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| **Wednesday 1 September 2021** |

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| SA bond note: bond yields and the rand strengthen post Jackson Hole, on improved global financial market risk taking, although the five year yield continues to lag behind SA’s ten year and foreigners dump bonds |

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| **•** | SA’s ten-year bond yield has dropped to 9.15%, from near 9.34% earlier in August, with the rand reaching R14.39/USD today, supported by improved global financial market sentiment. Foreign appetite for SA bonds deteriorated sharply over August with a -27.7bn net sell-off. |
| **•** | Investor concerns persist on the sustainability of government finances, the once off boost to revenues from the commodity boom which has already weakened, is not a sustainable financing mechanism to deliver fiscal consolidation, and state expenditure has increased.   |
| **•** | SA’s fiscal deficit to date at -R155.9bn (first four months of 2021/22) shows that it may come out lower than the -R482.6bn in the budget (potentially closer to -R460/470bn), but will be substantially larger than the -R209bn of the full 2017/18 year, and the -R231bn of 2018/19 |
| **•** | That is, the state’s finances have not improved that much at all, still worse than the pre-pandemic levels, although 2019/20’s three quarters’ of recession yielding a deficit of -R345bn would be closer to what is likely achieved this 2021/22 year (all main budget figures). |
| **•** | Unsurprisingly, the 5-year yields are still elevated, boosted also by the aggressive pricing in the FRA curve which shows accelerated interest rate hikes and so negatively impacts the shorter end of the yield curve, along with the high maturity load in the period as well.  |
| **•** | While repo rate hikes are unlikely this year, projected debt and deficit ratios lower on GDP revisions, and weekly debt issuance down, there is still no recovery yet in sight for public finances from the harsh impact of COVID-19 lockdowns following on from 2019’s recession.  |
| **•** | Domestic holding of debt are high, foreigners disinvested -R109.3bn this year, aware of the lack of material improvement on SA’s fiscal story to levels back to before 2019/20. Deficit projections for 2022/23 and 2023/24 of around -R400bn are still removed from pre 2019.    |
| **•** | The flip flop in the state pension *et al* fund proposal does not obscure the fact that doing away with private pensions risks eradicating a key source of funding for state debt, still necessary given rollovers, if the state delves into the fund to pay for infrastructure expenditure. |
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| **•** | Consequently, perceived high country risks remain for SA, and it is unclear whether the Social Development Departments green paper has been wholly withdrawn, partially withdrawn and will resurface with clarifications, or whether in spirit, as markets suspect, it persists.  |
| **•** | What is clear is that it has caused market confusion, with expectations that the green paper should not have been published if it was not government policy, as some senior ANC officials have said it is not. Its publication highlights that it certainly is some factions intentions. |
| **•** | This is very negative for markets, due to the policy uncertainty and outright confusion created, with government having said in the past it wishes to reduce policy uncertainty not increase it, and the social development department stating it does not need approval for proposals.  |
| **•** | Apparently, the green paper will be reissued and so the damage to business confidence, and policy uncertainty persists in what has already been a weak confidence period with the July riots which are seen to have been sparked by the anti-Ramaphosa pro Zuma/RET faction. |
| **•** | The state pension fund proposal has been viewed as having its origin with the RET faction and so the publication of the green paper doubtless was also from this perspective a further negative for business and investor confidence.  |
| **•** | The green paper caused damage to labour relations with government as well, and worried employed South Africans in general given fears of the loss of their pension contributions through corruption and looting, among other malfeasance. |
| **•** | Damage to business confidence damages investment prosects, and so future job creation and GDP growth. If the Social Development Departments paper is not government policy it should not be published if government really is sincere about bolstering business confidence.   |
| **•** | The ruling party and allies in the tri-partite alliance need to let go of disincentivising, if not prohibitive policies, including ones to the rapid expansion of its mining sector by private investment, so much to be gained on the fiscal revenue side, as well as jobs.  |
| **•** | This is a particular worrying given the waning of the commodity boom and the fact that SA is not seeing an efficient usage of its mineral endowment as state regulations continue to trip up the necessary exploration and development of new mines. |
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