

SA Economics



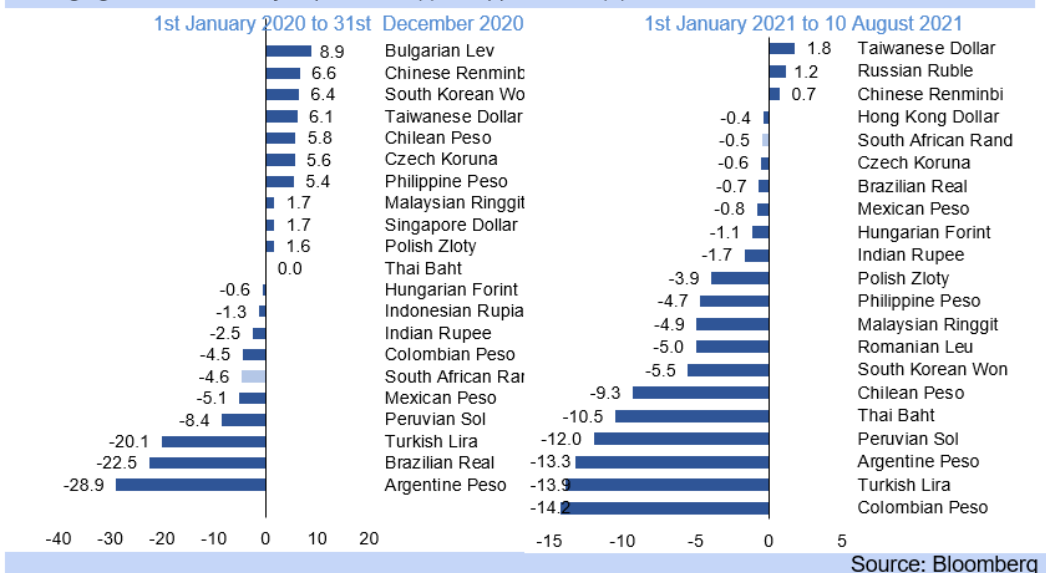
Tuesday 10 August 2021

Rand note: the volatile domestic currency has weakened again, to R14.82/USD from R14.31/USD a week ago, after recovering then from closer to R14.96/USD a week before that, as fears of quickened US tapering arise again

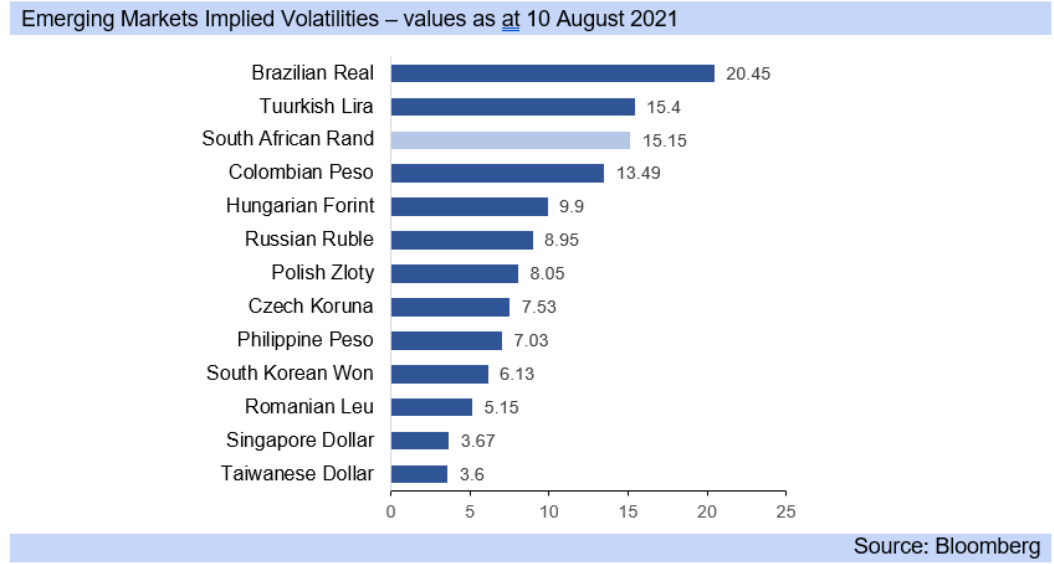
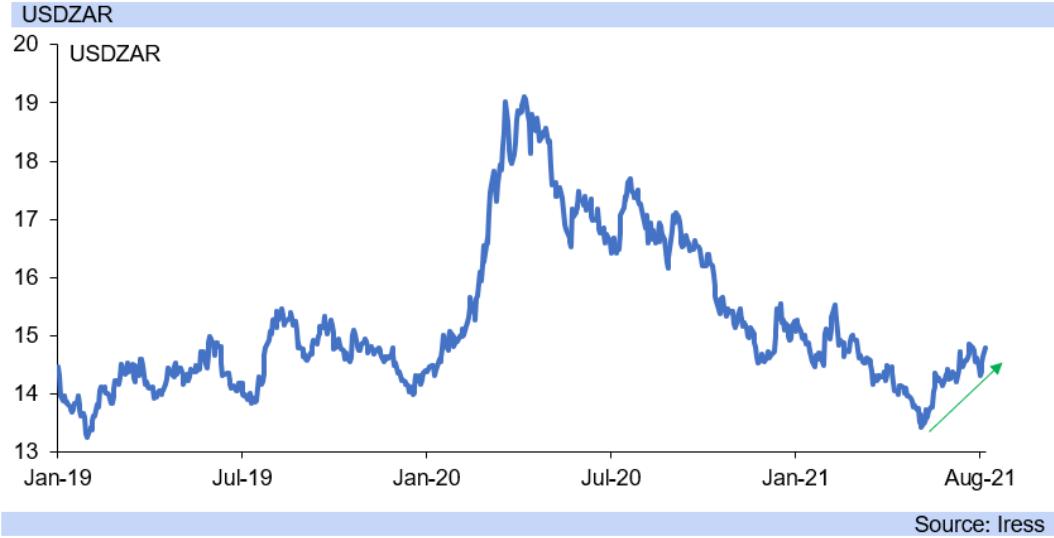
| Expected Case: Exchange Rate forecasts | | | | | | | | | | | | |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | 2021 | | | | 2022 | | | | 2023 | | | |
| | Q1.21 | Q2.21 | Q3.21 | Q4.21 | Q1.22 | Q2.22 | Q3.22 | Q4.22 | Q1.23 | Q2.23 | Q3.23 | Q4.23 |
| USD/ZAR | 14.96 | 14.13 | 14.45 | 14.35 | 14.45 | 14.85 | 15.15 | 14.75 | 14.55 | 14.95 | 15.35 | 14.85 |
| GBP/ZAR | 20.63 | 19.75 | 19.73 | 19.87 | 20.66 | 21.53 | 22.42 | 22.34 | 21.53 | 21.68 | 21.95 | 21.24 |
| EUR/ZAR | 18.03 | 17.03 | 17.24 | 17.36 | 17.70 | 18.27 | 18.86 | 18.59 | 18.19 | 18.69 | 19.19 | 18.56 |
| ZAR/JPY | 7.09 | 7.75 | 7.58 | 7.46 | 7.27 | 7.00 | 6.86 | 7.05 | 7.22 | 7.16 | 6.97 | 7.21 |
| CHF/ZAR | 16.52 | 15.51 | 15.69 | 15.64 | 15.80 | 16.16 | 16.55 | 16.16 | 15.99 | 16.43 | 16.87 | 16.32 |
| AUD/ZAR | 11.56 | 10.88 | 10.99 | 11.26 | 11.56 | 11.88 | 12.12 | 11.80 | 11.35 | 11.66 | 11.97 | 11.58 |
| GBP/USD | 1.38 | 1.40 | 1.37 | 1.38 | 1.43 | 1.45 | 1.48 | 1.51 | 1.48 | 1.45 | 1.43 | 1.43 |
| EUR/USD | 1.21 | 1.21 | 1.19 | 1.21 | 1.23 | 1.23 | 1.25 | 1.26 | 1.25 | 1.25 | 1.25 | 1.25 |
| USD/JPY | 106 | 109 | 109 | 107 | 105 | 104 | 104 | 104 | 106 | 107 | 107 | 107 |

Note: averages, Source: Investec, Iress

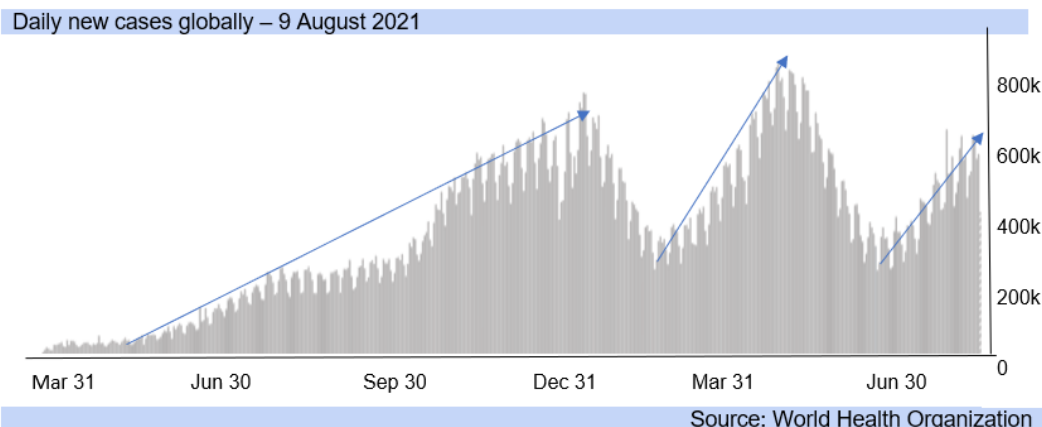
Emerging Markets currency depreciation (-) %, appreciation (+) %



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- The rand is currently trading at R14.83/USD, R17.38/EUR and R20.54/GBP, vs. R14.31/USD, R16.98/EUR and R19.92/GBP a week ago, but volatile on a resumption of risk off in global financial sentiment on resurgent concerns US monetary policy stimulus will be wound back.
- In particular, the US Federal Reserve Bank highlighted at its FOMC meeting almost two weeks ago, that it would keep monetary policy highly accommodative until US employment is at maximum levels, highlighting at the time that it believed labour participation was low.
- However, Friday's drop in the US's unemployment rate for July, to 5.4% from June's 5.9%, was well below the expected 5.7%, while US nonfarm payrolls' tally of new jobs at 943 000 was well above the 870 000 expected.
- The prior US nonfarm's payroll reading was revised down to 850 000, from 938 000, and this drop in June's assessed figure doubtless contributed heavily to the much larger than expected lift in July's figures, which spooked markets.
- The US labour force participation rate however did not see much change, from 61.6% in June to 61.7% in July, historically having run above 62.5% in the main since 2015, and as such is not signifying any likely near term change in the US monetary policy stance.
- Consequently, markets likely overreacted to Friday's US jobs data, and the domestic currency may have room to strengthen as risk aversion eases somewhat, but markets are not yet leaning in this direction as they continue to worry over the straight payrolls figure.
- Last week Thursday night the rand briefly spiked to R14.76/USD on Tito Mboweni's resignation as Finance Minister but recovered its lost ground on the news he was replaced by Enoch Godongwana who has been reported to be against increased expenditure or taxes.
- However, it remains to be seen what the new Finance Minister will bring to SA's government finances. The rand remains highly sensitive to US economic data readings,

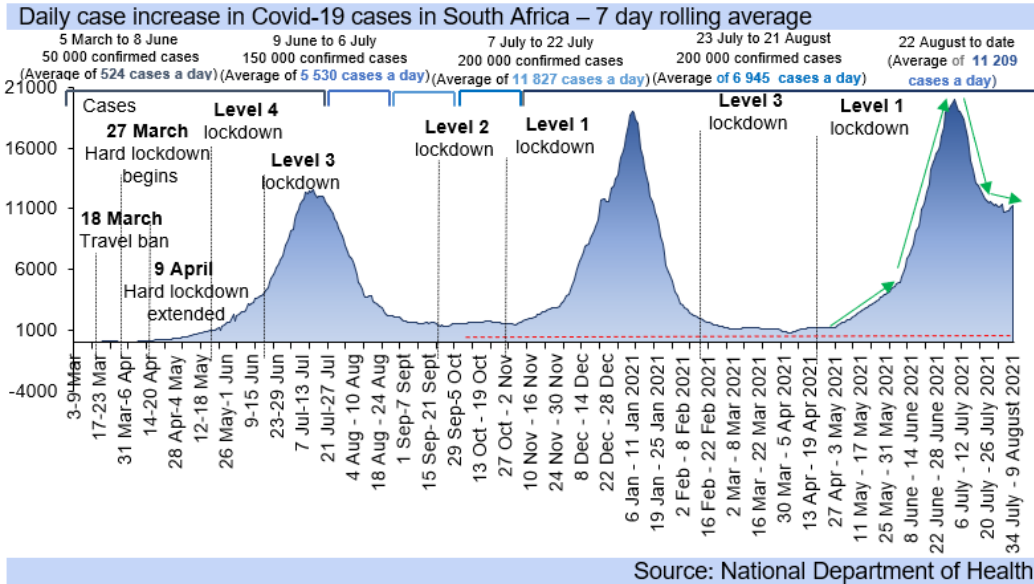
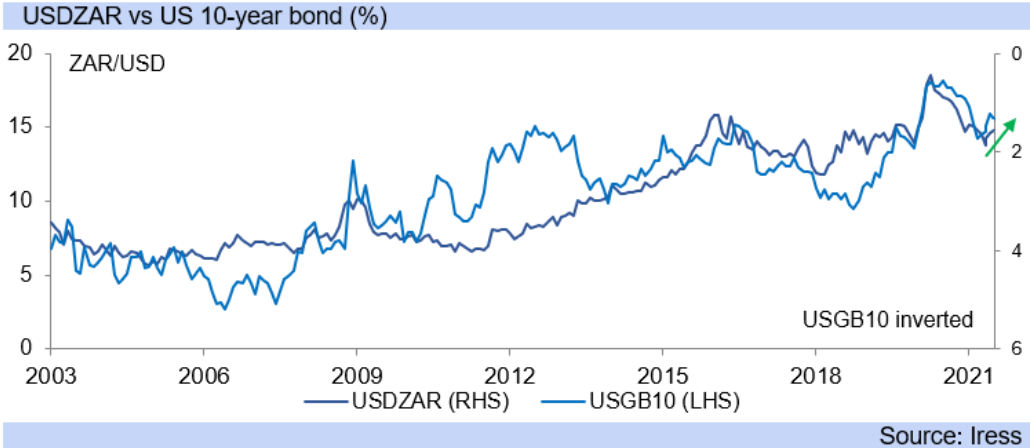
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and as such will likely remain volatile, and at risk of any perceived indication of US tapering on the horizon.

- The domestic currency so far averages R14.53/USD this quarter, fractionally weaker than the expected average, with potential to track stronger in coming weeks, but also at risk as global markets worry about the spread of the delta variant and accompanying lockdowns globally.

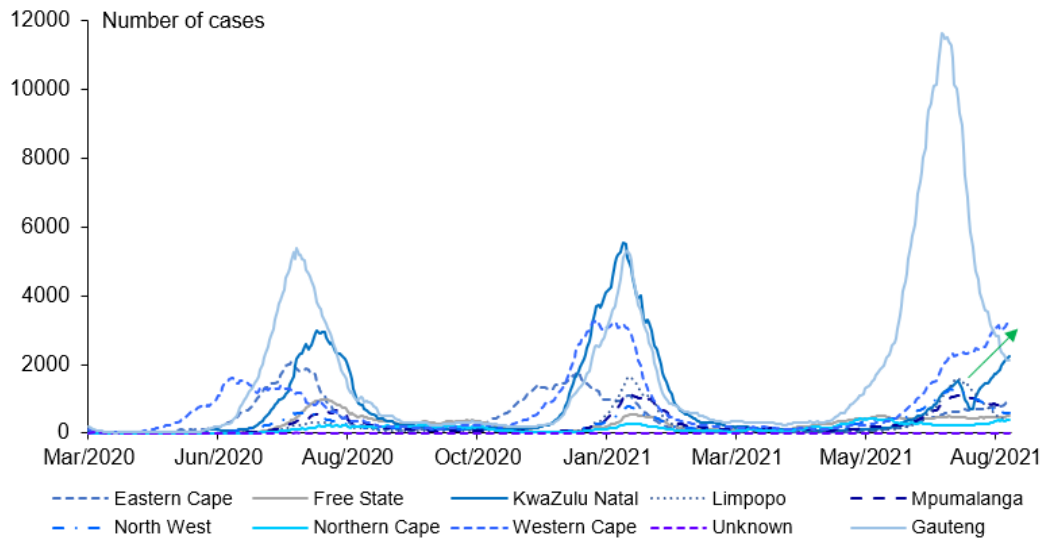
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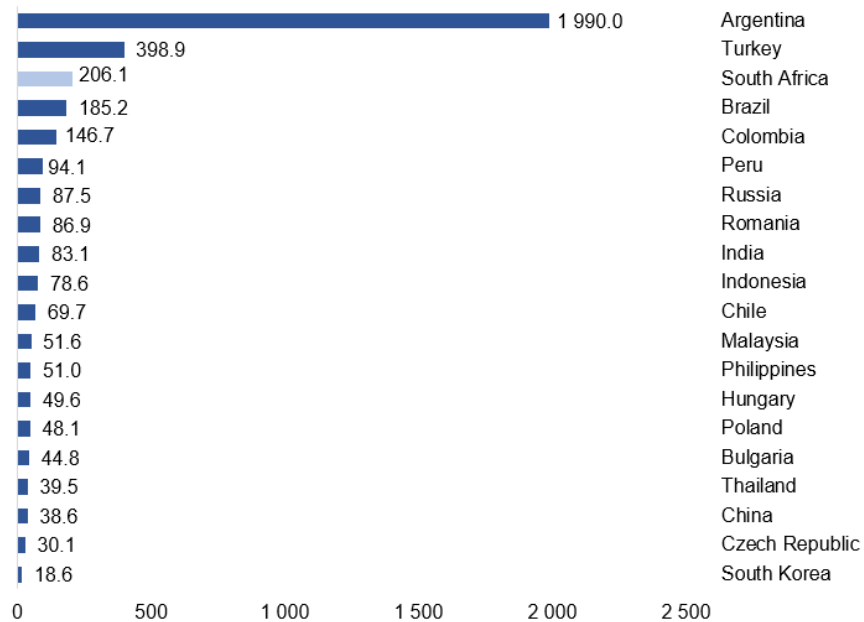


Regional daily case increase in Covid-19 cases – 7 day rolling average



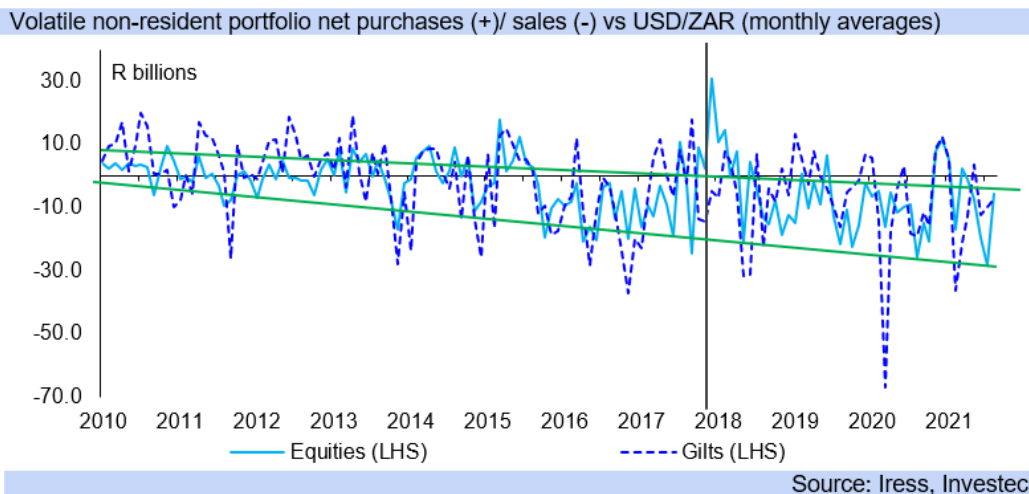
Source: National Department of Health

Emerging Markets CDS Spreads – values as at 10 August 2021



Source: Bloomberg

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- August is traditionally a risky month for the domestic currency, afflicted by the risk-off nature of the Northern Hemisphere summer holidays (where investors tend to reduce risk as they take their annual large vacation break), and this exacerbates market sentiment shifts.
- In South Africa, new Finance Minister Godongwana has been reported to be a promoter of economic growth and reforms to drive an improvement in government finances and is said to have sounded caution previously on higher taxes and expenditure.
- His seniority in the ruling party is expected to stand him in good stead, as well as being better able to debate issues, and drive consensus solutions, but he nevertheless inherits a difficult post and markets still worry Tito's exit does actually signal pressure for higher expenditure.
- A further deterioration in government finances is the risk, especially higher expenditure which SA simply cannot afford, and is the wrong route to take. Furthermore, the tax base is tiny and any tax increases would harm the economy and yield little, given the low buoyancy ratio.
- Indeed, government spending remains elevated, while economic reforms lag substantially, and the recent cabinet reshuffle does not change this at all, with the Ministers most opposed to the necessary changes to achieve a free market economy retaining their posts.
- While elevated commodity prices have allowed government finances to outperform, there has been little appetite from government to save its tax overruns and reduce debt. Instead, expenditure has increased, and this is likely another reason for Mboweni deciding to exit.
- Increasing expenditure and taxes further is definitely not the right approach to take, and has seen SA's government finances reach the deteriorated point they are at over the past decade, and into the current decade. The appetite for reform has faded further on Tito's exit.

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- July's riots strongly reduced investor appetite, higher taxes would reduce it further and SA risks moving further towards a failed state in the absence of cutting back actual expenditure, not just future planned expenditure or future planned growth in expenditure.
- The rand has not seen much movement this afternoon so far, but certainly did not strengthen on the cabinet reshuffle, which lost one of the best Ministers and failed to gain any likely to drive an impetus for structural reform, and so faster economic growth and higher revenues.

Economic Scenarios: note currency and probability updates

| | | 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 | 14.13 | 13.50 | 13.20 | 13.00 | 12.90 | 12.80 | 12.70 |
| | Repo rate (end rate) | 3.50 | 3.50 | 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 EVWC – 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 | 14.13 | 13.70 | 13.50 | 13.30 | 13.40 | 13.20 | 13.00 |
| | 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 48% | USD/Rand (average) | 14.96 | 14.13 | 14.45 | 14.35 | 14.45 | 14.85 | 15.15 | 14.75 |
| | 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 43% | USD/Rand (average) | 14.96 | 14.13 | 15.15 | 15.50 | 16.00 | 16.65 | 16.90 | 17.00 |
| | Repo rate (end rate) | 3.50 | 3.50 | 3.75 | 3.75 | 4.00 | 4.00 | 4.25 | 4.25 |
| | 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 6% | USD/Rand (average) | 14.96 | 14.13 | 15.65 | 16.40 | 17.00 | 17.50 | 18.00 | 18.50 |
| | Repo rate (end rate) | 3.50 | 3.50 | 4.00 | 4.00 | 4.50 | 4.50 | 5.00 | 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 Q3.21. 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 | 14.13 | 15.15 | 15.50 | 16.00 | 16.65 | 16.90 | 17.00 | 17.50 | 17.60 | 17.50 | 17.20 |
| GBP/ZAR | 20.63 | 19.75 | 20.69 | 21.46 | 22.88 | 24.14 | 25.01 | 25.75 | 25.90 | 25.52 | 25.03 | 24.60 |
| EUR/ZAR | 18.03 | 17.03 | 18.07 | 18.76 | 19.60 | 20.48 | 21.04 | 21.42 | 21.88 | 22.00 | 21.88 | 21.50 |
| ZAR/JPY | 7.09 | 7.75 | 7.23 | 6.90 | 6.56 | 6.25 | 6.15 | 6.12 | 6.00 | 6.08 | 6.11 | 6.22 |
| CHFZAR | 16.52 | 15.51 | 16.45 | 16.90 | 17.50 | 18.12 | 18.46 | 18.63 | 19.23 | 19.34 | 19.23 | 18.90 |
| AUDZAR | 11.56 | 10.88 | 11.52 | 12.17 | 12.80 | 13.32 | 13.52 | 13.60 | 13.65 | 13.73 | 13.65 | 13.42 |
| GBP/USD | 1.38 | 1.40 | 1.37 | 1.38 | 1.43 | 1.45 | 1.48 | 1.51 | 1.48 | 1.45 | 1.43 | 1.43 |
| EUR/USD | 1.21 | 1.21 | 1.19 | 1.21 | 1.23 | 1.23 | 1.25 | 1.26 | 1.25 | 1.25 | 1.25 | 1.25 |
| USD/JPY | 106 | 109 | 109 | 107 | 105 | 104 | 104 | 104 | 106 | 107 | 107 | 107 |

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 | 14.13 | 15.65 | 16.40 | 17.00 | 17.50 | 18.00 | 18.50 | 18.70 | 19.20 | 19.55 | 19.70 |
| GBP/ZAR | 20.63 | 19.75 | 21.37 | 22.70 | 24.31 | 25.37 | 26.64 | 28.02 | 27.68 | 27.84 | 27.96 | 28.17 |
| EUR/ZAR | 18.03 | 17.03 | 18.67 | 19.84 | 20.83 | 21.53 | 22.41 | 23.31 | 23.38 | 24.00 | 24.44 | 24.63 |
| ZAR/JPY | 7.09 | 7.75 | 7.00 | 6.52 | 6.18 | 5.94 | 5.78 | 5.62 | 5.61 | 5.57 | 5.47 | 5.43 |
| CHFZAR | 16.52 | 15.51 | 16.99 | 17.88 | 18.59 | 19.05 | 19.66 | 20.27 | 20.55 | 21.10 | 21.48 | 21.65 |
| AUDZAR | 11.56 | 10.88 | 11.90 | 12.87 | 13.60 | 14.00 | 14.40 | 14.80 | 14.59 | 14.98 | 15.25 | 15.37 |
| GBP/USD | 1.38 | 1.40 | 1.37 | 1.38 | 1.43 | 1.45 | 1.48 | 1.51 | 1.48 | 1.45 | 1.43 | 1.43 |
| EUR/USD | 1.21 | 1.21 | 1.19 | 1.21 | 1.23 | 1.23 | 1.25 | 1.26 | 1.25 | 1.25 | 1.25 | 1.25 |
| USD/JPY | 106 | 109 | 109 | 107 | 105 | 104 | 104 | 104 | 106 | 107 | 107 | 107 |

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 | 14.13 | 13.70 | 13.50 | 13.30 | 13.40 | 13.20 | 13.00 | 12.80 | 12.60 | 12.55 | 12.30 |
| GBP/ZAR | 20.63 | 19.75 | 18.71 | 18.69 | 19.02 | 19.43 | 19.54 | 19.69 | 18.94 | 18.27 | 17.95 | 17.59 |
| EUR/ZAR | 18.03 | 17.03 | 16.34 | 16.34 | 16.29 | 16.48 | 16.43 | 16.38 | 16.00 | 15.75 | 15.69 | 15.38 |
| ZAR/JPY | 7.09 | 7.75 | 7.99 | 7.93 | 7.89 | 7.76 | 7.88 | 8.00 | 8.20 | 8.49 | 8.53 | 8.70 |
| CHFZAR | 16.52 | 15.51 | 14.87 | 14.72 | 14.55 | 14.59 | 14.42 | 14.24 | 14.07 | 13.85 | 13.79 | 13.52 |
| AUDZAR | 11.56 | 10.88 | 10.42 | 10.60 | 10.64 | 10.72 | 10.56 | 10.40 | 9.98 | 9.83 | 9.79 | 9.59 |
| GBP/USD | 1.38 | 1.40 | 1.37 | 1.38 | 1.43 | 1.45 | 1.48 | 1.51 | 1.48 | 1.45 | 1.43 | 1.43 |
| EUR/USD | 1.21 | 1.21 | 1.19 | 1.21 | 1.23 | 1.23 | 1.25 | 1.26 | 1.25 | 1.25 | 1.25 | 1.25 |
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Note averages, Source: Investec, Iress

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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 | 14.13 | 13.50 | 13.20 | 13.00 | 12.90 | 12.80 | 12.70 | 12.50 | 12.30 | 12.15 | 12.00 |
| GBP/ZAR | 20.63 | 19.75 | 18.43 | 18.27 | 18.59 | 18.70 | 18.94 | 19.24 | 18.50 | 17.84 | 17.37 | 17.16 |
| EUR/ZAR | 18.03 | 17.03 | 16.11 | 15.97 | 15.93 | 15.87 | 15.94 | 16.00 | 15.63 | 15.38 | 15.19 | 15.00 |
| ZAR/JPY | 7.09 | 7.75 | 8.11 | 8.11 | 8.08 | 8.06 | 8.13 | 8.19 | 8.40 | 8.70 | 8.81 | 8.92 |
| CHFZAR | 16.52 | 15.51 | 14.65 | 14.39 | 14.22 | 14.04 | 13.98 | 13.91 | 13.74 | 13.52 | 13.35 | 13.19 |
| AUDZAR | 11.56 | 10.88 | 10.27 | 10.36 | 10.40 | 10.32 | 10.24 | 10.16 | 9.75 | 9.59 | 9.48 | 9.36 |
| GBP/USD | 1.38 | 1.40 | 1.37 | 1.38 | 1.43 | 1.45 | 1.48 | 1.51 | 1.48 | 1.45 | 1.43 | 1.43 |
| EUR/USD | 1.21 | 1.21 | 1.19 | 1.21 | 1.23 | 1.23 | 1.25 | 1.26 | 1.25 | 1.25 | 1.25 | 1.25 |
| USD/JPY | 106 | 109 | 109 | 107 | 105 | 104 | 104 | 104 | 106 | 107 | 107 | 107 |

Note: averages, Source: Investec, Iress