

SA Economics



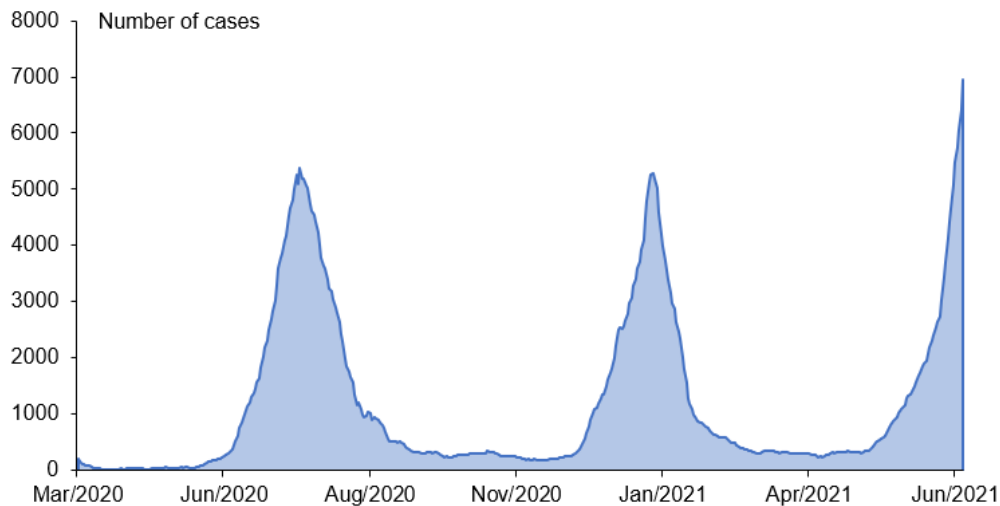
Monday 21 June 2021

Rand note: the rand settled above R14.00/USD after last week's FOMC dot plot elevation from 2023, reducing the heady risk-on which had been permeating markets, and causing the rand to consolidate

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

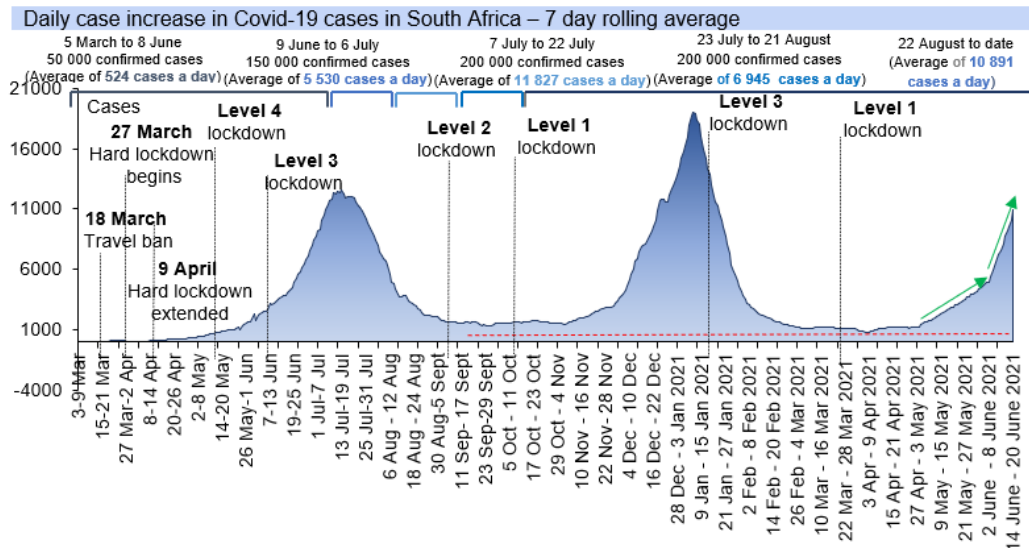
Note: averages, Source: Investec, Iress

Daily new cases in Gauteng with 7 day rolling average – 20 June 2021



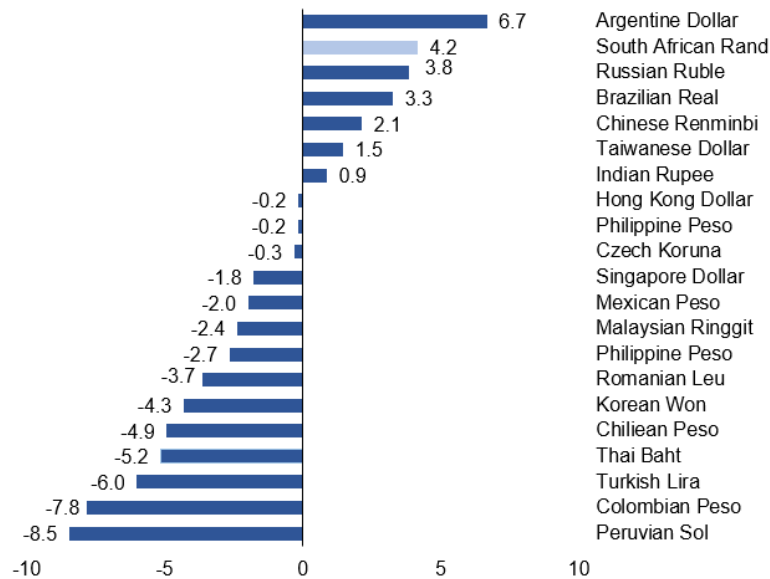
Source: National Department of Health

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Source: National Department of Health

Emerging Markets Carry Return – values as of 21 June 2021

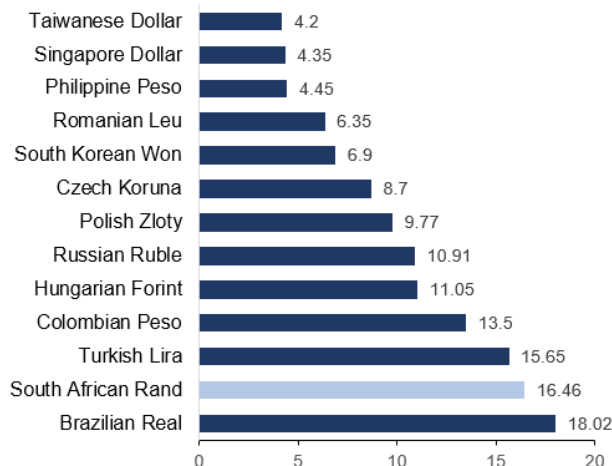


Source: Bloomberg

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Emerging Markets Implied Volatilities – values as at 21 June 2021



Source: Bloomberg

- The rand weakened to R14.38/USD after last week's FOMC meeting, negatively affected by the increased hawkish nature of US FOMC members' interest rate forecasts as well as the ongoing high rate of new COVID-19 infections in SA's key economic province, Gauteng.
- Despite some placatory comments from Fed Chair Powell that the elevation in individual FOMC members' interest rate forecasts (the dot plot chart) in 2023 should not be taken as a given for the future rate hike trajectory, the dot plot update nevertheless reduced risk on.
- The majority of EM currencies are weaker on the year, with the ZAR still leading the emerging market (EM) Bloomberg currency ranker, but this is mainly due to its extremely weak base of a year ago when it was the worst performer out of this EM currency basket.
- The platinum price is up 27.1% y/y currently, seeing less annual strength than in June before last week Thursday's FOMC meeting when the platinum price ran consistently above 40% y/y, although still lending the rand some support, which is up 20.9% y/y.
- Markets continue to re-evaluate risk, and foreigners have sold off -R4.5bn in SA bonds since the FOMC meeting and -R5.5bn in equities, both net of purchases with South Africa's Reserve Bank (SARB) warning on the potential for rand weakness to feed through into inflation.
- The SARB governor is also reported to have noted that "(t)he economy is less vulnerable than it was last year — we have got a current-account surplus and the budget balance has recovered faster than we had actually expected".

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- And further that, SA will be “going into normalisation from a very solid basis”. “That should help the Treasury stabilise debt”, with the SARB likely to hike interest rates if there is evidence of second round effects from rand weakness in inflation.
- While the SARB is sounding a less dovish tone, and this is likely to help the rand retain some support, SA’s Reserve Bank is also likely to not hesitate to hike interest rates as global monetary policy becomes less accommodative, and rate hikes increase in other EMs.
- While we currently don’t expect any interest rate hikes in South Africa this year, 2022 could well see the SARB begin hiking, given its past hawkish bent, even before the US does, which is currently seen likely to be only in 2023.

Please scroll down to the second section below

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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	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	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
2%	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	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
50%	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	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
(domestic)	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.								
Down case	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
42%	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.								
Severe down case									
5%									

Note: Event risk begins Q2.21. Source: Investec

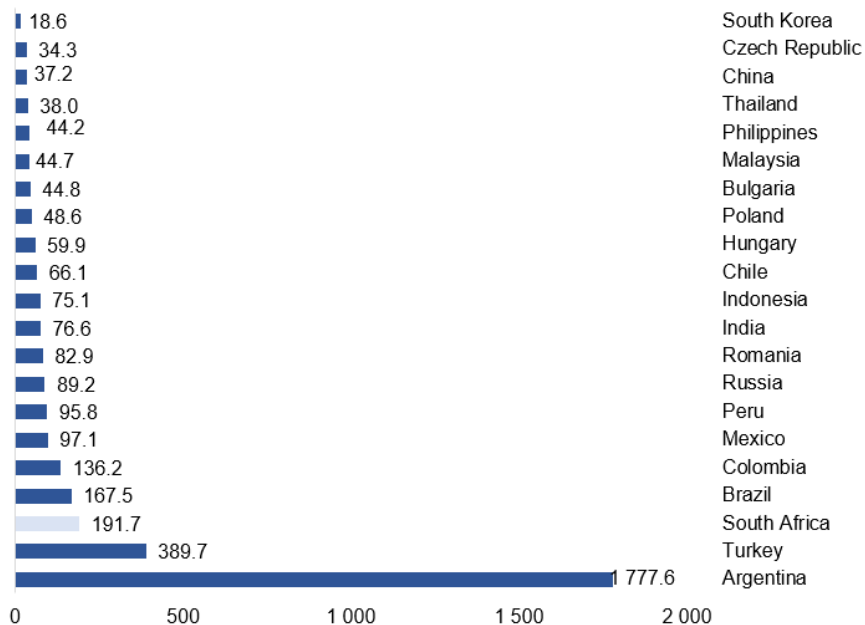
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Lite Down Case: Exchange Rate forecasts												
	2021				2022				2023			
	Q1.21	Q2.21	Q3.21	Q4.21	Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.23
USD/ZAR	14.96	15.00	15.75	16.50	16.70	7.00	17.50	17.00	16.80	17.00	17.10	16.70
GBP/ZAR	20.64	20.55	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
CHFZAR	16.44	16.44	17.25	18.28	18.50	7.78	19.50	18.68	18.06	17.89	17.63	16.70
AUDZAR	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 21 June 2021

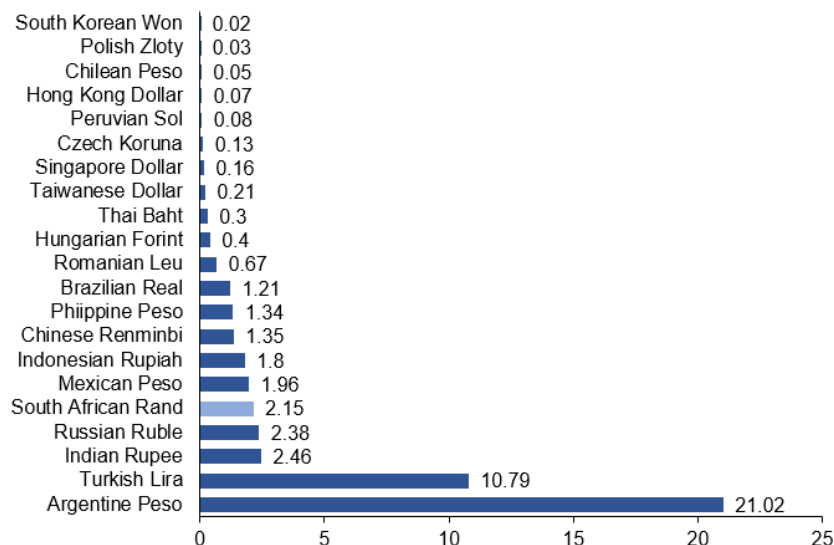


Source: Bloomberg

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Emerging Markets Interest Return – values as of 21 June 2021



Source: Bloomberg

Monetary	2020	2020	2020	2020	2021	2021	2021	2021	2022	2022	2022	2022
Sector % year-end	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Repo Rate (year-end: %)	5.25	3.75	3.50	3.50	3.50	3.50	3.50	3.50	3.75	3.75	4.00	4.00
Prime Overdraft Rate (year-end: %)	8.75	7.25	7.00	7.00	7.00	7.00	7.00	7.00	7.25	7.25	7.50	7.50
SA rand bond (Av: %)	9.73	10.47	10.20	10.07	10.10	10.12	10.03	10.14	10.23	9.93	10.06	10.15

Note: % quarter-end. Source: SARB, Investec

Monetary	2023	2023	2023	2023	2024	2024	2024	2024	2025	2025	2025	2025
Sector % year-end	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Repo Rate (year-end: %)	4.00	4.25	4.25	4.25	4.50	4.50	4.50	4.50	4.75	4.75	4.75	4.75
Prime Overdraft Rate (year-end: %)	7.50	7.75	7.75	7.75	8.00	8.00	8.00	8.00	8.25	8.25	8.25	8.25
SA rand bond (Av: %)	10.19	10.20	10.00	10.08	10.14	10.14	10.22	10.23	10.25	10.30	10.33	10.27

Note: % quarter-end. Source: SARB, Investec

Monetary	2026	2026	2026	2026
Sector % year-end	Q1	Q2	Q3	Q4
Repo Rate (year-end: %)	5.00	5.00	5.00	5.00
Prime Overdraft Rate (year-end: %)	8.50	8.50	8.50	8.50
SA rand bond (Av: %)	10.36	10.27	10.35	10.36

Note: % quarter-end. Source: SARB, Investec

- We continue to expect a hawkish bent in monetary policy in SA, and believe the MPC will hike interest rates as early as in the first quarter of 2022, given upwards pressures in global inflation which feeds into the domestic inflationary environment, along with rand weakness.

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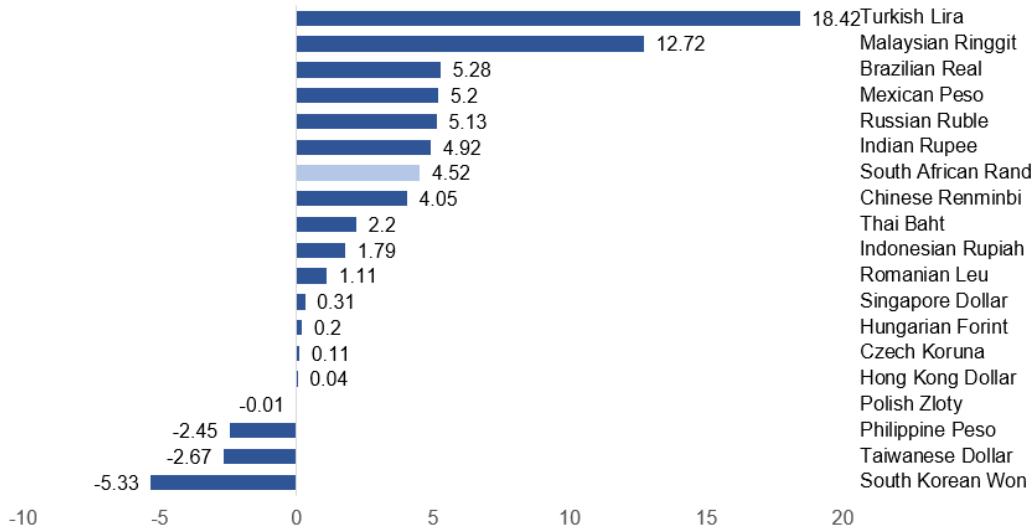


- The rand is likely to see some further weakness this year from current levels, moving towards R14.45/USD in Q3.21, but not see substantial enough weakness to cause any marked feed through into inflation and so precipitate a repo rate hike this year (expected case).
- Next year however, the rand is likely to weaken towards R15.00/USD by Q3.22 and this is probably going to be sufficient, along with upwards global inflation pressures to push the CPI inflation rate up enough for the SARB to hike.
- The SARB may not hike in Q1.22, and may choose to hike a little later in 2022. Employment levels are likely to still not have recovered by Q1.22 from the harsh lockdowns of 2020, but the SARB could also hike earlier if it chooses, and will likely ignore employment concerns.
- Indeed, there could well be a flurry of EM interest rate hikes in H2.21, as emerging market central banks attempt to entice foreign flows and guard against rising inflation pressures and this could also spur the SARB to make an early decision to hike in Q4.21.
- However, markets likely overreacted somewhat to the FOMC members dot plot elevation last week, and it is quite possible the rand, and other EM currencies see some further strength in Q3.21, as the US certainly is not about to hike interest rates, or taper QE, yet.
- Indeed, EM portfolio assets still offer good returns, and as such will likely remain attractive over Q3.21, while EM currencies could gain further as foreign flows continue to discriminate between EM portfolio assets but also regain yield seeking behaviour.
- Nevertheless, the conversation has now begun in earnest on reducing monetary accommodation globally, and Central Banks around the world are likely to be primed to bring this into their interest rates discussions to increase warning ahead of rate hikes.
- In SA, COVID-19 retains a strong grip on Gauteng, as its seven-day rolling average shows a third wave exceeding the peaks of the provinces first and second waves, with no end in sight yet, also proving a negative for the domestic currency currently.

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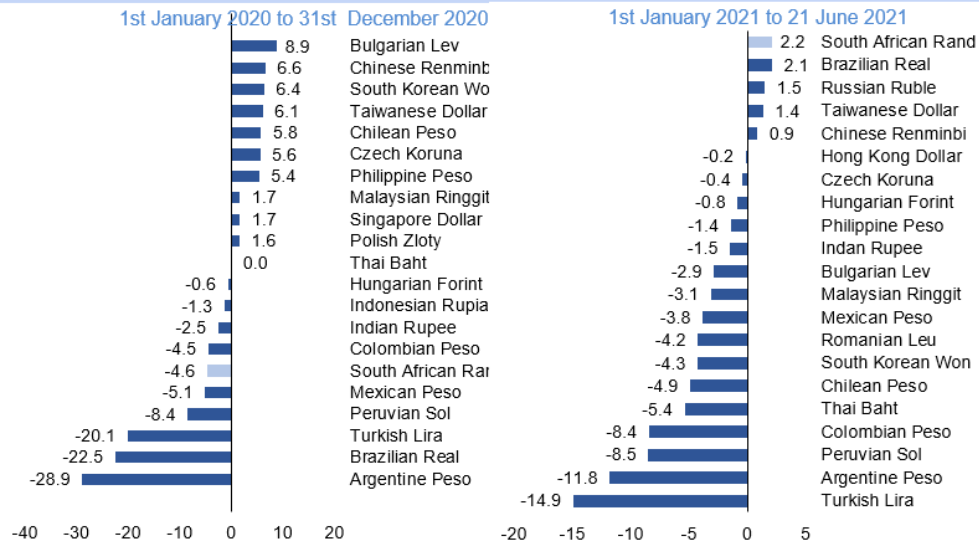


Emerging Markets Implied Rates – values as at 21 June 2021



Source: Bloomberg

Emerging Markets currency depreciation (-) %, appreciation (+) %



Source: Bloomberg

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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
CHFZAR	16.71	15.45	14.78	14.84	14.51	14.33	14.15	13.74	13.23	13.37	13.51	12.60
AUDZAR	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
CHFZAR	16.44	15.34	15.11	15.17	15.06	15.00	15.26	14.95	14.52	14.63	14.74	13.80
AUDZAR	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

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
CHFZAR	16.44	16.99	18.62	19.38	19.94	20.56	21.17	21.43	20.86	20.95	20.62	19.80
AUDZAR	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