

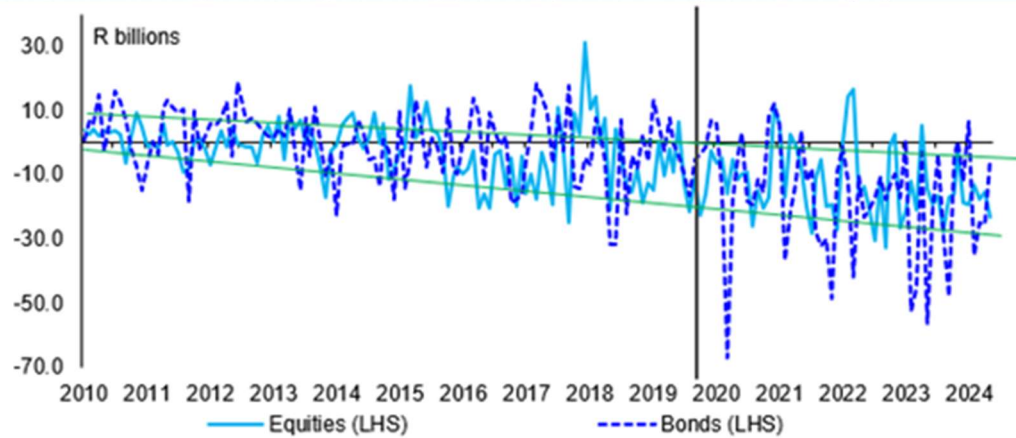
SA Economics



SA Bond note: both yield and the rand have weakened as the ANC lags its expected 45% to 50% outcome so far

Friday 31 May 2024

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

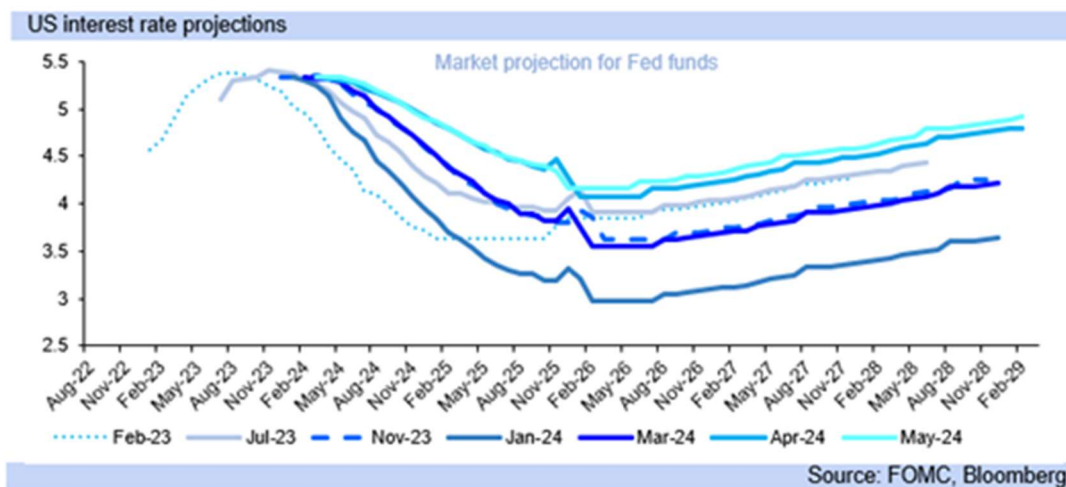


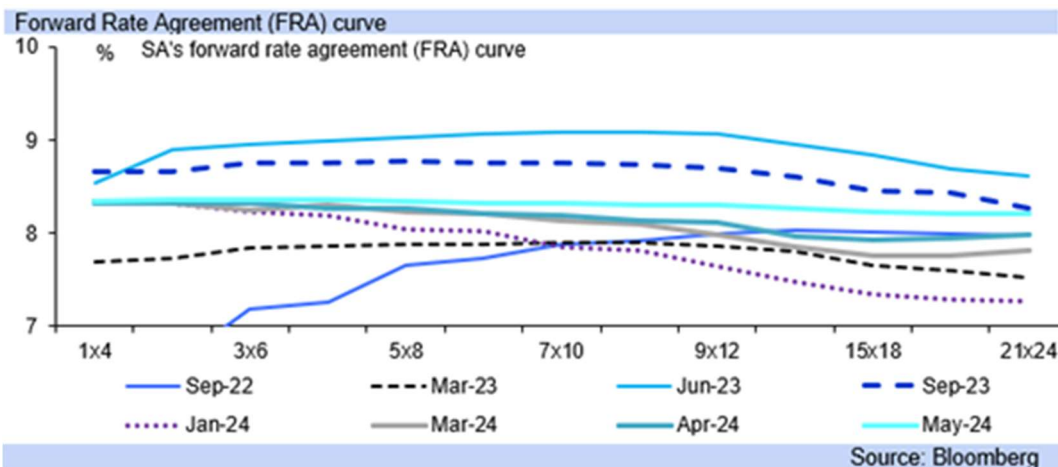
Source: Iress, Investec



- After dipping to 11.62%, the yield on SA's ten-year benchmark bond has factored back in about a 20bp risk premium, as initial election results from voting on the 29th of this month have shown the ANC only around 42% of voter support.
- With financial markets hoping for 45% or above for the ANC, and a better showing for the IFP (the expected coalition partner for the ANC but near 3%), concerns are centering around other coalition options for South Africa's largest political party.
- The results, at just over the 60% mark, are not out of line with the SRF (Social Research Foundation) poll before the election, which polled ANC voter support dropping from around 45% after the signing in of the NHI into legislation to 42%.
- Many in the civil service and some previous ANC supporters are in private medical aid schemes. With the ANC still the largest party in the results in so far, the DA also remains in second place near 24%, although results see some volatility.

- Voter turnout was well below the last national election's 66% in 2019, but above 2021's local elections of 46%, with 2024's election turnout at 58.6% provisionally. All the votes have not been tallied, and 2nd June expected to see the final outcome.
- The ANC is expected to consider the PA along with the IFP a coalition partner, and likely the ACDP and a few other small parties, although investors are also adopting a wait and see approach as the final votes are expected to take a while to come in.
- Bond markets, and financial markets at large, have feared a severe fiscal deterioration under an ANC/EFF coalition, as the fiscal deficit and debt rises significantly both as a % of GDP, and SA moves away from a primary surplus.
- BMI research notes an ANC/EFF coalition would be expected to result in severe obstructions to continued fiscal consolidation, as well as the government business collaboration that has severely reduced loadshedding and freight congestion.
- In addition, SA's chances of getting off the greylist in 2025 and substantially reducing crime and corruption are also seen as unlikely under an ANC/EFF coalition, which have all been instrumental in the political risk premium built into SA financial assets.





- BMI adds that an ANC coalition with smaller parties (than the EFF) “would see the ANC persist with efforts to reform its large state-owned enterprises, although potentially at a slower pace, as the party is forced to compromise.”
- The research house also adds that it expects that “(w)hile we would see a gradual shrinking of the fiscal deficit, the role of the state would remain large, with the wage bill and social transfers remaining high”.
- BMI ascribes a lower chance than its other three scenarios (which include an outright ANC win) to a “Multi-Party Charter win (a) Democratic Alliance-led coalition would likely support policies such as streamlining grants, breaking up Eskom’s monopoly”.
- BMI has viewed the probability of an ANC coalition with small parties at 55%, and an ANC win outright at 20%, which has been also reflected generally in financial market expectations. BMI has ascribed a 15% probability to an ANC/EFF coalition.

- Financial market sentiment has also seen some negativity from the FOMC communications, which saw ten year treasury yields rise from 4.37% in mid-May to 4.62% post the release of the FOMC minutes, which did not show a softening in tone.
- Global financial markets now no longer expect a cut in US interest rates before December with certainty, delaying the rate cut expectations from November previously, which has had some effect on domestic bonds.
- The rand has weakened to R18.90/USD today, from R18.03/USD earlier in the month when hopes were higher for the ANC outcome than the votes have tallied so far, with financial markets reawakening concerns over ANC coalition partners.
- In particular, fears over the ANC going into coalition with the EFF have caused weakness in key financial market indicators for South Africa, with worries on a deterioration in policy stability and reforms to the electricity and freight sectors.
- While the vote tally is still incomplete, and results from far flung areas, which the ANC is hoping for greater support from, have not come into the counts yet, markets are reacting negatively to the loss of the ruling party's majority so far.

Interest rate forecast end rates: South Africa

Date	Prime forecast	Prime less Inflation	Repo	Repo less Inflation
Jan 2023	10.75	3.9	7.25	0.4
Feb 2023	10.75	3.7	7.25	0.2
Mar 2023	11.25	4.2	7.75	0.7
Apr 2023	11.25	4.4	7.75	0.9
May 2023	11.75	5.4	8.25	1.9
Jun 2023	11.75	6.4	8.25	2.9
Jul 2023	11.75	7.0	8.25	3.5
Aug 2023	11.75	6.9	8.25	3.4
Sep 2023	11.75	6.4	8.25	2.9
Oct 2023	11.75	5.8	8.25	2.3
Nov 2023	11.75	6.2	8.25	2.7
Dec 2023	11.75	6.6	8.25	3.1
Jan 2024	11.75	6.4	8.25	2.9
Feb 2024	11.75	6.2	8.25	2.7
Mar 2024	11.75	6.4	8.25	2.9
Apr 2024	11.75	6.5	8.25	3.0
May 2024	11.75	6.5	8.25	3.0
Jun 2024	11.75	6.5	8.25	3.0
Jul 2024	11.75	6.8	8.25	3.3
Aug 2024	11.75	6.9	8.25	3.4
Sep 2024	11.75	7.2	8.25	3.7
Oct 2024	11.75	7.7	8.25	4.2
Nov 2024	11.50	7.1	8.00	3.6
Dec 2024	11.50	7.0	8.00	3.5
Jan 2025	11.00	5.9	7.50	2.4
Feb 2025	11.00	6.5	7.50	3.0
Mar 2025	10.75	6.5	7.25	3.0
Apr 2025	10.75	6.6	7.25	3.1
May 2025	10.50	6.5	7.00	3.0
Jun 2025	10.50	6.5	7.00	3.0
Jul 2025	10.25	5.7	6.75	2.2
Aug 2025	10.25	5.6	6.75	2.1
Sep 2025	10.25	5.6	6.75	2.1
Oct 2025	10.25	5.9	6.75	2.4
Nov 2025	10.25	6.0	6.75	2.5
Dec 2025	10.25	5.9	6.75	2.4

Source: IRESS, Investec

Forecasts South Africa								
Period end rate %	Q1.24	Q2.24	Q3.24	Q4.24	Q1.25	Q2.25	Q3.25	Q4.25
Repo Rate	8.25	8.25	8.25	8.00	7.25	7.00	6.75	6.75
Prime Overdraft Rate	11.75	11.75	11.75	11.50	10.75	10.50	10.25	10.25

Source: Iress, Investec

New bond tables May 2024

Extreme up case Forecasts	2022	2023	2024	2025	2026	2027	2028
SA rand bond (year-end: %)	11.45	11.90	10.60	9.10	9.00	8.90	8.80
SA rand bond (average: %)	10.81	11.63	11.18	9.58	8.98	8.93	8.84

Up case Forecasts	2022	2023	2024	2025	2026	2027	2028
SA rand bond (year-end: %)	11.45	11.90	11.00	10.50	9.90	9.60	9.50
SA rand bond (average: %)	10.81	11.63	11.41	10.59	10.08	9.63	9.53

Expected case Forecasts	2022	2023	2024	2025	2026	2027	2028
SA rand bond (year-end: %)	11.45	11.90	11.90	10.70	10.50	10.30	10.30
SA rand bond (average: %)	10.81	11.63	11.91	11.15	10.60	10.38	10.33

Lite down case Forecasts	2022	2023	2024	2025	2026	2027	2028
SA rand bond (year-end: %)	11.45	11.90	12.50	12.90	12.00	11.60	11.40
SA rand bond (average: %)	10.81	11.63	12.41	12.95	12.23	11.68	11.36

Severe down case Forecasts	2022	2023	2024	2025	2026	2027	2028
SA rand bond (year-end: %)	11.45	11.90	13.00	13.80	14.00	14.20	14.50
SA rand bond (average: %)	10.81	11.63	12.73	13.60	14.05	14.28	14.43

Source: All forecast yields are of bonds traded on the stock exchange - Gov. bonds - Nominal yields: 10 years and over (Unit: % (Monthly average bond yield); Source: SARB QB (S-31))