

# SA Economics



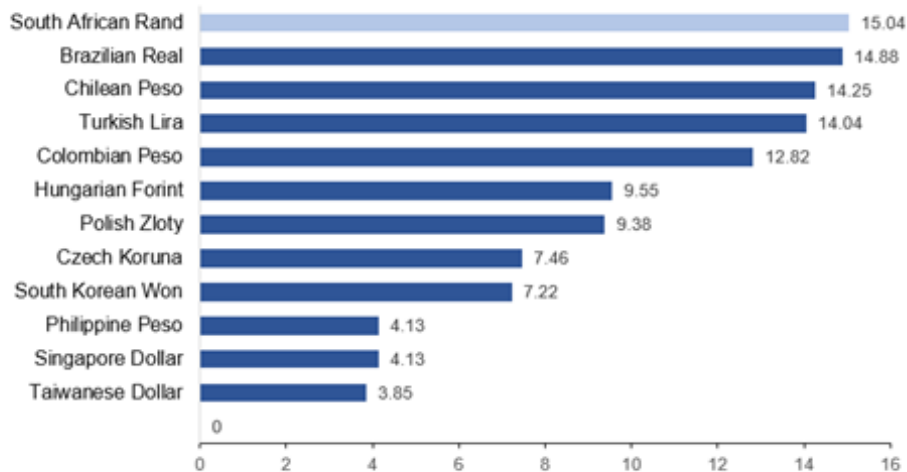
Monday 11 October 2021

Rand note: the rand on the downside surprise in US payroll data late on Friday, with US QE tapering now potentially seen to likely be pushed past November, to the December FOMC meeting, giving EM currencies a reprieve

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	14.64	14.70	14.55	14.75	15.00	14.80	14.65	15.05	15.45	14.95
GBP/ZAR	20.63	19.75	20.18	20.41	20.88	21.61	22.35	22.42	21.68	21.82	22.09	21.38
EUR/ZAR	18.03	17.03	17.26	17.40	17.53	18.00	18.60	18.50	18.31	18.81	19.31	18.69
ZAR/JPY	7.09	7.75	7.52	7.47	7.35	7.12	6.93	7.03	7.17	7.11	6.93	7.16
CHFZAR	16.52	15.51	15.95	15.79	15.65	15.92	16.32	16.09	16.10	16.54	16.98	16.43
AUDZAR	11.56	10.88	10.76	10.84	10.91	11.06	11.40	11.40	11.43	11.74	12.05	11.66
GBP/USD	1.38	1.40	1.38	1.39	1.43	1.46	1.49	1.51	1.48	1.45	1.43	1.43
EUR/USD	1.21	1.21	1.18	1.18	1.21	1.22	1.24	1.25	1.25	1.25	1.25	1.25
USD/JPY	106	109	110	110	107	105	104	104	105	107	107	107
								Note: averages. Source: Investec, Iress				

Note: averages, Source: Investec, Iress

Emerging Markets Implied Volatilities – values 11 October 2021

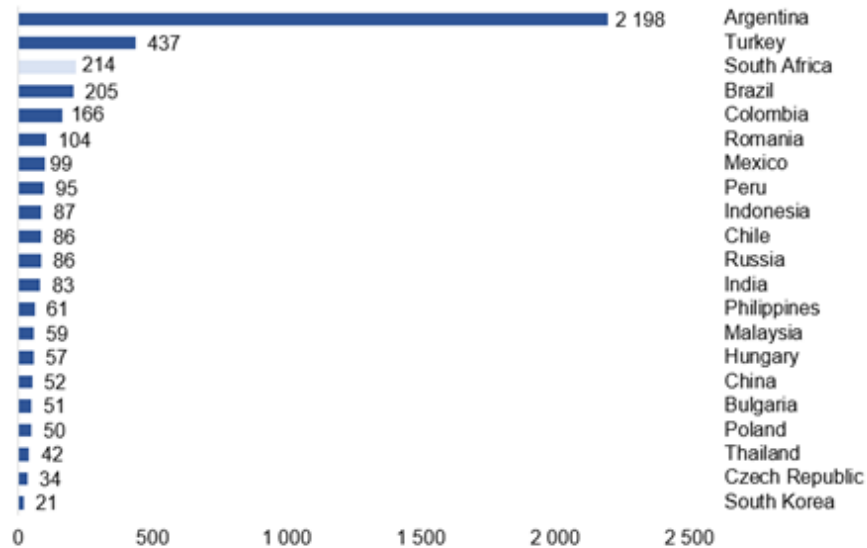


Source: Bloomberg

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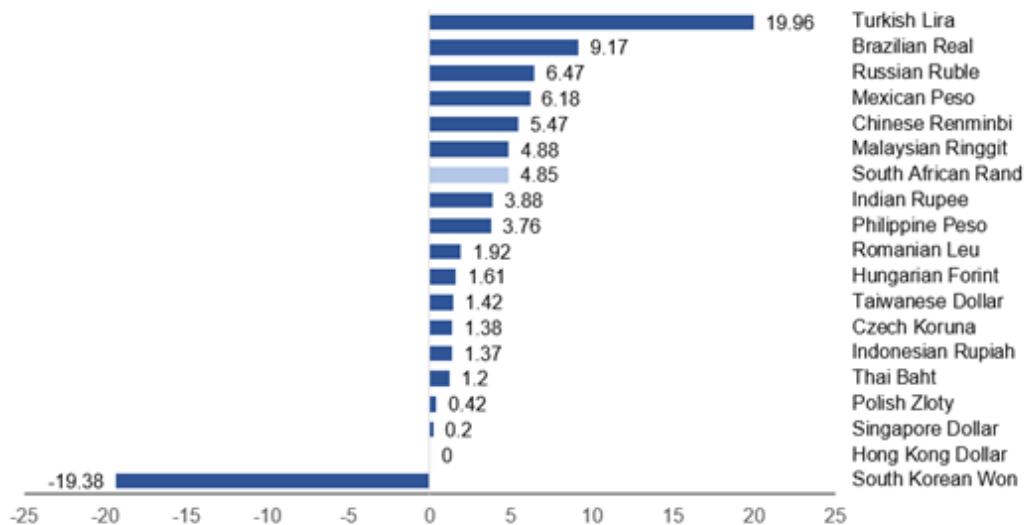


Emerging Markets CDS Spreads – values 11 October 2021



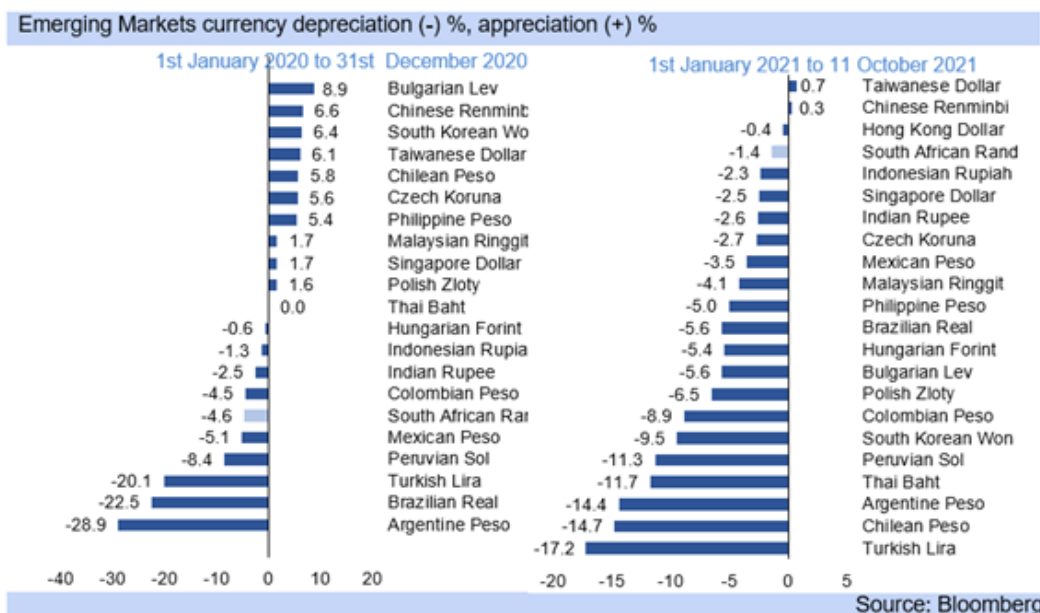
Source: Bloomberg

Emerging Markets Implied Rates – values 11 October 2021



Source: Bloomberg

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- The large market surprise on Friday's US non-farm payrolls saw substantial US dollar reaction, but also sparked some initial risk off, although the rand is now beginning to strengthen as markets digest the news.
- The US's third wave of COVID-19 infections, and impact on the economy and in particular on the jobs market, took many by surprise, and the paltry 194 000 jobs added was well below the market's expectations of 500 000 on the payroll system.
- The rand and other EM currencies could see some further strength this week as market players continue to digest the slow on employment data from the US, and what it means for its QE tapering.
- The US did see a better than expected unemployment rate in September, dropping to 4.8% from 5.1%, although this was impacted by some leaving the workforce as the availability of labour remains a key issue for hiring in the US, and so is causing wage gains.
- That is, demand for labour in the US is particularly strong, and there was a large drop in unemployed workers, so the jobs market picture is not as clear cut as the numbers initially imply, and will lead to markets digesting the outcome over the course of this week.
- However, with unemployment benefits expiring in the US, the labour market is expected to show more convincing statistics of its overall recovery in Q4.21, and the collapse in the third wave will help this as many have concerns over their health.
- Additionally, September's jobs figures are seen to be impacted by seasonal factors, which will work out the system, seeing improvement later in the year. However, the Fed is

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unlikely to be in an inordinate rush to bring in tapering, and we expect it could start in December.

- That is, the debate around QE tapering will remain alive and indeed also likely focus on the degree of monthly tapering likely to occur. Other data not fulfilling various, initial, expectations has been the prolonged nature of elevated US, and global, inflation.
- However, US inflation is likely to see marked subsidence next year, particularly in Q2.22 on base effects and tapering is certainly expected in Q1.21, although any delays will likely give EM currencies reprieve and the rand may see some strength this week.

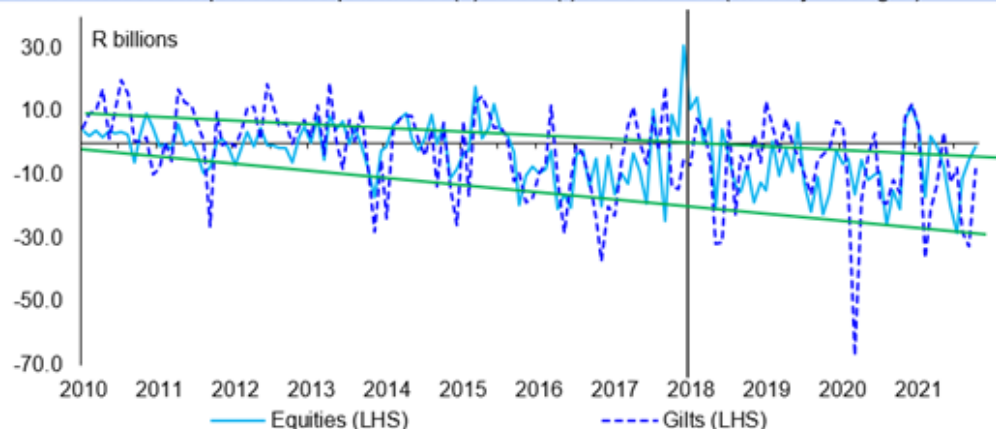
Please scroll down to the second section below

United States – new cases



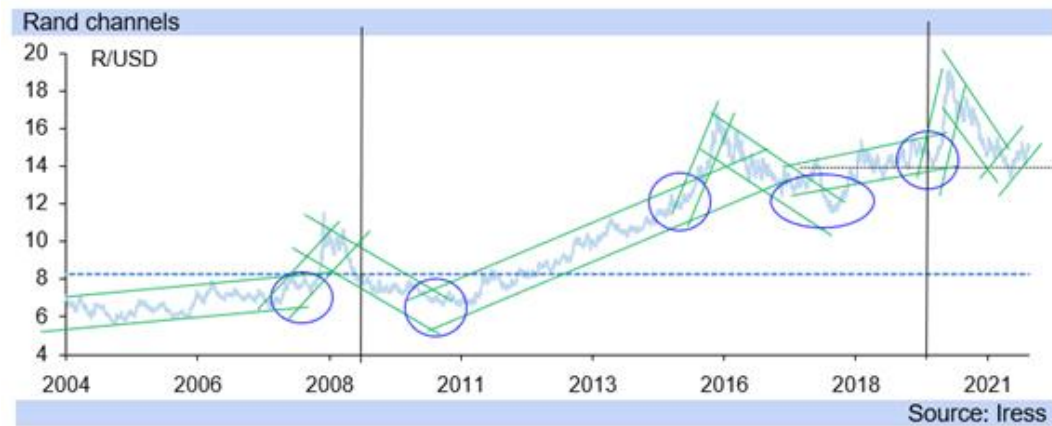
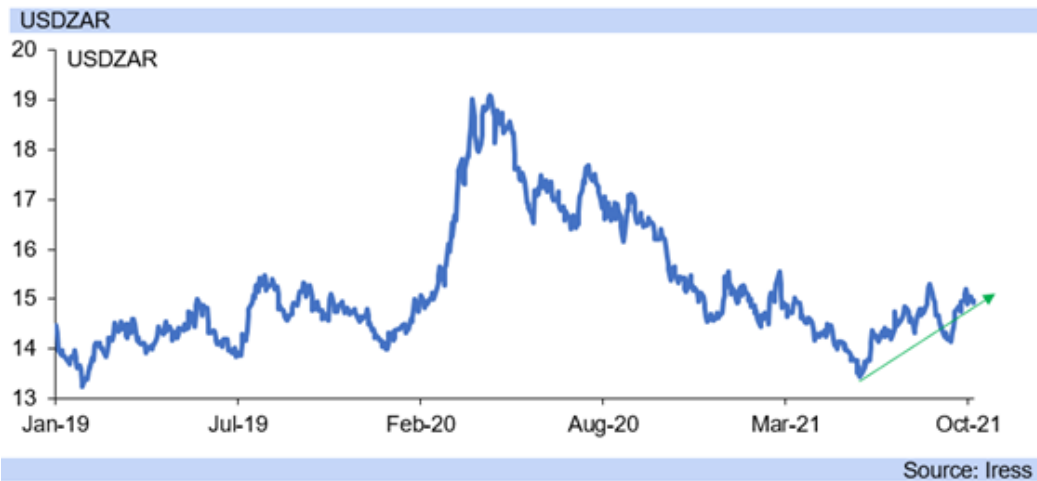
Source: The New York Times

Volatile non-resident portfolio net purchases (+)/ sales (-) vs USD/ZAR (monthly averages)



Source: Iress, Investec

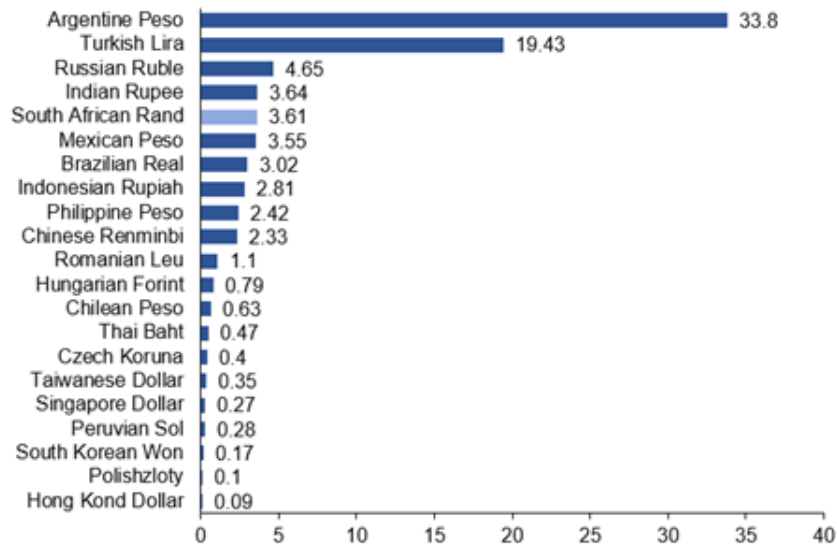
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Emerging Markets Interest Return – values 11 October 2021



Source: Bloomberg

- That is, EM currencies in general may see strength over October, with data closely watched as many believe a November QE taper in the US is not off the cards, although Fed Chair Powell was reported to say he wants to see “a decent employment report” before tapering.
- Friday’s jobs data certainly muddies the water, and the remaining US data releases between now and the November 2-3 FOMC meeting will be key, with many market players still positioning for a November taper, and so there is room for market volatility, and unwind.
- That is, absent the start of QE tapering in November means there could be room for substantial EM currency rallying, given the recent strength of Chair Powell’s communications leaning towards monetary policy accommodation withdrawal in recent weeks.
- The concerns of the US running into its expenditure cliff have certainly lifted with the not unexpected agreement in US congress recently to extend government’s borrowing ability into December.
- Bullish market expectations on US economic recovery, and so a quick advent of QE tapering and indeed wind back on extraordinary US monetary support, remain in the system, as many market players still continue to look forward to quick recovery.
- Also not clear necessarily to markets in general is the Fed comments around inflation, with previous statements around the likely transitory nature of elevated price pressures calming market concerns on the very high levels of acceleration in US prices.

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- However, while transitory means not permanent, and the base effects will certainly wear off in Q2.21 and so see US inflation subside to a meaningful degree, many worry US inflation has been elevated for potentially too long for the Fed, and expectations may be rising.
- The Fed will be aware of this, and the key considerations are likely to focus on wage price pressures, components of GDP indicating the strength and sustainability of recovery and improvements in the jobs market into year end.
- EM currencies have weakened on higher US treasury yields and some lags in EM interest rate hikes, with uncertainty in general increased for markets by Friday's figures. Nevertheless, there is space for some potential rand strength in Q4.21 now.



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## Economic Scenarios: note interest rate hikes pushed out in expected case

		Q1.21	Q2.21	Q3.21	Q4.21	Q1.22	Q2.22	Q3.22	Q4.22
<b>Extreme Up case</b> 1%	USD/Rand (average)	14.96	14.13	14.64	13.80	13.30	13.00	12.90	12.80
	Repo rate (end rate)	3.50	3.50	3.50	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.								
<b>Up case</b> 2%	USD/Rand (average)	14.96	14.13	14.64	14.00	13.50	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.								
<b>Base case</b> 48%	USD/Rand (average)	14.96	14.13	14.64	14.70	14.55	14.75	15.00	14.80
	Repo rate (end rate)	3.50	3.50	3.50	3.50	3.75	4.00	4.00	4.25
	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.								
<b>Lite (domestic) Down case</b> 43%	USD/Rand (average)	14.96	14.13	14.64	15.50	16.00	16.65	16.90	17.00
	Repo rate (end rate)	3.50	3.50	3.50	3.75	4.00	4.25	4.50	4.75
	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.								
<b>Severe down case</b> 6%	USD/Rand (average)	14.96	14.13	14.64	16.00	16.80	17.50	18.00	18.50
	Repo rate (end rate)	3.50	3.50	3.50	4.00	4.50	4.75	5.00	5.25
	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 Q4.21. 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	14.64	15.50	16.00	16.65	16.90	17.00	17.50	17.60	17.50	17.20
GBP/ZAR	20.63	19.75	20.18	21.52	22.96	24.39	25.18	25.75	25.90	25.52	25.03	24.60
EUR/ZAR	18.03	17.03	17.26	18.35	19.28	20.31	20.96	21.25	21.88	22.00	21.88	21.50
ZAR/JPY	7.09	7.75	7.52	7.08	6.69	6.31	6.15	6.12	6.00	6.08	6.11	6.22
CHFZAR	16.52	15.51	15.95	16.65	17.21	17.98	18.38	18.48	19.23	19.34	19.23	18.90
AUDZAR	11.56	10.88	10.76	11.43	12.00	12.49	12.84	13.09	13.65	13.73	13.65	13.42
GBP/USD	1.38	1.40	1.38	1.39	1.43	1.46	1.49	1.51	1.48	1.45	1.43	1.43
EUR/USD	1.21	1.21	1.18	1.18	1.21	1.22	1.24	1.25	1.25	1.25	1.25	1.25
USD/JPY	106	109	110	110	107	105	104	104	105	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	14.64	14.00	13.50	13.40	13.20	13.00	12.80	12.60	12.55	12.30
GBP/ZAR	20.63	19.75	20.18	19.44	19.37	19.63	19.67	19.69	18.94	18.27	17.95	17.59
EUR/ZAR	18.03	17.03	17.26	16.58	16.27	16.35	16.37	16.25	16.00	15.75	15.69	15.38
ZAR/JPY	7.09	7.75	7.52	7.84	7.93	7.84	7.88	8.00	8.20	8.49	8.53	8.70
CHFZAR	16.52	15.51	15.95	15.04	14.52	14.47	14.36	14.13	14.07	13.85	13.79	13.52
AUDZAR	11.56	10.88	10.76	10.32	10.13	10.05	10.03	10.01	9.98	9.83	9.79	9.59
GBP/USD	1.38	1.40	1.38	1.39	1.43	1.46	1.49	1.51	1.48	1.45	1.43	1.43
EUR/USD	1.21	1.21	1.18	1.18	1.21	1.22	1.24	1.25	1.25	1.25	1.25	1.25
USD/JPY	106	109	110	110	107	105	104	104	105	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	14.64	16.00	16.80	17.50	18.00	18.50	18.70	19.20	19.55	19.70
GBP/ZAR	20.63	19.75	20.18	22.21	24.11	25.64	26.82	28.02	27.68	27.84	27.96	28.17
EUR/ZAR	18.03	17.03	17.26	18.94	20.24	21.35	22.32	23.13	23.38	24.00	24.44	24.63
ZAR/JPY	7.09	7.75	7.52	6.86	6.37	6.00	5.78	5.62	5.61	5.57	5.47	5.43
CHFZAR	16.52	15.51	15.95	17.19	18.08	18.89	19.58	20.11	20.55	21.10	21.48	21.65
AUDZAR	11.56	10.88	10.76	11.79	12.60	13.13	13.68	14.25	14.59	14.98	15.25	15.37
GBP/USD	1.38	1.40	1.38	1.39	1.43	1.46	1.49	1.51	1.48	1.45	1.43	1.43
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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	14.64	13.80	13.30	13.00	12.90	12.80	12.70	12.50	12.30	12.15
GBP/ZAR	20.63	19.75	20.18	19.16	19.08	19.04	19.22	19.39	18.80	18.13	17.59	17.37
EUR/ZAR	18.03	17.03	17.26	16.34	16.03	15.86	16.00	16.00	15.88	15.63	15.38	15.19
ZAR/JPY	7.09	7.75	7.52	7.95	8.05	8.08	8.06	8.13	8.27	8.56	8.70	8.81
CHF/ZAR	16.52	15.51	15.95	14.83	14.31	14.04	14.03	13.91	13.96	13.74	13.52	13.35
AUD/ZAR	11.56	10.88	10.76	10.17	9.98	9.75	9.80	9.86	9.91	9.75	9.59	9.48
GBP/USD	1.38	1.40	1.38	1.39	1.43	1.46	1.49	1.51	1.48	1.45	1.43	1.43
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