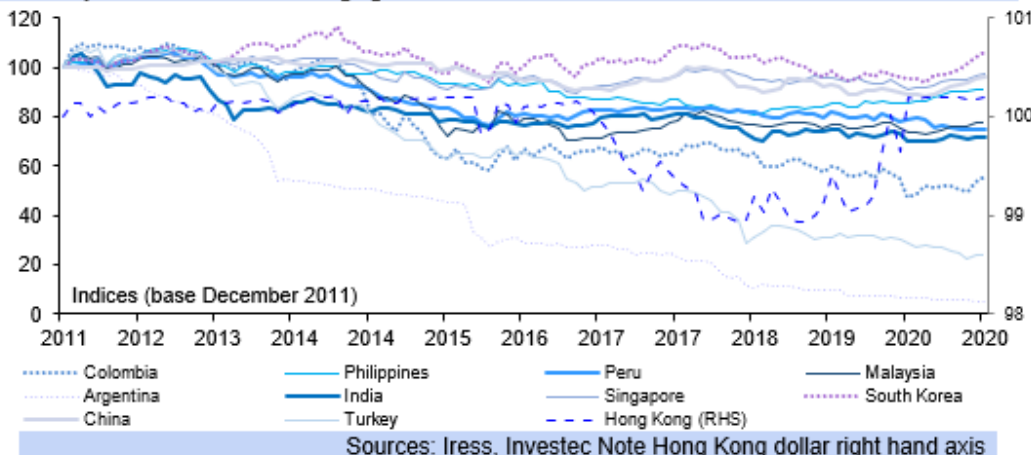


Non-resident portfolio net purchases (+)/ sales (-) vs USD/ZAR (monthly averages)



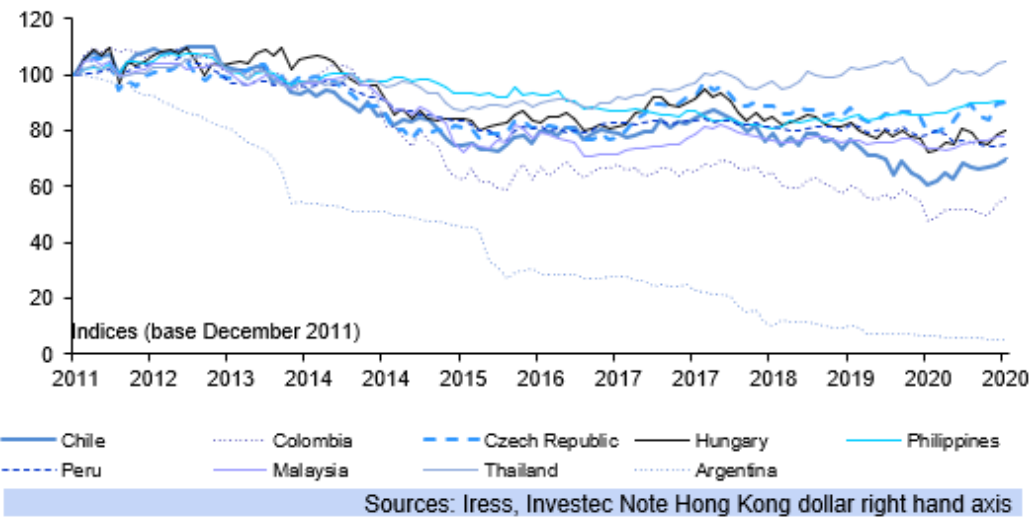
Source: Iress, Investec

Volatility index for selected emerging market currencies



Sources: Iress, Investec Note Hong Kong dollar right hand axis

Volatility index for selected emerging market currencies



Sources: Iress, Investec Note Hong Kong dollar right hand axis

- The World Health Organisation (WHO) reports that the Covid-19 pandemic has taken 1.4 million lives, with “hundreds of millions out of work, and is projected to wipe out \$28 trillion in output over the next five year”, according to the IMF.
- The IMF adds, “(i)t is especially important to zero in on corruption in the midst of this crisis—the worst health and economic crisis of our lifetimes”. “There is so much suffering that every penny counts towards saving lives and protecting livelihoods.”
- In particular, the IMF warns “(c)orruption diverts resources from the poor to the rich, increases the cost of running businesses, distorts public expenditures, and deters foreign investors... it erodes the constituency for aid programs and humanitarian relief”.
- In South Africa corruption proceedings have been more successful against lower ranking officials and politicians, with the top level officials often proving much harder to bring to account as delays, deals and other tactics flourish preventing full justice from occurring.
- The IMF warns “it is the poorest and most vulnerable people that are at highest risk from the pandemic and the economic consequences ... among low-income countries, the share of the budget dedicated to education and health is one-third lower in highly corrupt countries.”
- “Corruption keeps children out of school, and it stops people who are sick getting the treatment they need. In the words of Pope Francis – corruption is paid by the poor. ... efforts to tackle corruption must continue over the long term”.
- “(F)ixing governance vulnerabilities requires time and perseverance. At the Fund ... (International Monetary Fund), much of our work on this issue is undertaken through our 2018 Framework for Enhanced Fund Engagement on Governance.”
- South Africa has accepted assistance from the IMF in the face of the country’s Covid-19 epidemic, but without restrictions on the loan, while the IMF urges member countries to allow it to help them “strengthen anti-corruption efforts in fiscal governance ... (and) rule of law”.
- Without the kingpins of the corruption SA suffered over most of the past decade receiving justice, investors will remain wary while SA will not recoup its losses of the collapse in economic growth and public finances, and the rand will remain structurally weak.

**Economic Scenarios: historical updates included**

		Q1.20	Q2.20	Q3.20	Q4.20	Q1.21	Q2.21	Q3.21	Q4.21
<b>Extreme Up case</b> 1%	USD/Rand (average)	15.38	17.95	16.91	15.00	14.00	13.50	13.00	12.50
	Repo rate (end rate)	5.25	3.75	3.50	3.00	3.00	3.00	3.00	3.00
	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.								
<b>Up case</b> 1%	USD/Rand (average)	15.38	17.95	16.91	15.50	15.00	14.00	13.50	13.00
	Repo rate (end rate)	5.25	3.75	3.50	3.25	3.25	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.								
<b>Base case</b> 44%	USD/Rand (average)	15.38	17.95	16.91	15.80	15.40	15.20	15.50	15.10
	Repo rate (end rate)	5.25	3.75	3.50	3.50	3.75	4.00	4.25	4.25
	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.								
<b>Lite (domestic) Down case</b> 44%	USD/Rand (average)	15.38	17.95	16.91	16.30	17.50	18.80	19.20	20.50
	Repo rate (end rate)	5.25	3.75	3.50	3.75	4.00	4.00	4.25	4.25
	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.								
<b>Severe down case</b> 10%	USD/Rand (average)	15.38	17.95	16.91	17.15	19.50	21.00	22.00	23.00
	Repo rate (end rate)	5.25	3.75	3.50	4.00	4.25	4.25	4.75	5.25
	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 Q4.20. Source: Investec

**Severe Down Case: Exchange Rate forecasts**

	2020				2021				2022			
	Q1.20	Q2.20	Q3.20	Q4.20	Q1.21	Q2.21	Q3.21	Q4.21	Q1.22	Q2.22	Q3.22	Q4.22
USD/ZAR	15.38	17.95	16.91	17.15	19.50	21.00	22.00	23.00	24.00	22.00	20.00	22.00
GBP/ZAR	19.64	22.28	21.84	22.57	26.13	28.35	30.14	31.97	33.96	30.14	27.40	30.36
EUR/ZAR	16.95	19.77	19.76	20.18	23.01	24.99	26.62	28.41	30.00	26.84	23.60	25.74
ZAR/JPY	7.12	5.99	6.28	6.17	5.49	5.12	4.82	4.54	4.33	4.77	5.25	4.77
CHF/ZAR	15.89	18.63	18.38	18.68	21.21	22.82	24.09	25.48	26.43	22.00	20.00	22.00
AUD/ZAR	10.09	11.79	12.09	12.32	14.14	15.33	16.17	17.02	17.88	15.40	14.20	15.62
GBP/USD	1.28	1.24	1.29	1.32	1.34	1.35	1.37	1.39	1.41	1.37	1.37	1.38
EUR/USD	1.10	1.10	1.17	1.18	1.18	1.19	1.21	1.24	1.25	1.22	1.18	1.17
USD/JPY	109	108	106	106	107	108	106	105	104	105	105	105

Note: averages, Source: Investec, Iress

Lite Down Case: Exchange Rate forecasts												
	2020				2021				2022			
	Q1.20	Q2.20	Q3.20	Q4.20	Q1.21	Q2.21	Q3.21	Q4.21	Q1.22	Q2.22	Q3.22	Q4.22
USD/ZAR	15.38	17.95	16.91	16.30	17.50	18.80	19.20	20.50	20.00	19.50	18.50	17.50
GBP/ZAR	19.64	22.28	21.84	21.45	23.45	25.38	26.30	28.50	28.30	26.72	25.35	24.15
EUR/ZAR	16.95	19.77	19.76	19.18	20.65	22.37	23.23	25.32	25.00	23.79	21.83	20.48
ZAR/JPY	7.12	5.99	6.28	6.49	6.11	5.72	5.52	5.10	5.20	5.38	5.68	6.00
CHF/ZAR	15.89	18.63	18.38	17.75	19.03	20.43	21.02	22.71	22.03	19.50	18.50	17.50
AUD/ZAR	10.09	11.79	12.09	11.71	12.69	13.72	14.11	15.17	14.90	13.65	13.14	12.43
GBP/USD	1.28	1.24	1.29	1.32	1.34	1.35	1.37	1.39	1.41	1.37	1.37	1.38
EUR/USD	1.10	1.10	1.17	1.18	1.18	1.19	1.21	1.24	1.25	1.22	1.18	1.17
USD/JPY	109	108	106	106	107	108	106	105	104	105	105	105

Note: averages, Source: Investec, Iress

Extreme Up Case: Exchange Rate forecasts												
	2020				2021				2022			
	Q1.20	Q2.20	Q3.20	Q4.20	Q1.21	Q2.21	Q3.21	Q4.21	Q1.22	Q2.22	Q3.22	Q4.22
USD/ZAR	15.38	17.95	16.91	15.00	14.00	13.50	13.00	12.50	12.00	11.50	11.00	10.90
GBP/ZAR	19.64	22.28	21.84	19.74	18.76	18.23	17.81	17.38	16.98	15.76	15.07	15.04
EUR/ZAR	16.95	19.77	19.76	17.65	16.52	16.07	15.73	15.44	15.00	14.03	12.98	12.75
ZAR/JPY	7.12	5.99	6.28	7.05	7.64	7.96	8.15	8.36	8.67	9.13	9.55	9.63
CHF/ZAR	15.89	18.63	18.38	16.34	15.23	14.67	14.24	13.85	13.22	11.50	11.00	10.90
AUD/ZAR	10.09	11.79	12.09	10.78	10.15	9.86	9.56	9.25	8.94	8.05	7.81	7.74
GBP/USD	1.28	1.24	1.29	1.32	1.34	1.35	1.37	1.39	1.41	1.37	1.37	1.38
EUR/USD	1.10	1.10	1.17	1.18	1.18	1.19	1.21	1.24	1.25	1.22	1.18	1.17
USD/JPY	109	108	106	106	107	108	106	105	104	105	105	105

Note: averages, Source: Investec, Iress