

SA Economics

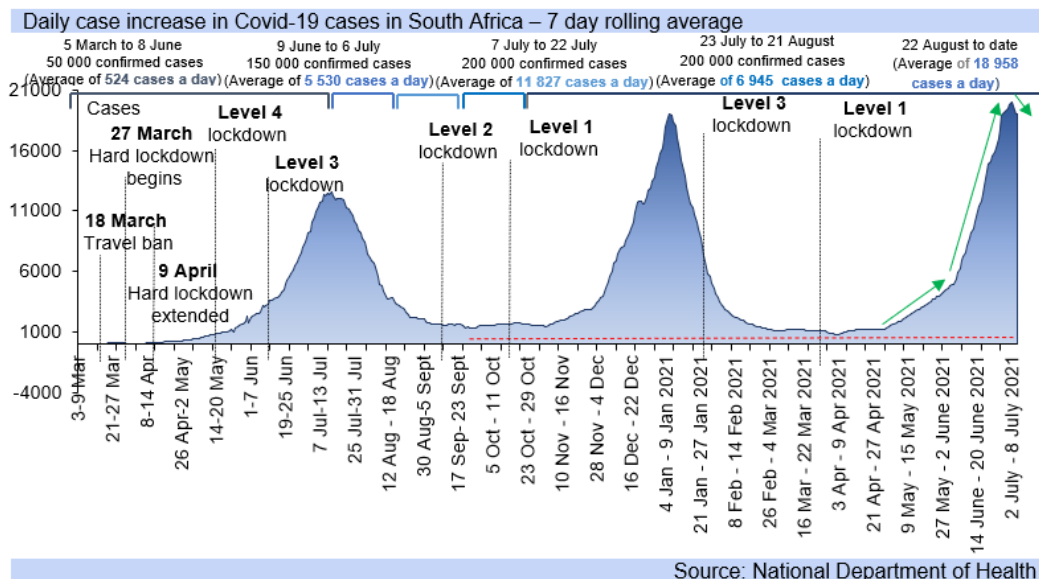


Monday 12 July 2021

Rand note: South Africa sees some easing in level 4 restrictions as the curve in Gauteng tracks down as steeply as it rose so far, while SA overall shows a possible peaking in its third wave, but Zuma supporters vest disruption and looting on the economy

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	14.35	14.25	14.35	14.75	15.05	14.65	14.45	14.85	15.25	14.75
GBP/ZAR	20.63	19.75	20.09	20.09	20.23	20.95	21.37	20.95	20.66	21.24	21.81	21.09
EUR/ZAR	18.03	17.03	17.51	17.53	17.79	18.44	18.96	18.46	18.06	18.56	19.06	18.44
ZAR/JPY	7.09	7.75	7.53	7.51	7.46	7.25	7.11	7.30	7.40	7.21	7.02	7.25
CHF/ZAR	16.52	15.51	15.71	15.60	15.71	16.15	16.48	16.04	15.88	16.32	16.76	16.21
AUD/ZAR	11.56	10.88	11.05	10.97	11.19	11.51	11.74	11.43	11.27	11.58	11.90	11.51
GBP/USD	1.38	1.40	1.40	1.41	1.41	1.42	1.42	1.43	1.43	1.43	1.43	1.43
EUR/USD	1.21	1.21	1.22	1.23	1.24	1.25	1.26	1.26	1.25	1.25	1.25	1.25
USD/JPY	106	109	108	107	107	107	107	107	107	107	107	107

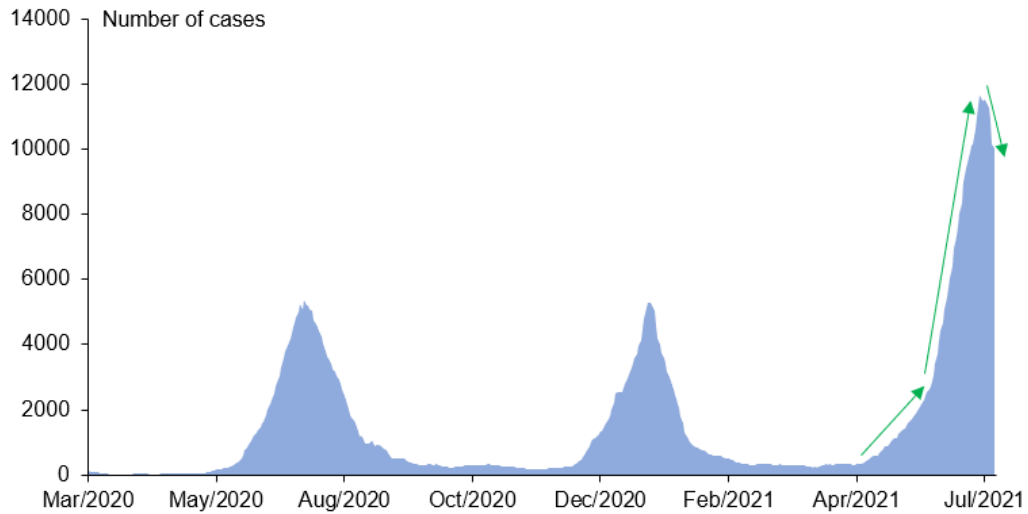
Note: averages, Source: Investec, Iress



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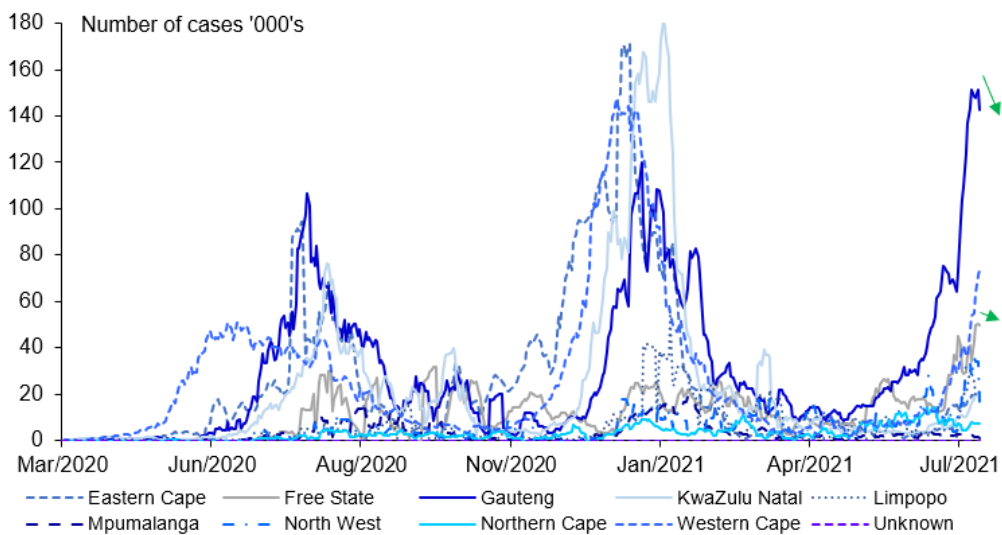


Daily new cases in Gauteng - 7 day rolling average – 11 July 2021



Source: National Department of Health

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



Source: National Department of Health

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Adjusted Level 4 restrictions – 11 July 2021

- All social, political, religious and other gatherings remain prohibited.
- A curfew remains in place from 9pm until 4am, and only those with permission to do so may leave their homes during this time.
- The sale of alcohol remains prohibited.
- Schools will remain closed until the 26th of July.
- It remains mandatory to wear a mask that covers your nose and mouth whenever you are in public.
- Restaurants and eateries will be able to operate while observing strict health protocols. Such establishments may not accommodate more than 50 people at a time or, for smaller venues, more than 50 per cent of their normal capacity.
- Certain other venues, such as gyms and fitness centres, may also open and activities such as agricultural livestock and game auctions will be allowed, subject to the conditions outlined in regulations.

Source: The Presidency

- The rand is averaging R14.31/USD in the first couple of weeks of Q3.21, but has traded at R14.50/USD so far today, and at R17.18/EUR and R20.10/GBP, as political unrest on the incarceration of former President Jacob Zuma sees his supporters fuel unrest.
- The rand has weakened in response to the widescale riots, looting and destruction of property in certain areas in South Africa as the ex President's supporters are reported to have closed off some roads, set fire to certain shops and looted electronic and other retail goods.
- While some police action has been noted, other areas have seen a dearth of consequences, which if left to continue unchecked will negatively impact South Africa's overall economic activity, business and consumer confidence in Q3.21, and so economic growth.
- The economy is already struggling with the negative impact of tightening lockdown restrictions at the turn of Q2.21 into Q3.21, but the sharp political unrest SA is now experiencing could have an even more severe impact, and cause GDP growth forecasts to be downgraded.
- SA risks seeing economic growth of less than 4.0% y/y this year if key CBD's, retail shopping malls and road transport routes remain closed, and particularly if the violence spreads, as RET Zuma supporters bring economic activity in a number of areas to a standstill.
- Just recently it has been reported that the army will be deployed in Gauteng and KwaZulu Natal as the police are doubtless stretched thin in response to the stoking of violence by Zuma's key henchmen. The SANDF, it is reported, will lend assistance to the police.
- Supporters have appeared to expect little or no real retribution so far. The risk is that the collapse of law and order spreads across the entire country, shutting off the economy and

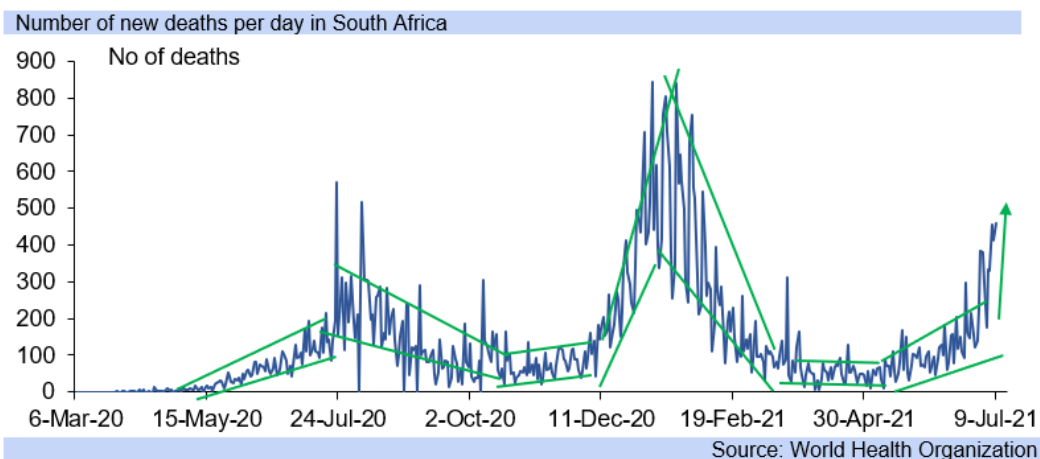
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making it much more difficult to roll back from the initial violent outbursts (not the base case).

- Such a severe down case risks civil war, as more and more individuals join in to gain the spoils to be had from looting any and all retail outlets, with appliances, clothing, food, and other goods likely not far behind in stores so far untouched, if not checked.
- While these losses faced by the private sector, the volatile situation, if not rapidly brought under control, will impact investor sentiment soon and destroy the hard won gains in the Ramaphosa presidency if it approaches civil war (severe down case not the expected case).

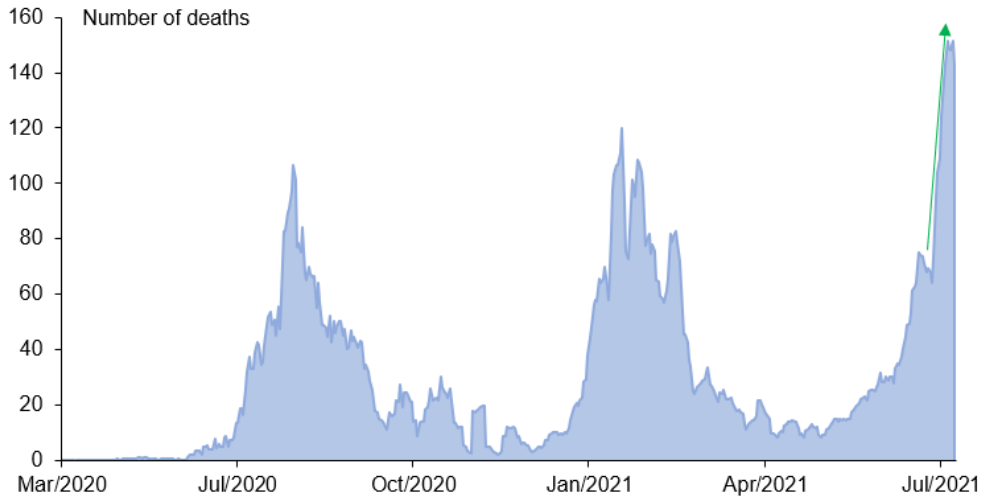
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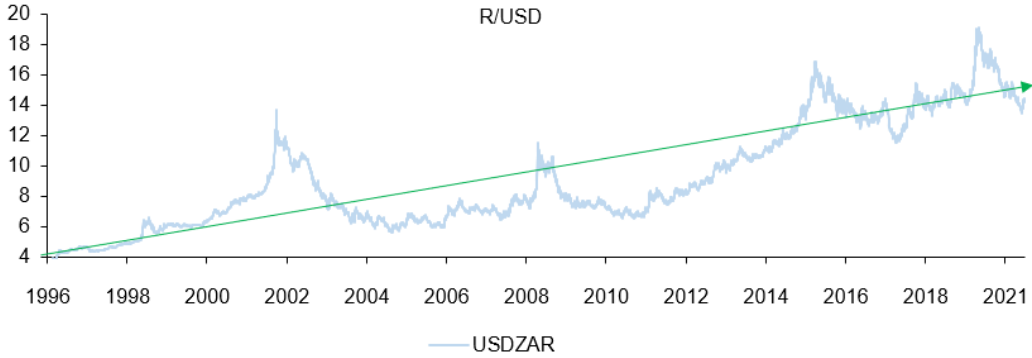


Daily new deaths in Gauteng with 7 day rolling average – 11 July 2021



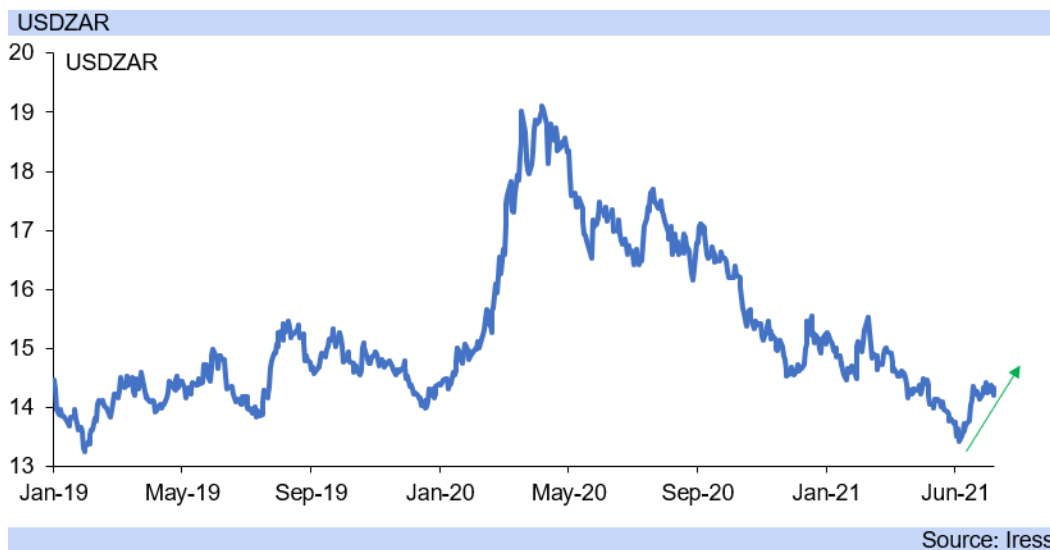
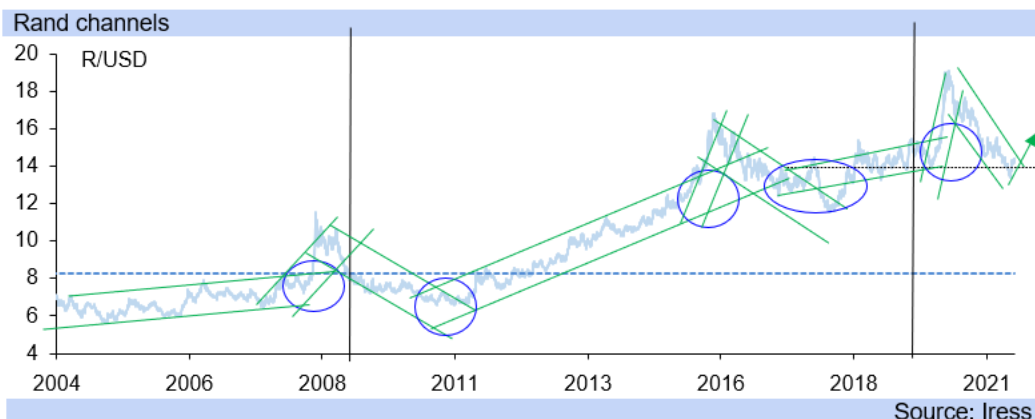
Source: National Department of Health

Long-term trend of the rand



Source: Iress

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- On a positive note, South Africa's new daily cases of COVID-19 are down to 16 302, from 26 485 just over a week ago, with the seven-day rolling average now subsiding to 18 958 from its peak of 19 956 a few days ago, with the third wave slightly higher than the second.
- However, unchecked looting, rioting and illegal gatherings in many areas, initially driven by Zuma supporters, and now those joining in on the spoils, is risking the spread of COVID-19, and so a near-term second peaking in the third wave, as well as increased fatalities.
- While South Africa has had a tumultuous, violent past at times, and financial markets and investors have become used to some political volatility and unrest at times, the Zuma faction will likely aim to continue the current spate for as long as possible.

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- Key members in the Zuma/RET faction see future potential political positions for themselves erode with the demise of the RET and Zuma's supporters are likely using the violence as an attempt to entrench their own positions and gain political power and popular support.
- Government choose to view the current situation of high political unrest in a number of areas as a temporary phenomenon which will run its course, particularly as a number of perpetrators are brought to justice, with the violence simmering down.
- Free, unchecked access to consumer goods at volume, the lure to gain free TV's, clothes, shoes, other appliances and groceries (many do not usually access), will tempt a vast number to join in, fuelling lawlessness and making it more difficult to control.
- However, strong official, even military retaliation to the lawlessness could play into the hands of hardcore Zuma supporters as this RET faction seeks to ultimately overthrow the country and regain power, and harsh military/other reaction risks portraying government negatively.
- Indeed, the leaders of the Zuma supporters violence may well earmark the spoils the looters have gained in the current political unrest as rewards for all those who support them, with more to come, and so building up their political strength in future elections.
- The risk is that this spreads, making some municipalities ungovernable, causing Ramaphosa supporters in government to reconsider their positions, and so eroding the political support that has been so slow to build up. The rand is at risk until the situation stabilises.

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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 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 3%	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 50%	USD/Rand (average)	14.96	14.13	14.35	14.25	14.35	14.75	15.05	14.65
	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 41%	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	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	14.13	15.65	16.40	17.00	17.50	18.00	18.50
	Repo rate (end rate)	3.50	3.50	4.00	4.25	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 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	21.21	21.86	22.56	23.64	24.00	24.31	25.03	25.17	25.03	24.60
EUR/ZAR	18.03	17.03	18.48	19.07	19.84	20.81	21.29	21.42	21.88	22.00	21.88	21.50
ZAR/JPY	7.09	7.75	7.13	6.90	6.69	6.43	6.33	6.29	6.11	6.08	6.11	6.22
CHFZAR	16.52	15.51	16.59	16.97	17.52	18.23	18.51	18.62	19.23	19.34	19.23	18.90
AUDZAR	11.56	10.88	11.67	11.94	12.48	12.99	13.18	13.26	13.65	13.73	13.65	13.42
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	14.13	13.70	13.50	13.30	13.40	13.20	13.00	12.80	13.20	13.60	13.10
GBP/ZAR	20.63	19.75	19.18	19.04	18.75	19.03	18.74	18.59	18.30	18.88	19.45	18.73
EUR/ZAR	18.03	17.03	16.71	16.61	16.49	16.75	16.63	16.38	16.00	16.50	17.00	16.38
ZAR/JPY	7.09	7.75	7.88	7.93	8.05	7.99	8.11	8.23	8.36	8.11	7.87	8.17
CHFZAR	16.52	15.51	15.00	14.78	14.56	14.67	14.45	14.24	14.07	14.51	14.95	14.40
AUDZAR	11.56	10.88	10.55	10.40	10.37	10.45	10.30	10.14	9.98	10.30	10.61	10.22
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	14.13	15.65	16.40	17.00	17.50	18.00	18.50	19.00	19.50	19.90	20.00
GBP/ZAR	20.63	19.75	21.91	23.12	23.97	24.85	25.56	26.46	27.17	27.89	28.46	28.60
EUR/ZAR	18.03	17.03	19.09	20.17	21.08	21.88	22.68	23.31	23.75	24.38	24.88	25.00
ZAR/JPY	7.09	7.75	6.90	6.52	6.29	6.11	5.94	5.78	5.63	5.49	5.38	5.35
CHFZAR	16.52	15.51	17.14	17.96	18.62	19.16	19.71	20.26	20.88	21.43	21.87	21.98
AUDZAR	11.56	10.88	12.05	12.63	13.26	13.65	14.04	14.43	14.82	15.21	15.52	15.60
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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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	12.60	12.70	12.50
GBP/ZAR	20.63	19.75	18.90	18.61	18.33	18.32	18.18	18.16	17.88	18.02	18.16	17.88
EUR/ZAR	18.03	17.03	16.47	16.24	16.12	16.13	16.13	16.00	15.63	15.75	15.88	15.63
ZAR/JPY	7.09	7.75	8.00	8.11	8.23	8.29	8.36	8.43	8.56	8.49	8.43	8.56
CHFZAR	16.52	15.51	14.78	14.45	14.24	14.13	14.02	13.91	13.74	13.85	13.96	13.74
AUDZAR	11.56	10.88	10.40	10.16	10.14	10.06	9.98	9.91	9.75	9.83	9.91	9.75
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