

SA Economics

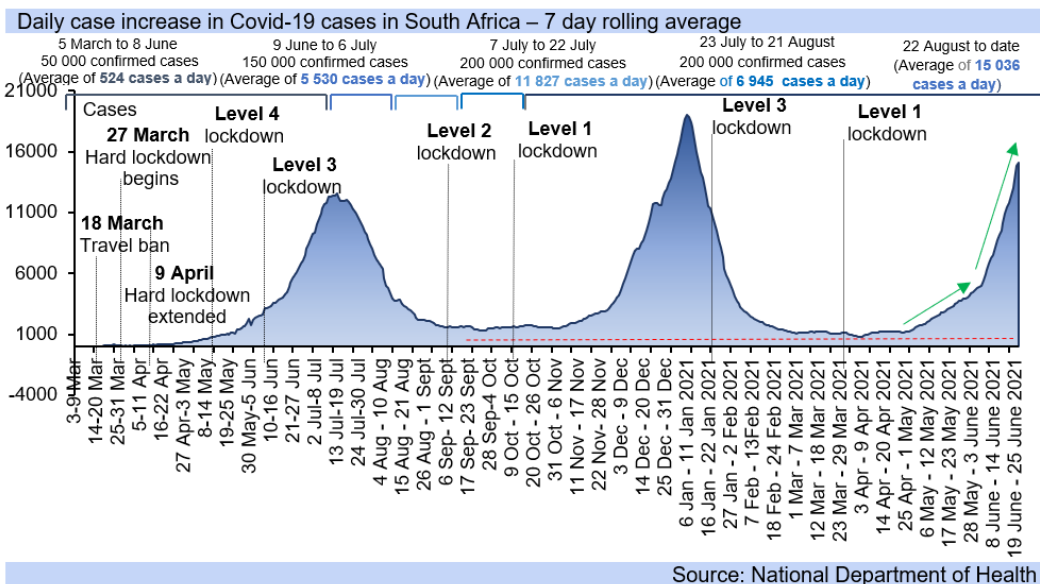


Monday 28 June 2021

Rand note: the rand has held above R14.00/USD, failing to strengthen further on ongoing market concerns over firming of US rate hike plans and the rapid increase in the third wave in SA amid the effects of a poor initial vaccine rollout

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

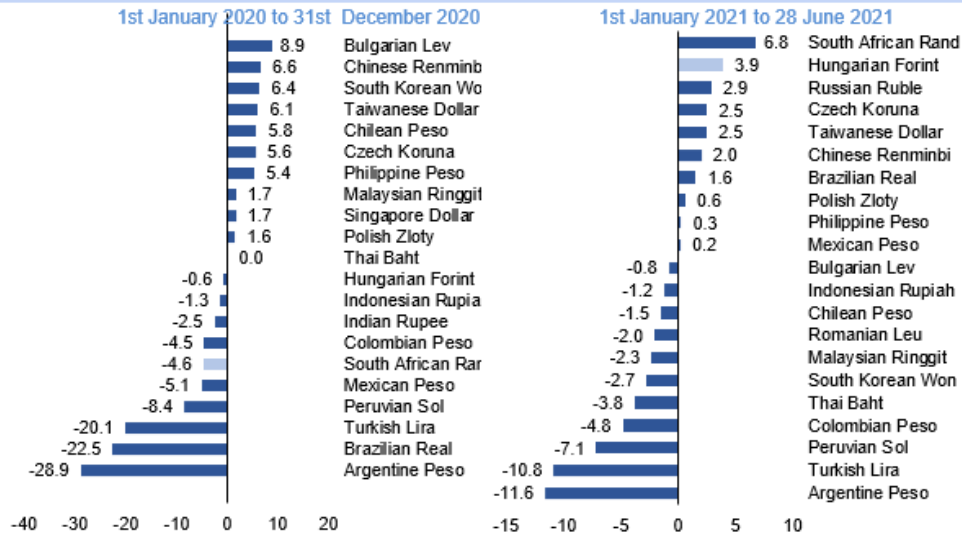
Note: averages, Source: Investec, Iress



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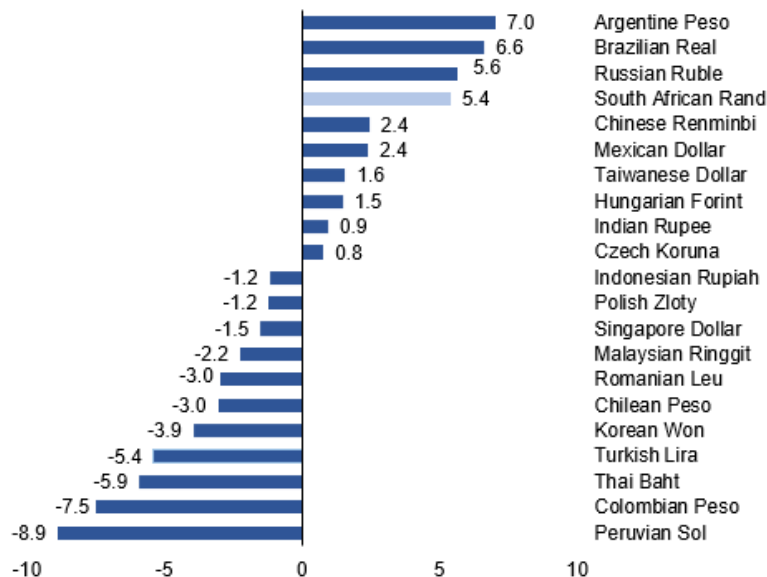


Emerging Markets currency depreciation (-) %, appreciation (+) %



Source: Bloomberg

Emerging Markets Carry Return – values as at 28 June 2021

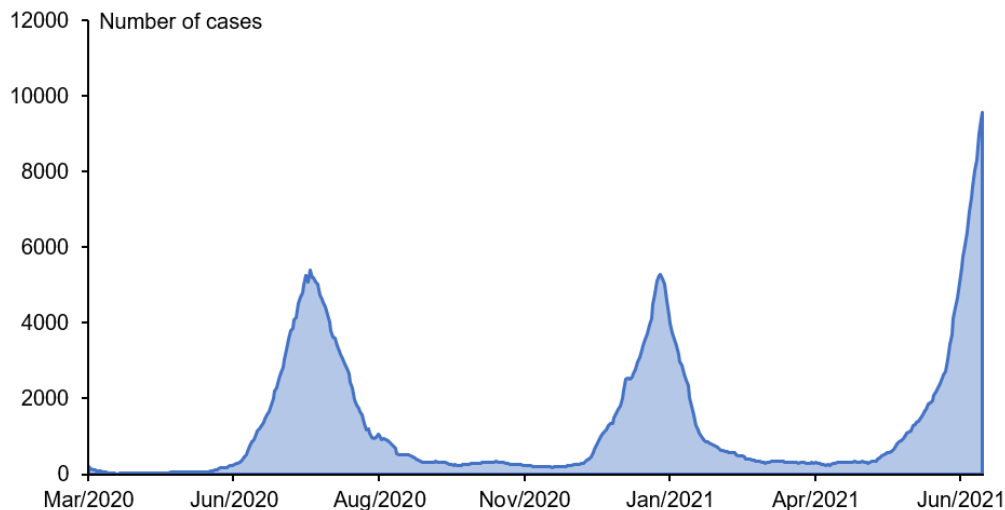


Source: Bloomberg

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Daily new cases in Gauteng with 7 day rolling average – 27 June 2021



Source: National Department of Health

- The Brazilian real is now the strongest EM currency since the start of the year, up 6.8%, and gaining in particular from rate hikes returning its central bank rate back to just 25bp shy of its pre pandemic level. SA's repo at 3.50% is 300bp removed from its pre pandemic 6.50%.
- Russia too has been hiking its interest rates, by over 100bp, while its currency is the third strongest this year since January, up nearly 3.0%, while Mexico's rate hikes have also supported its peso, which is also among those currencies stronger since the start of 2021.
- Others include the Hungarian forint, which is leading EU rate hikes, while the Czech republic has also hiked its rates leading to currency strength. Higher inflation is stoking higher EM interest rates, and SA's SARB governor sounds increasingly hawkish.
- In SA the SARB governor has indicated that the economy is seeing a stronger than expected recovery, and that higher inflation could see higher interest rates, the recent third wave in COVID infections, and resultant tighter lockdown measures will risk slowing growth.
- Currently, the adjusted level 4 SA has moved to has been mainly focussed on limiting or eliminating gatherings of individuals, with the government requiring individuals to work from home, the closure of schools and limited numbers (to 50 with no night vigils) at funerals.
- Interprovincial travel is limited, and alcohol sales banned, which will negatively impact the hospitality, tourism and restaurant sector, with many businesses not recovered from last year's lockdown. However, the third wave in Gauteng needs to be brought under control.
- With the highly contagious delta variant seeing infections higher than in the first two waves, government is scrambling to try and prevent other provinces see their cases run

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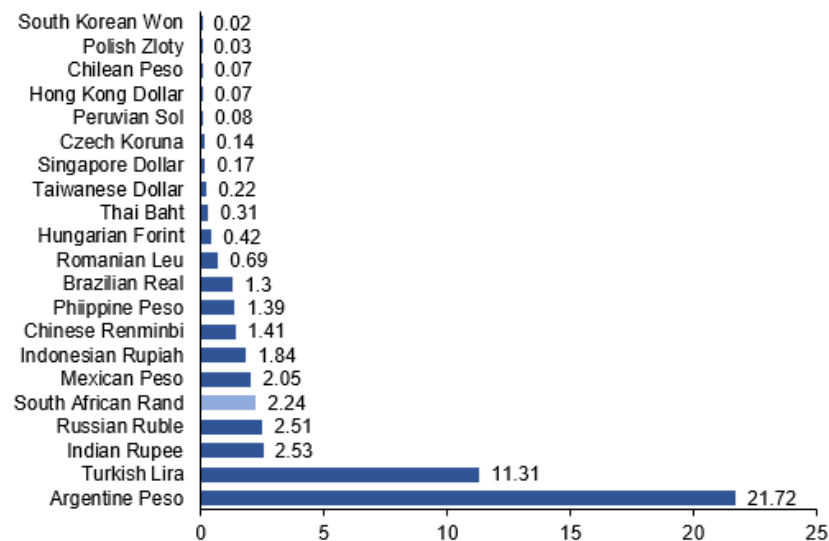


out of control as Gauteng has, with the ill now being sent to other provinces as hospital capacity runs out

- The poor showing of SA's vaccination drive, covering a very low 4.5% of the population, is also being held up by little to no vaccinations over the weekend as government has insufficient funds to do so, and has been uncovering theft of state funds, even in the health sector.
- While we still expect no interest rate hikes in South Africa this year, the SARB has started talking of normalising monetary policy, which combined with the negative impact of the third wave and higher restrictions, will be harmful to the economic recovery.

Please scroll down to the second section below

Emerging Markets Interest Return – values as at 28 June 2021

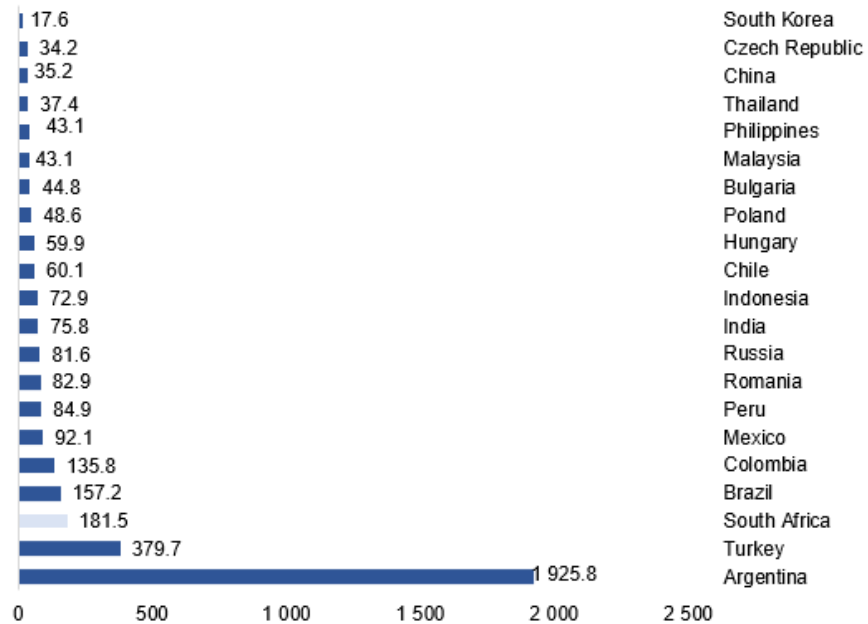


Source: Bloomberg

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Emerging Markets CDS Spreads – values as at 28 June 2021



Source: Bloomberg

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Economic Scenarios: reduced downside, stronger expected case

		Q1.21	Q2.21	Q3.21	Q4.21	Q1.22	Q2.22	Q3.22	Q4.22
Extreme Up case 1%	USD/Rand (average)	14.96	14.10	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
	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	14.30	14.00	13.90	14.00	14.40	14.70	14.30
	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	3.50	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

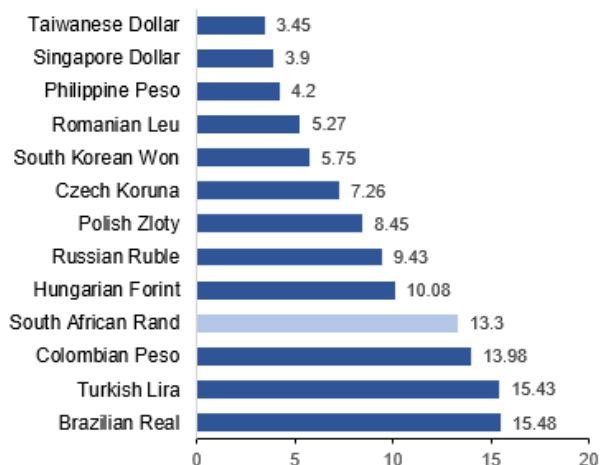
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Lite Down Case: Exchange Rate forecasts												
	2021				2022				2023			
	Q1.21	Q2.21	Q3.21	Q4.21	Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.23
USD/ZAR	14.96	15.00	15.75	16.50	16.70	7.00	17.50	17.00	16.80	17.00	17.10	16.70
GBP/ZAR	20.64	20.55	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
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 Implied Volatilities – values as at 28 June 2021



Source: Bloomberg

- While the rand is expected to gain from higher interest rates, it is more than strong enough already not to provide any inflationary pressures, while the higher inflation trajectory SA has seen has been due to statistical base effects and international commodity price pressures.
- The rand is close to averaging R14.00/USD for this quarter, and is currently at R 14.25/USD, R17.01/EUR and R19.82/GBP, almost a rand weaker than R13.40/USD, R16.31/EUR and R18.97/GBP earlier in the month, as the run in strength is likely over for the rand currently.
- South Africa has failed in preventing the third wave by gaining insufficient traction on vaccinations, and should increasingly allow the private sector to administer, obtain vaccines and accelerate delivery in order to prevent a likely fourth wave down the line.

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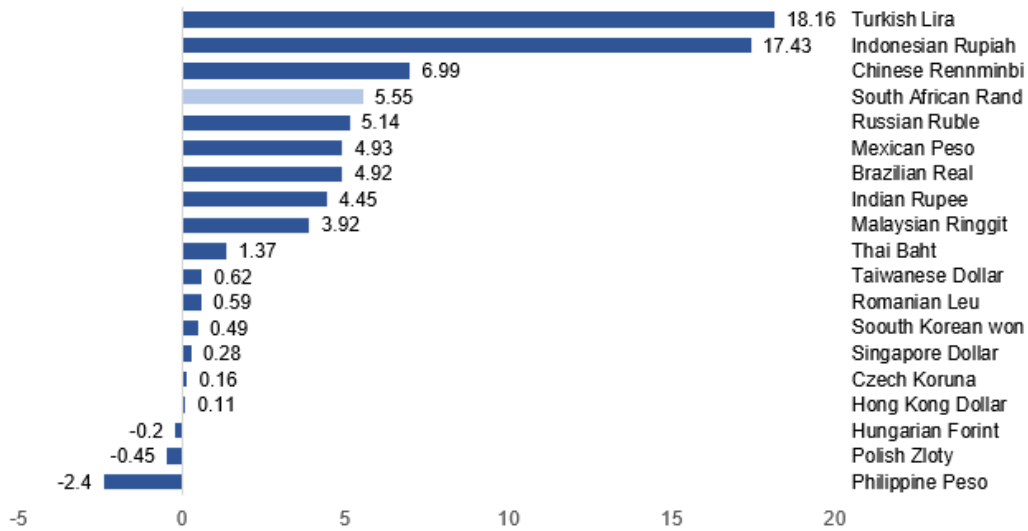


- The tardiness which permeates government delivery, from the vaccination drive, failure to have sufficient public health care facilities opened and staffed such as the Charlotte Maxeke hospital and Nasrec, to looting of public funds and insufficient skills, has aided the third wave.
- South Africa's economy will consequently suffer on tighter restrictions, as will livelihoods, while lives are increasingly being lost as the pandemic's reach into South Africa firms its hold, with little change in the will of government to massively boost private sector participation.
- The past decade has seen policies on nationalisation proliferate, while the size of the state has rapidly expanded, along with its command and control of the economy, with regulations that are anti-free market proliferating, and so economic growth has weakened materially.
- Instead of free market policies supportive of growth, the opposite has occurred, with the proliferation of substantial red tape, slow bureaucracy and government legislation restricting the freedom of doing business in SA, while pro-growth reforms generally remain impeded.
- Increased nationalisation of health care via the state vaccine drive has not been successful in keeping pace with the other G20 economies, while problems in public health delivery escalated. Further nationalisation of health care is unlikely to deliver better results.
- This also continues to subdue investor confidence in SA, particularly domestically and in Gauteng as the latest business confidence reading show. There is likely little to drive a strengthening rand trend from here and we continue to expect further weakness instead.

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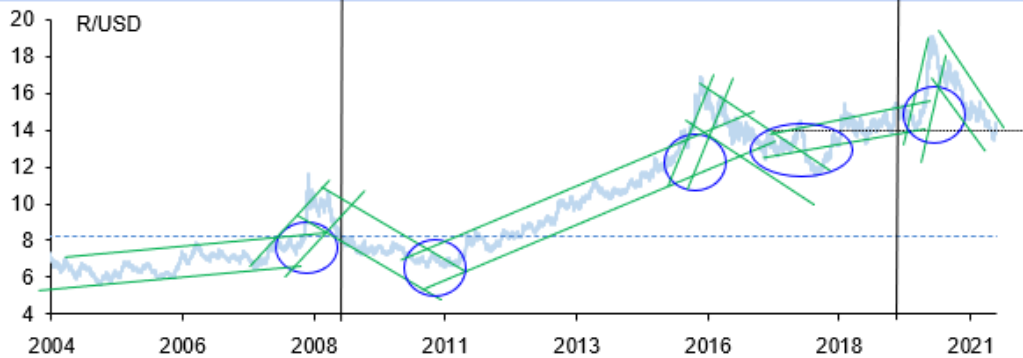


Emerging Markets Implied Interest Rates – values as at 28 June 2021



Source: Bloomberg

Rand channels



Source: Iress

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
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

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