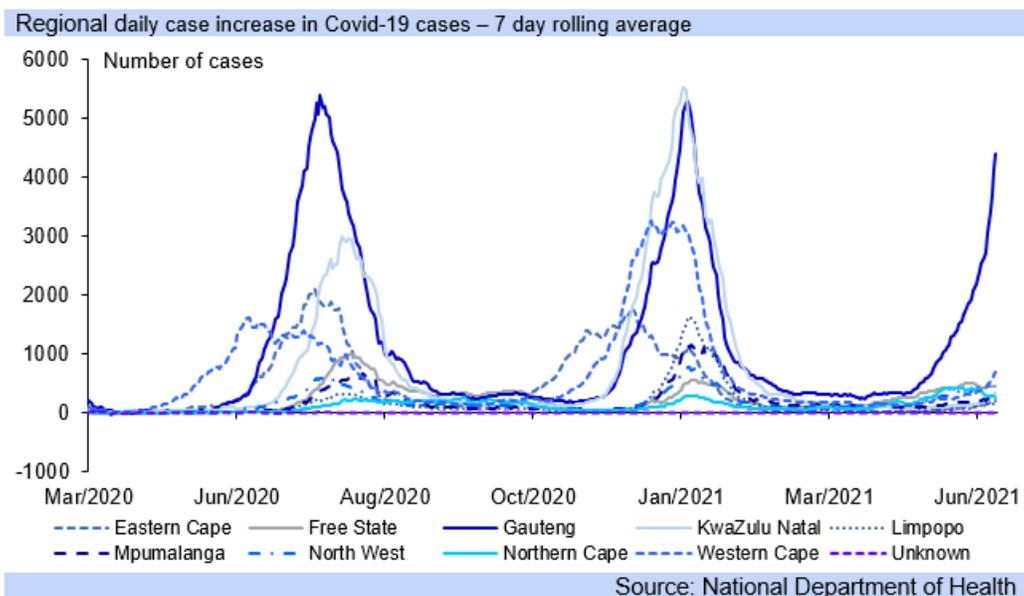


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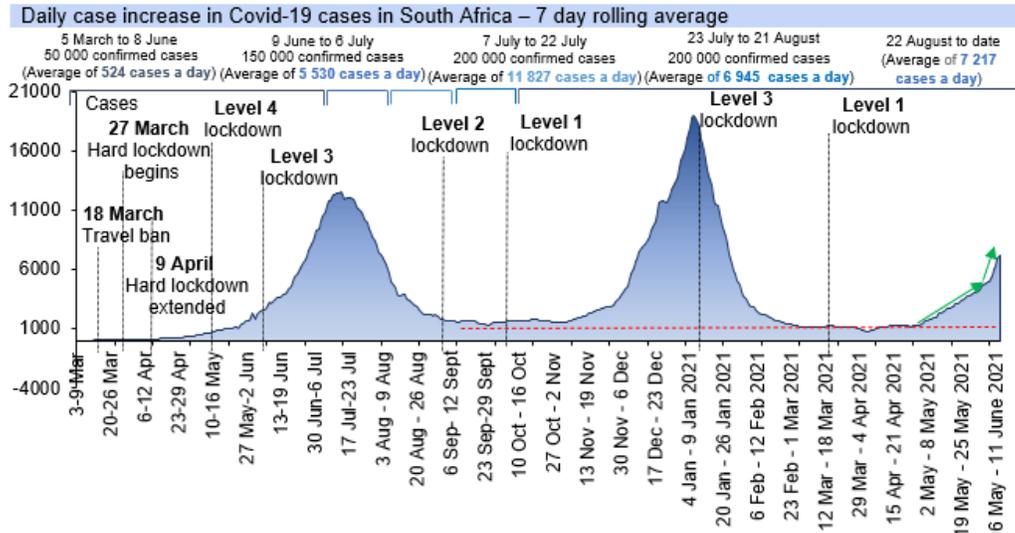


Monday 14 June 2021

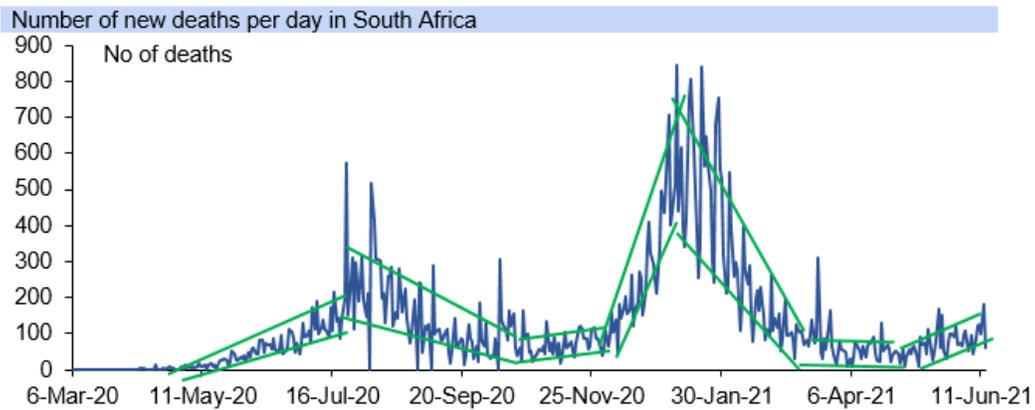
Rand note: the rand runs weaker as the pace of new COVID-19 infections intensify in Gauteng (South Africa), with the death rate also increasing, as South Africa's economic provincial hub is worst hit by the third wave



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Source: National Department of Health

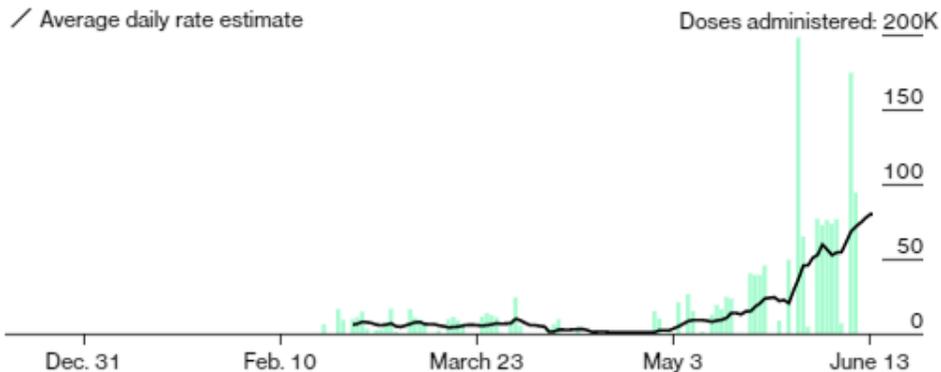


Source: World Health Organization

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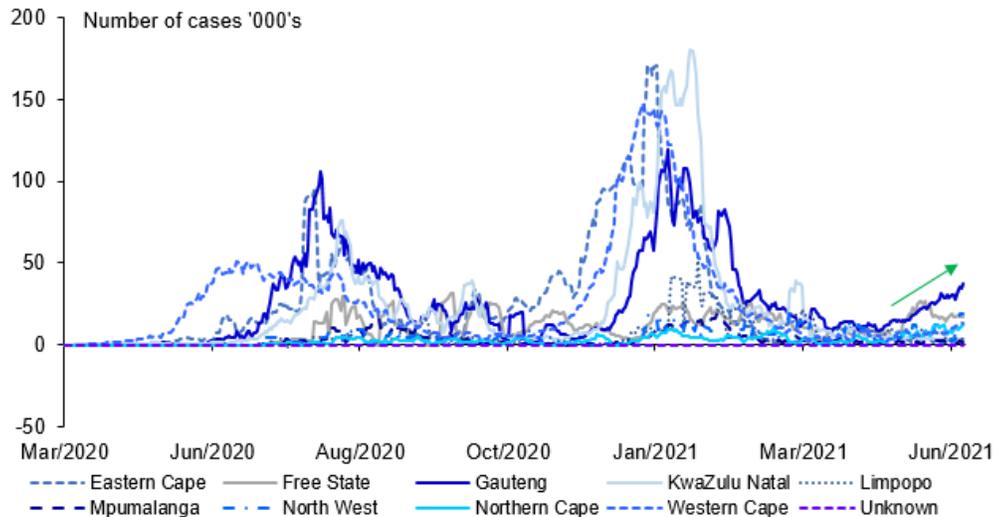
South Africa vaccination rate



Source: Bloomberg Vaccine Tracker, 11 June 2021

Note: Immunity calculations take into account the number of doses required and the current rate of administration for each vaccine type. The "daily rate estimate" is a seven-day trailing average; interpolation is used for countries with infrequent updates. Data from Bloomberg's Covid-19 Vaccine Tracker.

Regional daily case increase in Covid-19 deaths – 7 day rolling average



Source: John Hopkins University

- The rand has weakened to close to R13.80/USD, negatively affected by the spiking in COVID-19 infections in South Africa's key economic province, Gauteng, which has shown a phenomenal jump in new cases, up 78 942 yesterday since 6th May.
- There has been a geometric expansion of new COVID-19 cases in Gauteng, and the seven-day rolling average for the country's most productive province is now close to the

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peaks of the first and second waves. Load shedding too has been negative for the currency.

- Vaccinations are only at 1 619 011 country wide in a population of sixty million, with the elderly (over sixty and estimated at around 5 000 000) and health care workers still in the process of being vaccinated as phase two continues overlapping with phase one.
- The extremely slow rollout of vaccines, with the department of health having failed to expedite the process to meet the original planned schedule, means that the country will most likely not reach two thirds immunity by year end as was originally planned.
- Instead, instances of corruption have been indicated in a number of areas across the public health system as public monies deemed to be used for private gain instead of being spent on the vaccine rollout and in other critical areas.
- The take up of the vaccinations by the over sixties' age group continues to be relatively weak, with some monies earmarked for advertising and promoting the drive to be vaccinated having been reported as forming part of the looting.
- SA has failed to vaccinate the vast majority of its economically active population, and with deaths now rising rapidly in Gauteng as unvaccinated individuals succumb to COVID-19, there has been little impetus to vaccinate all those over forty who wish to receive it.
- That is, the pace of vaccine rollout has proved too slow to prevent the third wave, beset with problems from international delivery on quantity, quality of vaccines received and suitability, to domestic problems as the drive kicked off late and was exceptionally slow until May.
- While May and June has seen a quickening in vaccine rollout, the pace is still too slow and SA risks substantially more COVID-19 deaths. So far, Q2.21 averages an exchange rate of R14.06/USD, although the rand could weaken further as COVID-19 cases continue to spike.

Please scroll down to the second section below

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	14.96	14.15	14.45	14.35	14.45	14.85	15.05	14.95	14.85	15.25	15.65	15.15
GBP/ZAR	20.64	19.38	19.80	19.95	20.52	21.24	21.82	21.38	21.09	21.50	21.91	21.21
EUR/ZAR	18.13	16.98	17.48	17.72	18.13	18.71	19.11	18.84	18.56	19.06	19.56	18.94
ZAR/JPY	7.09	7.42	7.27	7.28	7.20	7.00	6.98	7.02	7.14	6.95	6.77	7.00
CHF/ZAR	16.44	15.51	15.82	15.89	16.01	16.50	16.77	16.43	15.97	16.05	16.13	15.15
AUD/ZAR	11.53	10.90	11.20	11.19	11.42	11.73	11.74	11.36	11.14	11.44	11.74	11.36
GBP/USD	1.38	1.37	1.37	1.39	1.42	1.43	1.45	1.43	1.42	1.41	1.40	1.40
EUR/USD	1.21	1.20	1.21	1.24	1.26	1.26	1.27	1.26	1.25	1.25	1.25	1.25
USD/JPY	106	105	105	105	104	104	105	105	106	106	106	106

Note: averages, Source: Investec, Iress

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Economic Scenarios: expected and up case strengthened exchange rates

		Q1.21	Q2.21	Q3.21	Q4.21	Q1.22	Q2.22	Q3.22	Q4.22
Extreme	USD/Rand (average)	14.96	13.75	13.50	13.40	13.10	12.90	12.70	12.50
	Repo rate (end rate)	3.50	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Up case 1%	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 2%	USD/Rand (average)	14.96	14.00	13.80	13.70	13.60	13.50	13.70	13.60
	Repo rate (end rate)	3.50	3.50	3.50	3.50	3.50	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.								
Base case 50%	USD/Rand (average)	14.96	14.15	14.45	14.35	14.45	14.85	15.05	14.95
	Repo rate (end rate)	3.50	3.50	3.50	3.75	3.75	3.75	4.00	4.00
	Recovery from the sharp global economic slowdown by 2024 in real terms – sufficient global and domestic monetary and other policy supports to growth and financial markets occur and risk sentiment stabilises then improves. 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 42%	USD/Rand (average)	14.96	15.00	15.75	16.50	16.70	17.00	17.50	17.00
	Repo rate (end rate)	3.50	3.75	3.75	4.00	4.00	4.25	4.25	4.50
	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. Recession occurs. Expropriation of some private commercial sector property without compensation, with some 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 the C grades.								
Severe down case 5%	USD/Rand (average)	14.96	15.50	17.00	17.50	18.00	18.50	19.00	19.50
	Repo rate (end rate)	3.50	4.00	4.00	4.25	4.50	4.50	4.75	5.00
	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 Q2.21. Source: Investec

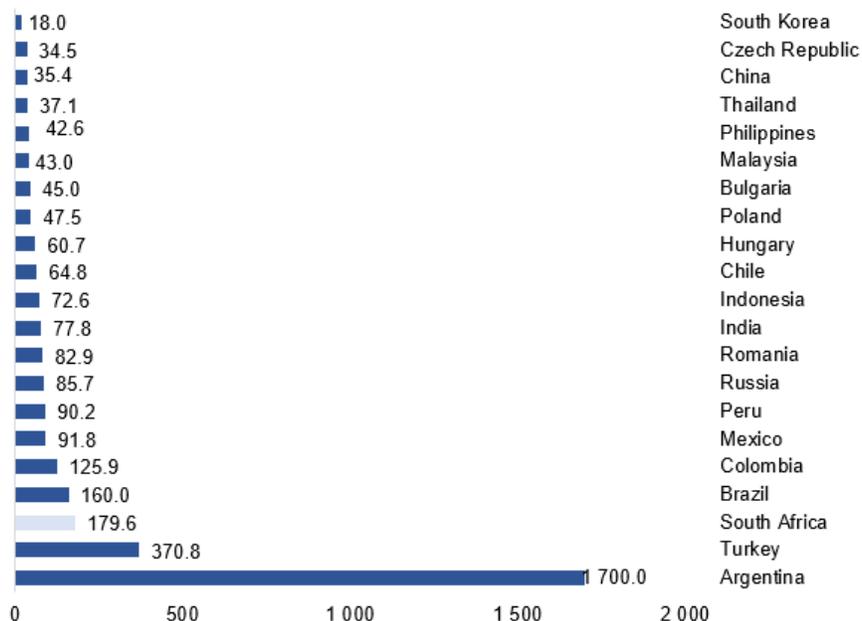
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Lite Down Case: Exchange Rate forecasts												
	2021				2022				2023			
	Q1.21	Q2.21	Q3.21	Q4.21	Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.23
USD/ZAR	14.96	15.00	15.75	16.50	16.70	7.00	17.50	17.00	16.80	17.00	17.10	16.70
GBP/ZAR	20.64	20.55	21.58	22.94	23.71	10.01	25.38	24.31	23.86	23.97	23.94	23.38
EUR/ZAR	18.13	18.00	19.06	20.38	20.96	8.82	22.23	21.42	21.00	21.25	21.38	20.88
ZAR/JPY	7.09	7.00	6.67	6.33	6.23	14.86	6.00	6.18	6.31	6.24	6.20	6.35
CHF/ZAR	16.44	16.44	17.25	18.28	18.50	7.78	19.50	18.68	18.06	17.89	17.63	16.70
AUD/ZAR	11.53	11.55	12.21	12.87	13.19	5.53	13.65	12.92	12.60	12.75	12.83	12.53
GBP/USD	1.38	1.37	1.37	1.39	1.42	1.43	1.45	1.43	1.42	1.41	1.40	1.40
EUR/USD	1.21	1.20	1.21	1.24	1.26	1.26	1.27	1.26	1.25	1.25	1.25	1.25
USD/JPY	106	105	105	105	104	104	105	105	106	106	106	106

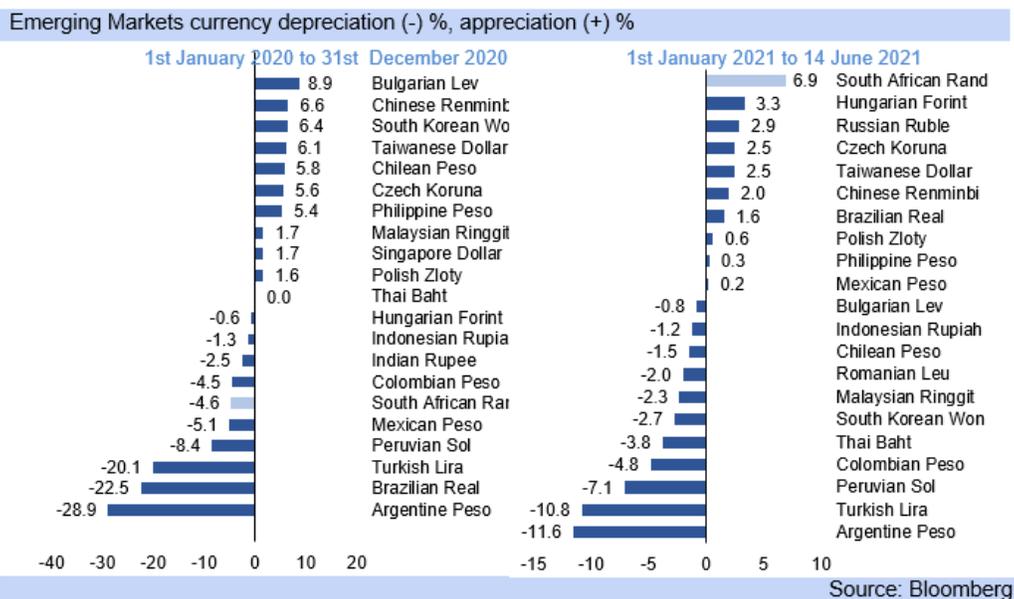
Note: averages, Source: Investec, Iress

Emerging Markets CDS Spreads – values as at 14 June 2021



Source: Bloomberg

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- Load shedding has intensified this winter, as years' of poor governance, looting and inefficient plant builds have seen plant capacity collapse, with combined electricity plant output now only near 65% of total capacity, and unable to fully meet the needs of the growing economy.
- Globally, economic recovery remains strong, as are vaccine rollouts in key economies. Foreigners continue to ditch SA equities, worth -R3.4bn net of purchases month to date. SA's weak electricity supply and the weak vaccine rollout negatively affect investor sentiment.
- Foreigners have dumped -R0.6bn worth of SA bonds this month to date as the outlook for SA's economy looks less cheerful than last month - the vaccination rollout has not maintained its pace of acceleration while the EAF (Energy Availability factor) is insufficient.
- Additionally, anti-Ramaphosa forces and factions continue to attempt to gather strength, avoid prosecution for corruption and/or impede economic growth enhancing reforms for the country, as the ANC continues to lack a unified strong, broad based support for the President.
- The rand is stronger by around 7% y/y currently, having lost its rate of appreciation of closer to 30% of a month ago, while EM countries raising their interest rates have seen some currency benefits from this, although SA is not expected to raise its interest rates this year.
- This has also added to the negative stance foreigners have taken on SA bonds this month so far, after net purchases instead of R6.5bn over May. July is also at risk of substantial

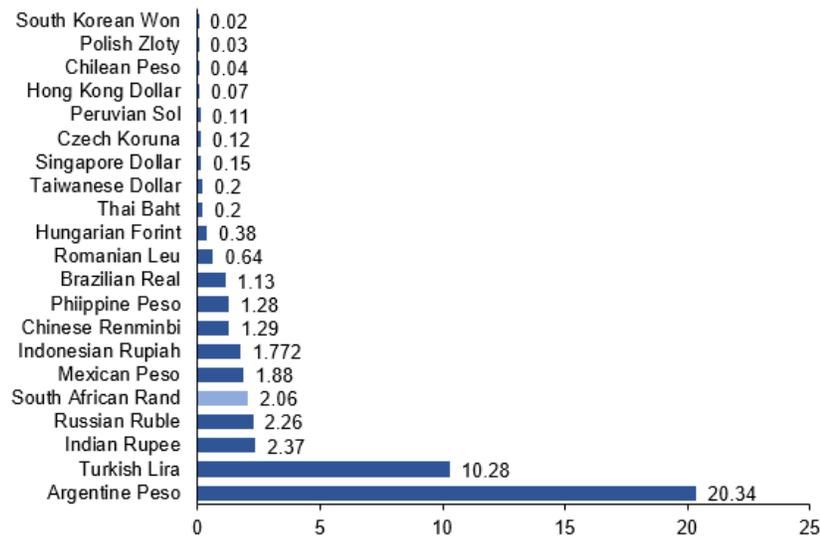
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load shedding. The looting of Eskom has impeded its turnaround and SA's electricity supply.

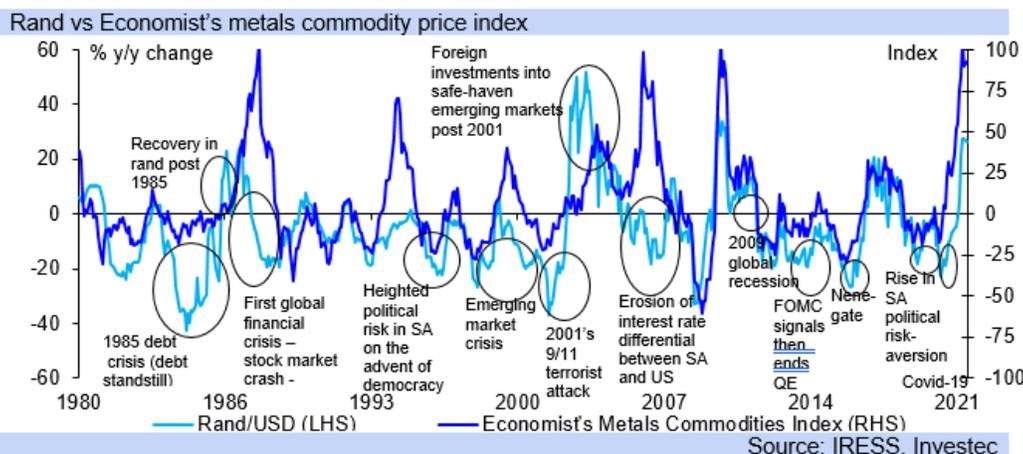
- SA will now only receive 300 000 doses of the J&J vaccine from the two million expected, and this negative outcome, while no fault of SA, has reduced the positive sentiment towards the economy's economic outlook and vaccine rollout that had been growing this year.
- Foreigners continue to discriminate between the economic growth outlooks of emerging market economies, and the health of their government finances, when seeking to make portfolio investment, and SA has seen portfolio outflows of -R3.9bn so far this month.
- Commodity price strength, US\$ weakness and SA's strong trade surplus have been insufficient to prevent the recent weakness in the rand, as the domestic currency remains volatile, sensitive to any marked bad news on investment prospects.

Emerging Markets Interest Return – values as at 14 June 2021



Source: Bloomberg

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	14.96	14.10	13.50	13.40	13.10	12.90	12.70	12.50	12.30	12.70	13.10	12.60
GBP/ZAR	20.50	19.32	18.50	18.63	18.60	18.45	18.42	17.88	17.47	17.91	18.34	17.64
EUR/ZAR	18.13	16.92	16.34	16.55	16.44	16.25	16.13	15.75	15.38	15.88	16.38	15.75
ZAR/JPY	6.96	7.45	7.78	7.80	7.94	8.06	8.27	8.40	8.62	8.35	8.09	8.41
CHF/ZAR	16.71	15.45	14.78	14.84	14.51	14.33	14.15	13.74	13.23	13.37	13.51	12.60
AUD/ZAR	11.53	10.86	10.46	10.45	10.35	10.19	9.91	9.50	9.23	9.53	9.83	9.45
GBP/USD	1.38	1.37	1.37	1.39	1.42	1.43	1.45	1.43	1.42	1.41	1.40	1.40
EUR/USD	1.21	1.20	1.21	1.24	1.26	1.26	1.27	1.26	1.25	1.25	1.25	1.25
USD/JPY	106	105	105	105	104	104	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	14.96	14.00	13.80	13.70	13.60	13.50	13.70	13.60	13.50	13.90	14.30	13.80
GBP/ZAR	20.64	19.18	18.91	19.04	19.31	19.31	19.87	19.45	19.17	19.60	20.02	19.32
EUR/ZAR	18.13	16.80	16.70	16.92	17.07	17.01	17.40	17.14	16.88	17.38	17.88	17.25
ZAR/JPY	7.09	7.50	7.61	7.63	7.65	7.70	7.66	7.72	7.85	7.63	7.41	7.68
CHF/ZAR	16.44	15.34	15.11	15.17	15.06	15.00	15.26	14.95	14.52	14.63	14.74	13.80
AUD/ZAR	11.53	10.78	10.70	10.69	10.74	10.67	10.69	10.34	10.13	10.43	10.73	10.35
GBP/USD	1.38	1.37	1.37	1.39	1.42	1.43	1.45	1.43	1.42	1.41	1.40	1.40
EUR/USD	1.21	1.20	1.21	1.24	1.26	1.26	1.27	1.26	1.25	1.25	1.25	1.25
USD/JPY	106	105	105	105	104	104	105	105	106	106	106	106

Note averages, Source: Investec, Iress

SA Economics



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	14.96	15.50	17.00	17.50	18.00	18.50	19.00	19.50	19.40	19.90	20.00	19.80
GBP/ZAR	20.64	21.23	23.29	24.33	25.56	26.46	27.55	27.89	27.55	28.06	28.00	27.72
EUR/ZAR	18.13	18.60	20.57	21.61	22.59	23.31	24.13	24.57	24.25	24.88	25.00	24.75
ZAR/JPY	7.09	6.77	6.18	5.97	5.78	5.62	5.53	5.38	5.46	5.33	5.30	5.35
CHF/ZAR	16.44	16.99	18.62	19.38	19.94	20.56	21.17	21.43	20.86	20.95	20.62	19.80
AUD/ZAR	11.53	11.94	13.18	13.65	14.22	14.62	14.82	14.82	14.55	14.93	15.00	14.85
GBP/USD	1.38	1.37	1.37	1.39	1.42	1.43	1.45	1.43	1.42	1.41	1.40	1.40
EUR/USD	1.21	1.20	1.21	1.24	1.26	1.26	1.27	1.26	1.25	1.25	1.25	1.25
USD/JPY	106	105	105	105	104	104	105	105	106	106	106	106

Note: averages. Source: Investec, Iress