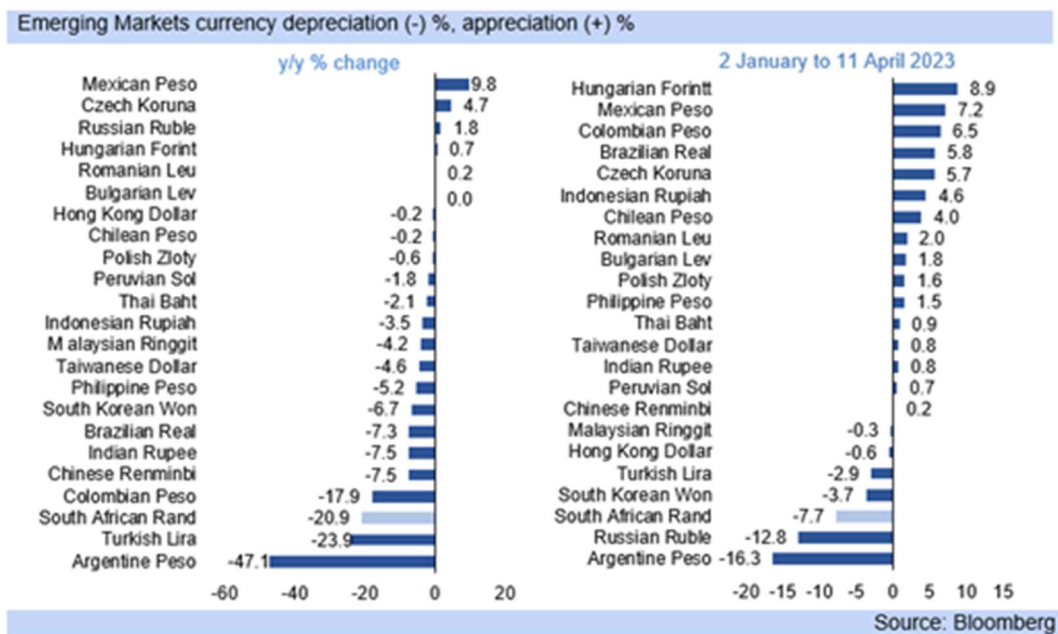


# SA Economics

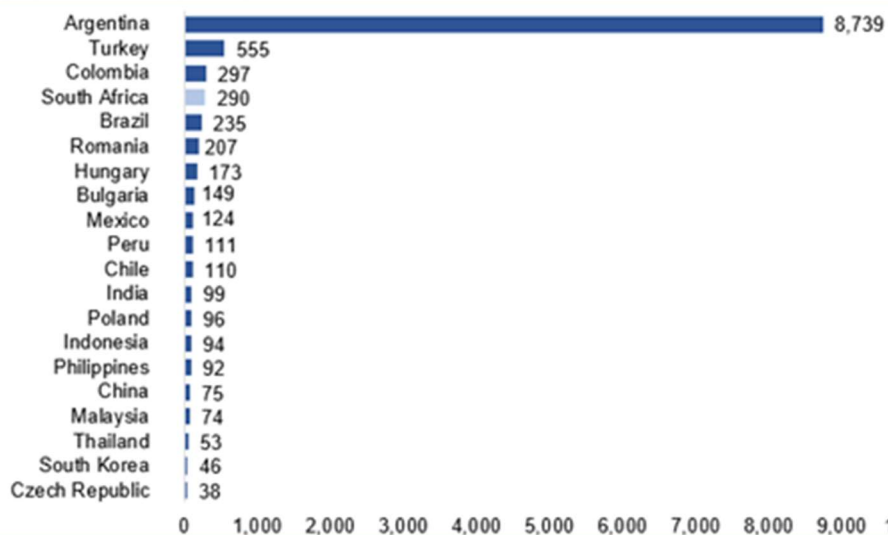


Rand note: Electricity Minister warns of up to stage 10 loadshedding this winter

Monday 11 April 2023

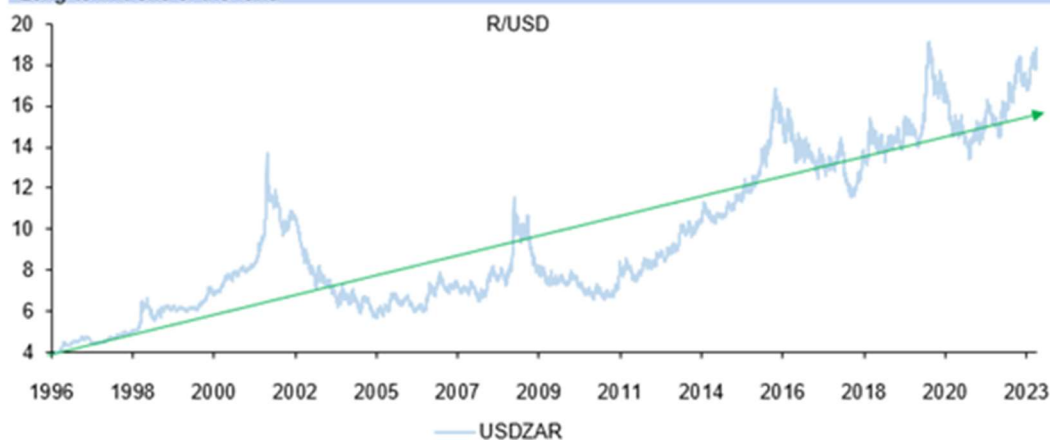


Emerging Markets CDS (risk) Spreads – values 11 April 2023



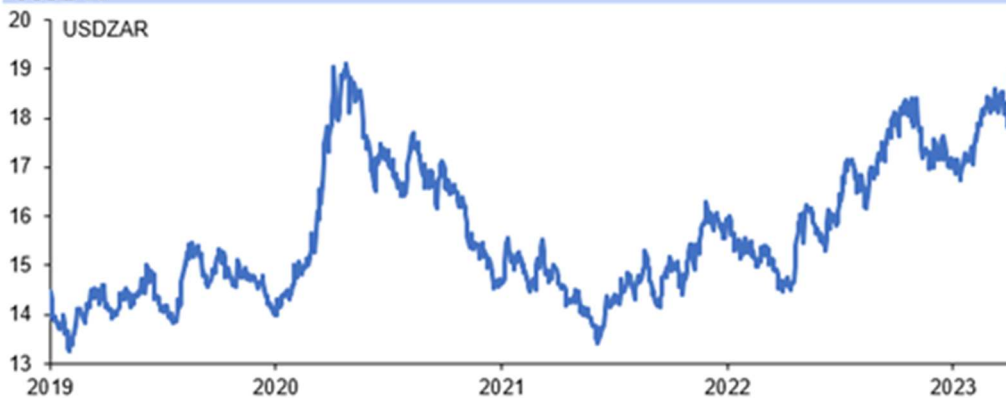
Source: Bloomberg

Long-term trend of the rand



Source: Iress

USDZAR



Source: Iress

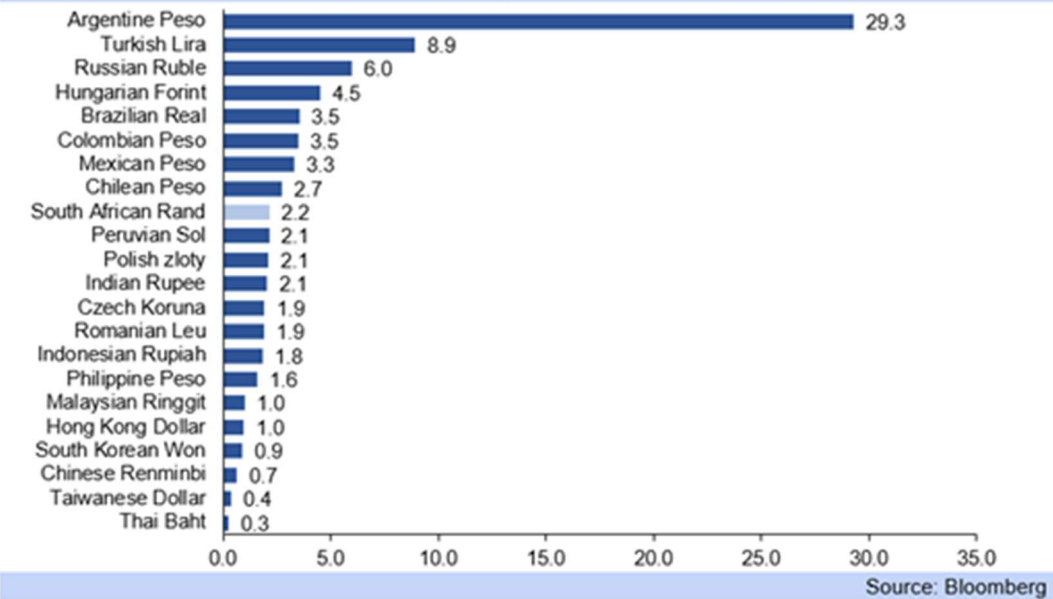
Expected Case: Exchange Rate forecasts												
	2023				2024				2025			
	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24	Q1.25	Q2.25	Q3.25	Q4.25
USD/ZAR	17.76	17.95	17.75	17.55	17.20	17.40	17.60	17.30	17.00	17.00	17.10	16.90
GBP/ZAR	21.59	22.26	22.19	22.11	22.02	22.53	22.97	22.66	22.10	22.10	22.23	21.97
EUR/ZAR	19.06	19.57	19.70	19.83	19.78	20.36	20.77	20.41	19.89	19.89	20.01	19.77
ZAR/JPY	7.45	7.19	7.10	7.12	7.18	7.01	6.88	6.94	7.88	7.76	7.66	7.69
CHF/ZAR	19.20	19.66	19.51	19.16	18.75	19.03	19.33	19.08	18.68	18.68	18.79	18.57
AUD/ZAR	12.14	12.12	12.25	12.46	12.38	12.53	12.76	12.63	12.92	13.09	13.51	13.35
GBP/USD	1.23	1.24	1.25	1.25	1.26	1.27	1.29	1.31	1.30	1.30	1.30	1.30
EUR/USD	1.08	1.10	1.11	1.12	1.13	1.14	1.16	1.18	1.17	1.17	1.17	1.17
USD/JPY	130	129	126	125	124	122	121	120	123	125	128	130
Note: averages, Source: Investec, Iress												

- The rand has traded weaker in increasingly risk averse markets, with the domestic currency weakening to R18.62/USD, R20.13/EUR and R22.94/GBP on Friday, today only having pulled back modestly so far in thin trade.
- On Thursday the IMF said global economic growth is likely to “remain at around 3% for the next five years”, its “lowest medium-term growth forecast since 1990, and well below the average growth of 3.8% seen in the past two decades.”
- “(G)rowth prospects remained weak given persistently high inflation. Bank failures in Switzerland and the U.S. had exposed financial vulnerabilities that increased the downside risks for the global economy”. 2023’s growth is also seen below 3.0% y/y.
- Further warning “(g)eopolitical fragmentation, driven by tensions between the U.S. and China, risks damaging the global economy, with foreign direct investment and other capital increasingly being channeled toward aligned blocs of countries”.
- Domestically, Eskom whistleblower, Andre de Ruyter, is reported to have said “Eskom’s various power stations have experienced widespread sabotage, criminality, and destructive and unlawful industrial action”.
- “(I)t is clear that damage to Eskom property and operations has been deliberate” with a “sustained campaign of sabotage”. The new electricity Minister, Kgosisentsho Ramokgopa, warned last week of up to stage 10 loadshedding this winter.
- Minister Ramokgopa said “(n)ow we are entering winter, which is going to be a very difficult period. The numbers suggest that historically the average [demand] is about 35,000MW, but it can go up to 37,000MW”.
- “On average, Eskom can guarantee us about 27,000MW, and we know that peak demand in summer is about 32,000MW.” Higher demand will widen the gap in the electricity shortfall, negatively affecting economic growth and investor demand.

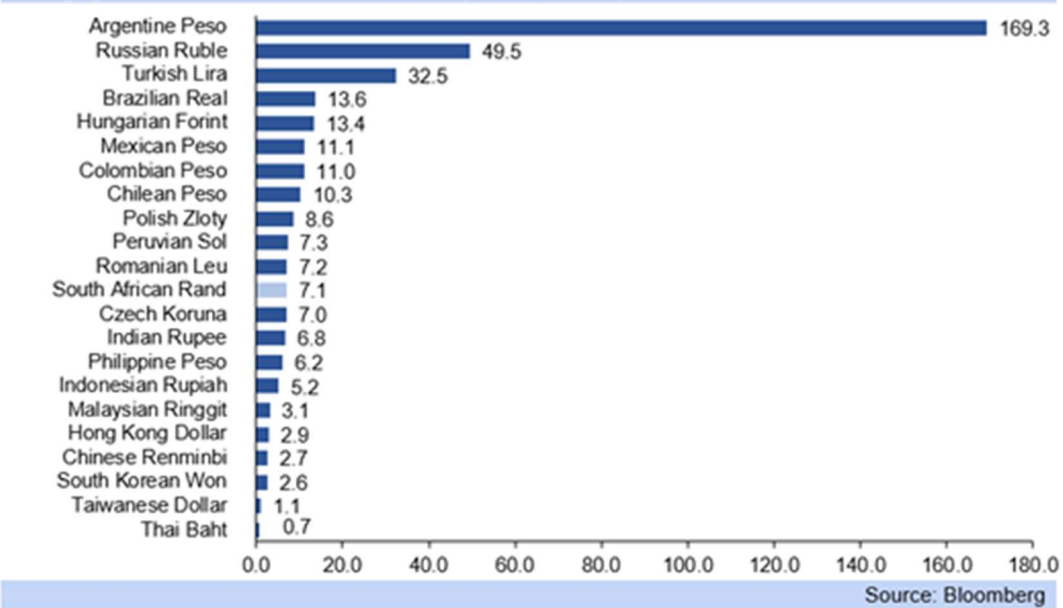
- The rand has weakened against the crosses, reflecting continued strong risk-off sentiment in global financial markets, while data has disappointed recently from China and risk of US recession is seen as rising again.

Please scroll down to the second section below

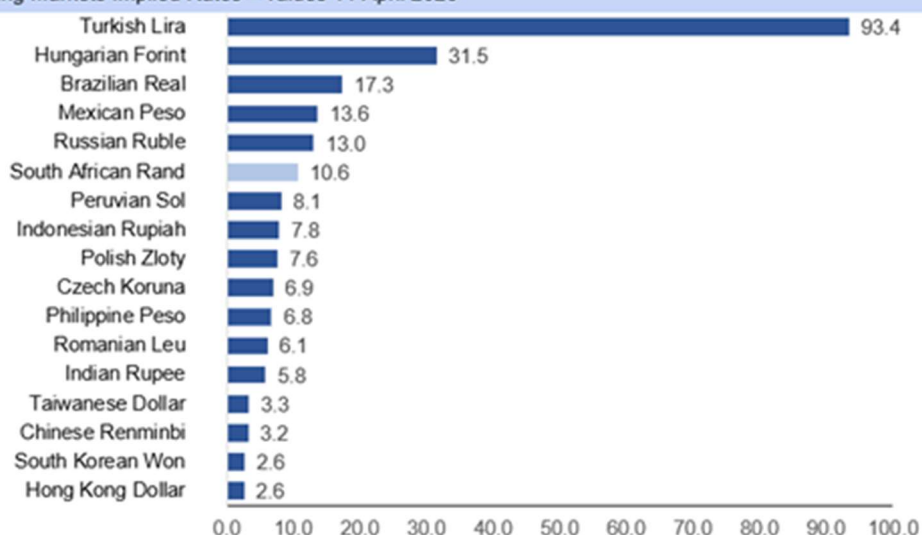
Emerging Markets Interest Return – values 2 January 2023 to 11 April 2023



Emerging Markets Interest Return – values 11 April 2022 to 11 April 2023

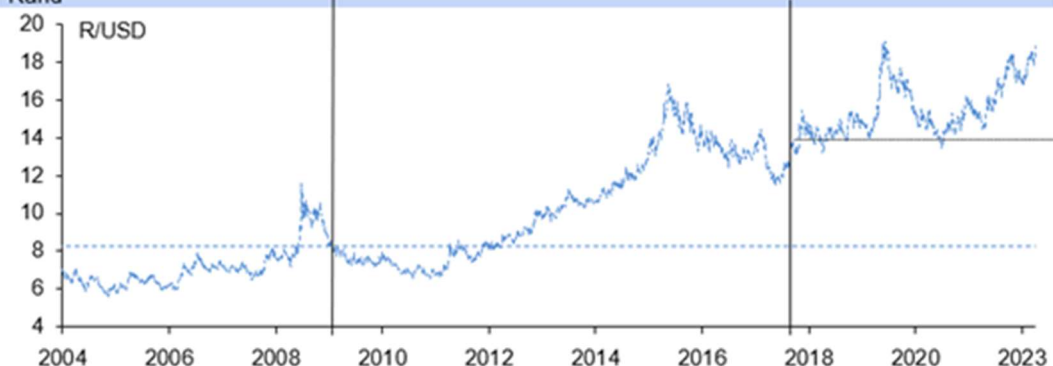


Emerging Markets Implied Rates – values 11 April 2023



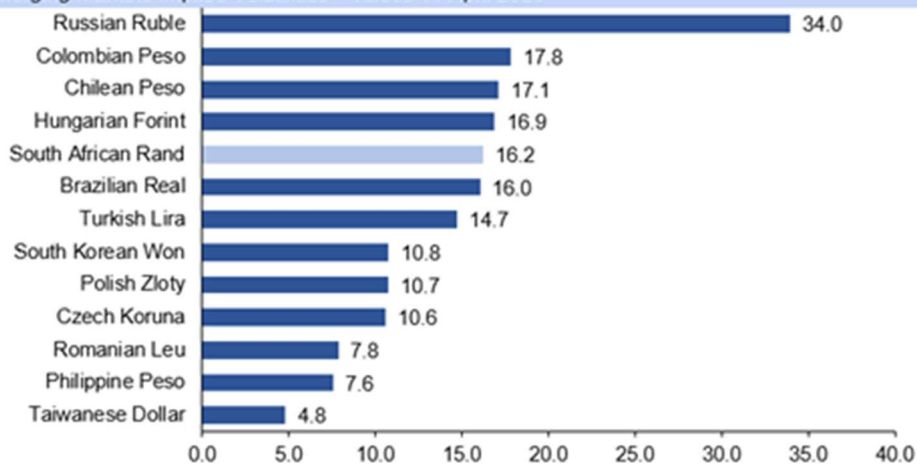
Source: Bloomberg

Rand



Source: Iress

Emerging Markets Implied Volatilities – values 11 April 2023



Source: Bloomberg

- A year ago global financial markets turned markedly risk averse after Easter, with the past twelve months having seen the rand weaken from R14.50/USD to R18.81/USD, R15.71/EUR to R20.13/EUR and R18.86/GBP to R22.94/GBP.
- Last week Finance Minister, Enoch Godongwana, also issued an exemption on “reporting on irregular, fruitless and wasteful expenditure granted to state-owned power supplier Eskom”, but then withdrew it a few days later.
- The exemption required “Eskom to disclose financial and non-financial information on irregular, fruitless and wasteful expenditure but only in its annual report” but “not in its financial statements” “for a period of three years”.
- “The intention really was to allow Eskom to have better financial statements, and at the same time create an environment where there remains transparency on corruption, and irregular expenditure, as well as all the other related issues.”
- “However, following further engagement with the office of the Auditor-General, and in light of adverse comments by a range of stakeholders, we have decided to withdraw the exemption for now”.
- “Minister Godongwana added that ... the outcry, and some of the misunderstanding of the practical and technical implications of the exemption, was regretful”. Eskom remains mired in a morass of issues, adding to negative investor sentiment.
- There is still no solution in sight to South Africa’s ongoing electricity crisis, as the Karpowership gas to power (electricity) provision continues to be blocked by South Africa’s Department of Forestry, Fisheries and the Environment (DFFE).
- Eskom is now reported to be considering the purchase of electricity from a Karpowership plant located offshore from Mozambique, although only 1000MW worth, and wholly insufficient to stop loadshedding, or its escalation.
- Thin trading conditions around Easter have exacerbated the negative impact of bad news on the domestic currency, with a number of negative factors afflicting the rand last week. This week market attention will turn to tomorrow’s US CPI and core data.



Economic Scenarios: note updated probabilities

		Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24
<b>Extreme Up case 1%</b>	USD/Rand (average)	17.76	16.60	15.90	15.50	15.00	14.60	14.50	14.40
	Repo rate (end rate)	7.75	6.75	6.50	6.25	6.00	6.00	5.50	5.50
	SA economic growth very quickly rises to 3-5%, then 5-7%. Good governance, growth-creating reforms (structural constraints eradicated), strong property rights, no nationalisation or expropriation without compensation. High business confidence and fixed investment growth, substantial FDI, fiscal consolidation drives debt to low ratios of 2000s. Very subdued domestic inflation on extreme rand strength, very favourable weather conditions. Strong global growth, risk-on, commodity boom. Rapid upgrades of credit ratings to investment grade. Very short grey listing. Quick transition to renewable energy from fossil fuels.								
<b>Up case 1%</b>	USD/Rand (average)	17.76	17.20	17.40	17.00	16.90	17.10	16.90	16.60
	Repo rate (end rate)	7.75	7.00	7.00	7.00	6.50	6.50	6.50	6.00
	Economic growth averages 3.3% over five-year period, but lifts towards 5.0% y/y by period end, rising confidence and investment levels, structural constraints eroded, global growth strong, global financial markets risk-on. No nationalisation or expropriation without compensation. Low domestic inflation on favourable weather and global conditions, rand strength, lower state-controlled price inflation on increased privatisation. Credit rating upgrades on fiscal consolidation, markedly lower borrowings. Substantial transition to renewable energy away from fossil fuel usage, comprehensive measures to alleviate climate change impact on economy. Grey listed for less than eighteen months.								
<b>Base case 48%</b>	USD/Rand (average)	17.76	17.95	17.75	17.55	17.20	17.40	17.60	17.30
	Repo rate (end rate)	7.75	7.75	7.75	7.50	7.00	7.00	7.00	6.50
	Economic growth modest (1.9% average over 5 years) but lifts towards 3.0% y/y by end period on reforms, global financial market risk sentiment is neutral to positive. South Africa follows fiscal consolidation (debt to GDP stabilisation) leading to positive outlooks, then likely credit rating upgrades. The rand stabilises, then strengthens somewhat. Inflation is impacted by the course of weather patterns via food price inflation. A transition to renewable energy and slow move away from fossil fuel usage occurs and measures to alleviate the impact of climate change on the economy are modestly implemented. The Russian/Ukraine conflict eases and does not exacerbate. Little expropriation without compensation. Temporary grey listing.								
<b>Lite (domestic) Down case 40%</b>	USD/Rand (average)	17.76	18.90	19.30	19.00	18.70	19.00	19.10	18.90
	Repo rate (end rate)	7.75	8.00	8.50	9.00	9.00	9.00	9.00	9.00
	Weak GDP growth (0.9% average over 5-years), swing toward left leaning policies. Business confidence depressed, substantial electricity and water shedding, very weak rail capacity, civil and political unrest, little investment growth, recession. Increased state borrowings, risk of credit rating downgrades rises, then occurs later in period. Some expropriation of private sector property without compensation with a negative impact on the economy. High inflation on unfavorable weather conditions, marked rand weakness. Little transition to renewable energy or measures to alleviate climate change. Lengthy greylisting.								
<b>Severe down case 10%</b>	USD/Rand (average)	17.76	19.30	19.70	20.00	20.20	20.50	20.80	21.20
	Repo rate (end rate)	7.75	9.00	10.00	10.50	10.50	11.00	11.00	11.50
	Lengthy global recession, global financial crisis – insufficient monetary and other support domestically and internationally. ANC/EFF coalition in 2024. Widespread, severe services load shedding, severe civil and political unrest. Government borrows from increasingly wider sources, SA rated single B from all three key agencies, eventually CCC grade, increased risk of default, sinks deeper into a debt trap. Failure to transition to renewable energy and to sufficient measures to alleviate the impact of climate change on the economy. Very high inflation on very adverse weather conditions, severe rand weakness. Expropriation of private property without compensation with a marked negative economic impact. Blacklisted.								

Note: Event risk begins Q2.23. Source: Investec

Lite Down Case: Exchange Rate forecasts

	2023				2024				2025			
	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24	Q1.25	Q2.25	Q3.25	Q4.25
USD/ZAR	17.76	18.90	19.30	19.00	18.70	19.00	19.10	18.90	18.60	18.70	18.70	18.60
GBP/ZAR	21.59	23.44	24.13	23.94	23.94	24.61	24.93	24.76	24.18	24.31	24.31	24.18
EUR/ZAR	19.06	20.60	21.42	21.47	21.51	22.23	22.54	22.30	21.76	21.88	21.88	21.76
ZAR/JPY	7.45	6.83	6.53	6.58	6.60	6.42	6.34	6.35	7.20	7.06	7.01	6.99
CHF/ZAR	19.20	20.70	21.21	20.74	20.38	20.78	20.97	20.84	20.44	20.55	20.55	20.44
AUD/ZAR	12.14	12.76	13.32	13.49	13.46	13.68	13.85	13.80	14.14	14.40	14.77	14.69
GBP/USD	1.23	1.24	1.25	1.25	1.26	1.27	1.29	1.31	1.30	1.30	1.30	1.30
EUR/USD	1.08	1.10	1.11	1.12	1.13	1.14	1.16	1.18	1.17	1.17	1.17	1.17
USD/JPY	130	129	126	125	124	122	121	120	123	125	128	130

Note: averages, Source: Investec, Iress

## Severe Down Case: Exchange Rate forecasts

	2023				2024				2025			
	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24	Q1.25	Q2.25	Q3.25	Q4.25
USD/ZAR	17.76	19.30	19.70	20.00	20.20	20.50	20.80	21.20	20.90	20.90	21.00	20.80
GBP/ZAR	21.59	23.93	24.63	25.20	25.86	26.55	27.14	27.77	27.17	27.17	27.30	27.04
EUR/ZAR	19.06	21.04	21.87	22.60	23.23	23.99	24.54	25.02	24.45	24.45	24.57	24.34
ZAR/JPY	7.45	6.68	6.40	6.25	6.11	5.95	5.82	5.66	6.41	6.32	6.24	6.25
CHF/ZAR	19.20	21.14	21.65	21.84	22.02	22.42	22.84	23.38	22.97	22.97	23.08	22.86
AUD/ZAR	12.14	13.03	13.59	14.20	14.54	14.76	15.08	15.48	15.88	16.09	16.59	16.43
GBP/USD	1.23	1.24	1.25	1.25	1.26	1.27	1.29	1.31	1.30	1.30	1.30	1.30
EUR/USD	1.08	1.10	1.11	1.12	1.13	1.14	1.16	1.18	1.17	1.17	1.17	1.17
USD/JPY	130	129	126	125	124	122	121	120	123	125	128	130

Note: averages, Source: Investec, Iress

## Up Case: Exchange Rate forecasts

	2023				2024				2025			
	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24	Q1.25	Q2.25	Q3.25	Q4.25
USD/ZAR	17.76	17.20	17.40	17.00	16.90	17.10	16.90	16.60	16.30	16.30	16.40	16.20
GBP/ZAR	21.59	21.33	21.75	21.42	21.63	22.14	22.05	21.75	21.19	21.19	21.32	21.06
EUR/ZAR	19.06	18.75	19.31	19.21	19.44	20.01	19.94	19.59	19.07	19.07	19.19	18.95
ZAR/JPY	7.45	7.50	7.24	7.35	7.31	7.13	7.16	7.23	8.22	8.10	7.99	8.02
CHF/ZAR	19.20	18.84	19.12	18.56	18.42	18.71	18.56	18.31	17.91	17.91	18.02	17.80
AUD/ZAR	12.14	11.61	12.01	12.07	12.17	12.31	12.25	12.12	12.39	12.55	12.96	12.80
GBP/USD	1.23	1.24	1.25	1.25	1.26	1.27	1.29	1.31	1.30	1.30	1.30	1.30
EUR/USD	1.08	1.10	1.11	1.12	1.13	1.14	1.16	1.18	1.17	1.17	1.17	1.17
USD/JPY	130	129	126	125	124	122	121	120	123	125	128	130

Note averages, Source: Investec, Iress

## Extreme Up Case: Exchange Rate forecasts

	2023				2024				2025			
	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24	Q1.25	Q2.25	Q3.25	Q4.25
USD/ZAR	17.76	16.60	15.90	15.50	15.00	14.60	14.50	14.40	14.30	14.40	14.50	14.30
GBP/ZAR	21.59	20.58	19.88	19.53	19.20	18.91	18.92	18.86	18.59	18.72	18.85	18.59
EUR/ZAR	19.06	18.09	17.65	17.52	17.25	17.08	17.11	16.99	16.73	16.85	16.97	16.73
ZAR/JPY	7.45	7.77	7.92	8.06	8.23	8.36	8.34	8.33	9.37	9.17	9.03	9.09
CHF/ZAR	19.20	18.18	17.47	16.92	16.35	15.97	15.92	15.88	15.71	15.82	15.93	15.71
AUD/ZAR	12.14	11.21	10.97	11.01	10.80	10.51	10.51	10.51	10.87	11.09	11.46	11.30
GBP/USD	1.23	1.24	1.25	1.25	1.26	1.27	1.29	1.31	1.30	1.30	1.30	1.30
EUR/USD	1.08	1.10	1.11	1.12	1.13	1.14	1.16	1.18	1.17	1.17	1.17	1.17
USD/JPY	130	129	126	125	124	122	121	120	123	125	128	130

Note: averages, Source: Investec, Iress