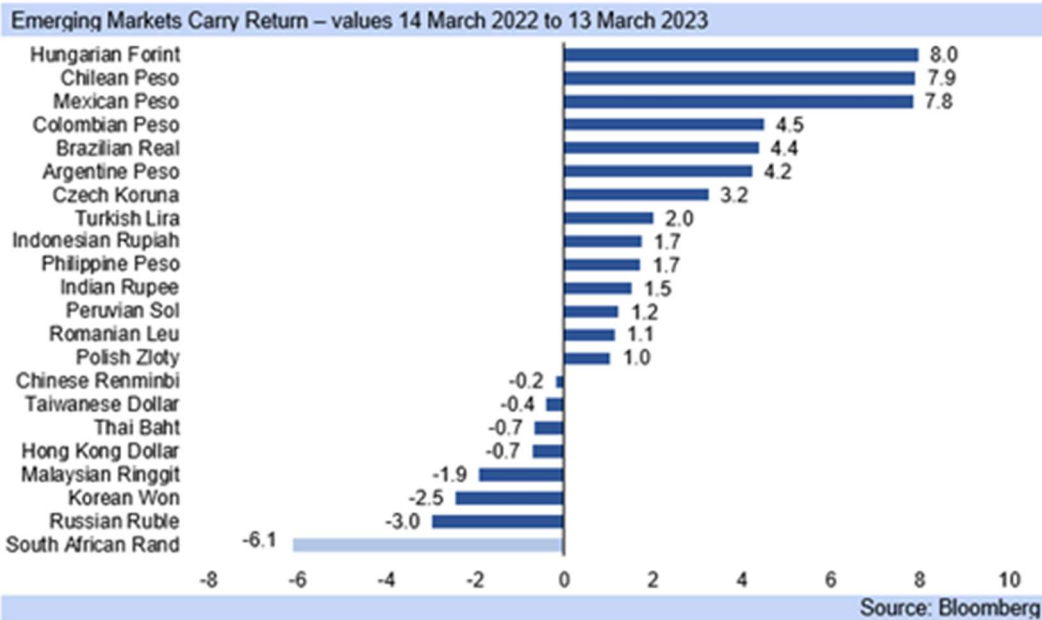


# SA Economics

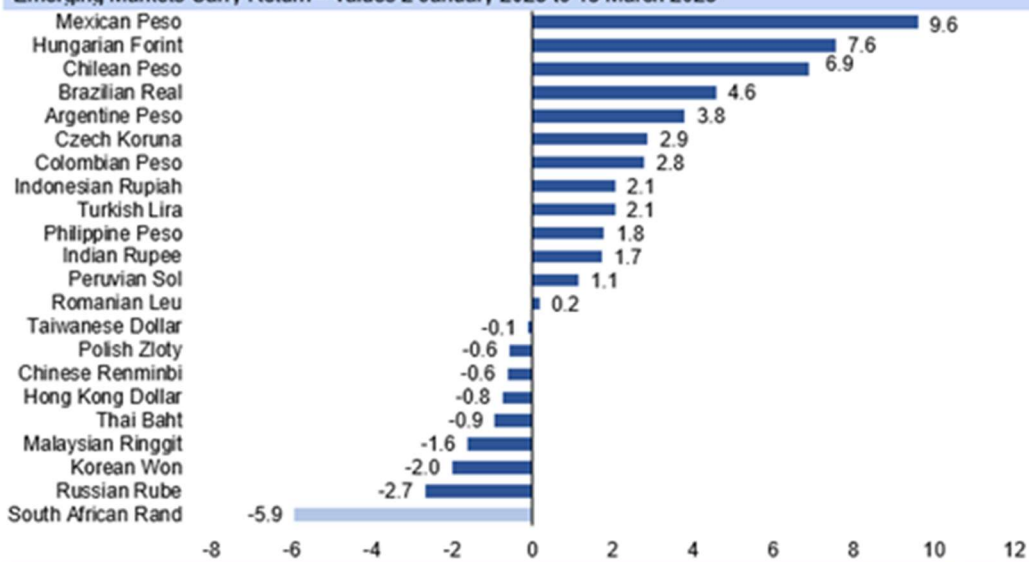


Rand note: risk aversion, rating agencies unified in downgrade risk of load shedding

Monday 13 March 2023

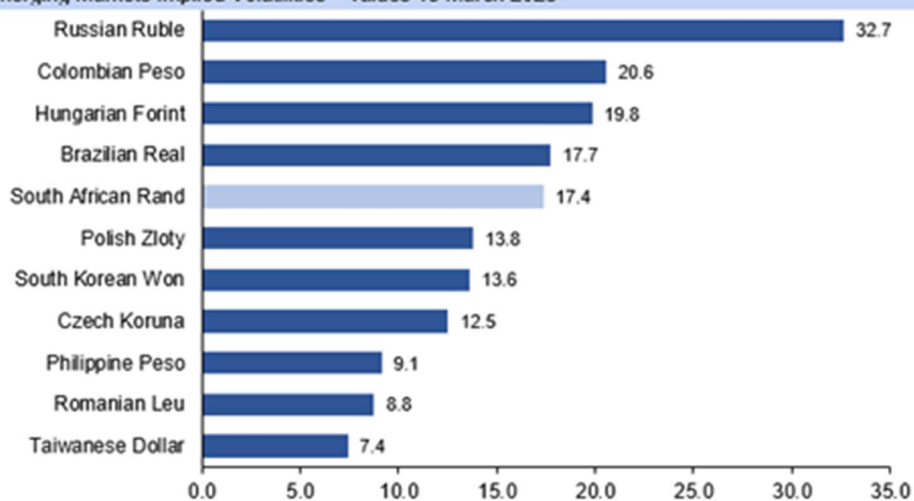


Emerging Markets Carry Return – values 2 January 2023 to 13 March 2023



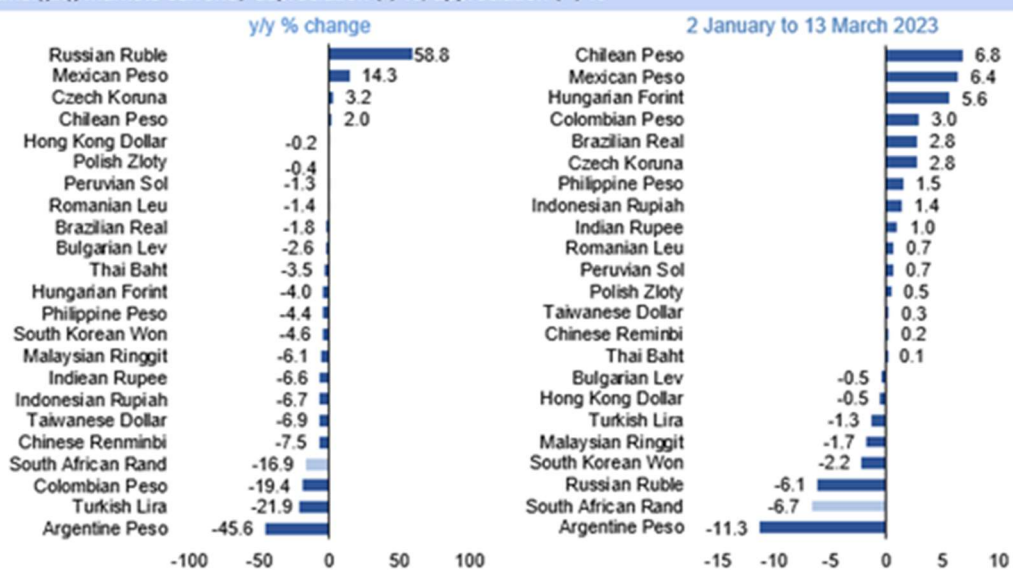
Source: Bloomberg

Emerging Markets Implied Volatilities – values 13 March 2023



Source: Bloomberg

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



Source: Bloomberg

Expected Case: Exchange Rate forecasts

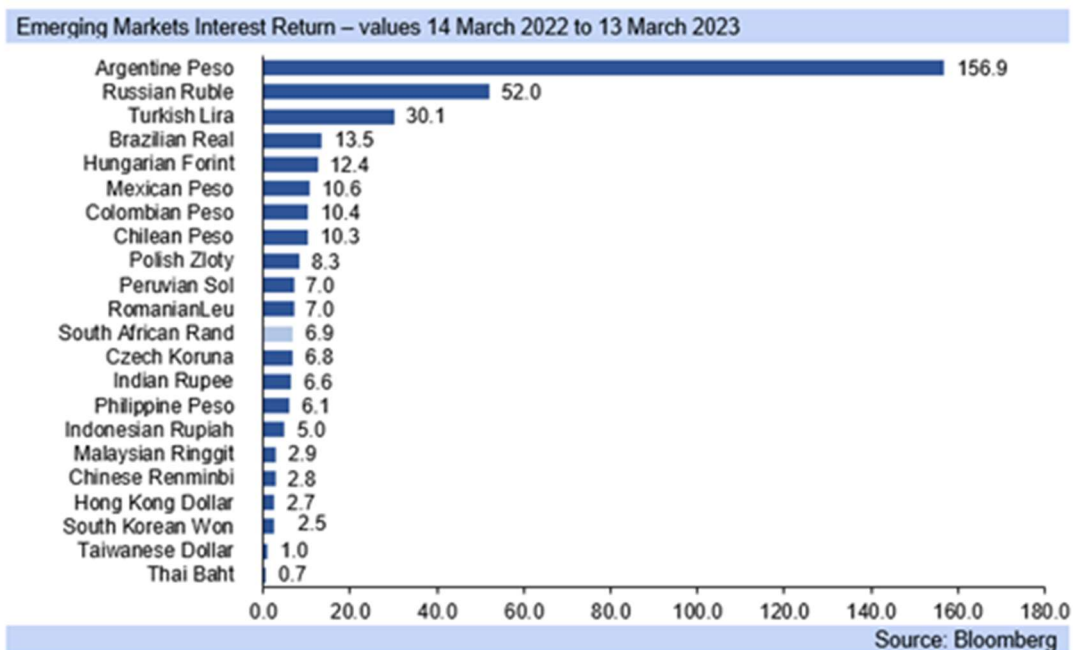
	2023				2024				2025			
	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24	Q1.25	Q2.25	Q3.25	Q4.25
USD/ZAR	17.80	18.40	18.60	18.30	17.80	18.00	18.30	17.90	17.60	17.60	17.70	17.50
GBP/ZAR	21.88	22.82	23.25	22.88	22.43	22.86	23.52	23.36	22.88	22.88	23.01	22.75
EUR/ZAR	19.26	20.15	20.65	20.50	20.11	20.52	21.14	21.03	20.59	20.59	20.71	20.48
ZAR/JPY	7.28	6.98	6.77	6.83	6.94	6.78	6.61	6.70	7.61	7.50	7.40	7.43
CHF/ZAR	19.45	20.25	20.44	19.80	19.06	19.27	19.75	19.66	19.34	19.34	19.45	19.23
AUD/ZAR	12.34	13.06	13.49	13.45	13.17	13.32	13.63	13.43	13.38	13.55	13.98	13.83
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	134	132	131	130

Note: averages, Source: Investec, Iress

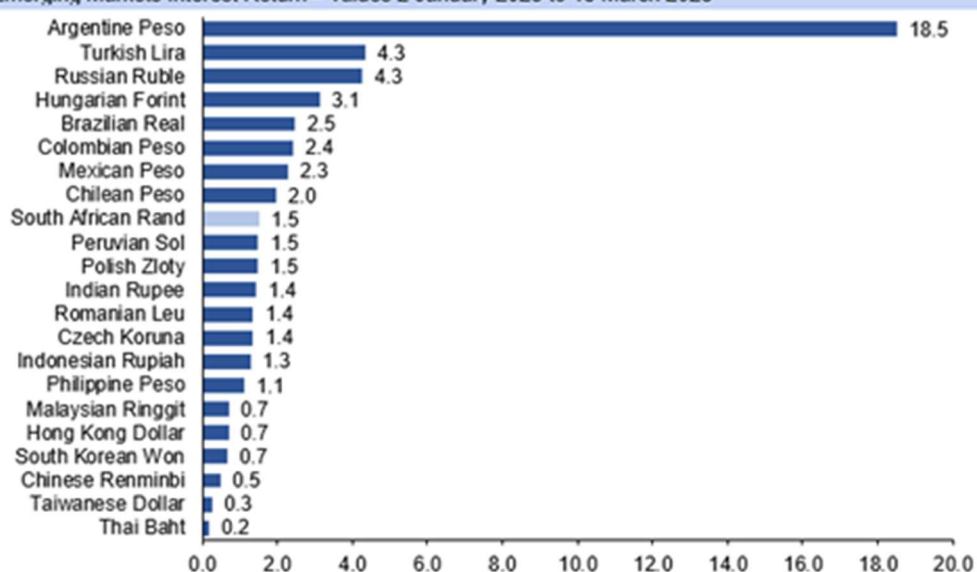
- The rand has settled just above R18.00/USD, heavily undervalued on both high risk aversion in global financial markets, and particularly negative investor sentiment against SA on its worsening growth outlook as its productive capacity deteriorates.
- Against the euro and pound the domestic currency is trading near R19.50/EUR and R22.00/GBP, also heavily undervalued, and running poorly against the crosses, near the bottom of the Bloomberg EM currency ranker on an annual comparison.
- South Africa's worsening electricity crisis came at a poor time against the backdrop of material risk off sentiment in global financial markets, while load shedding also adds to the cost environment, with SA's inflation still high, weakening the rand.
- All the rating agencies have evinced concern over SA's weakening economic growth outlook, with Moody's recently having said "South Africa's longest-ever stretch of power cuts is credit negative".

- “We expect the blackouts' effect on businesses, consumer sentiment and investment will weaken the country's already subdued economic growth prospects and threaten social and political stability.”
- “To manage demand amid the breakdowns, Eskom ... (cuts) power ... up to 10 hours per day in different areas of the country for the past six months. South Africa has long experienced some degree of load shedding, but never to the current extent.”
- Moody's, one of the three key credit rating agencies globally, has highlighted that the effect on economic growth increases the chance of a downgrade, by terming load shedding credit negative for South Africa.
- Rating agencies are taking a wait and see approach to SA's electricity crisis. Moody's expects SA “will accelerate the delivery of new power generation licences”, allowing “investment in utility plants, leverage economies of scale and liberalize the ... energy market”.
- Slow repair to the electricity crisis would increase SA's downgrade risk. Moody's recognises “(i)mplementation risks are significant and any real effects will take time to take materialize”. SA also has to make regular progress on addressing the shortcomings listed by FATF in its recent greylisting.

Please scroll down to the second section below

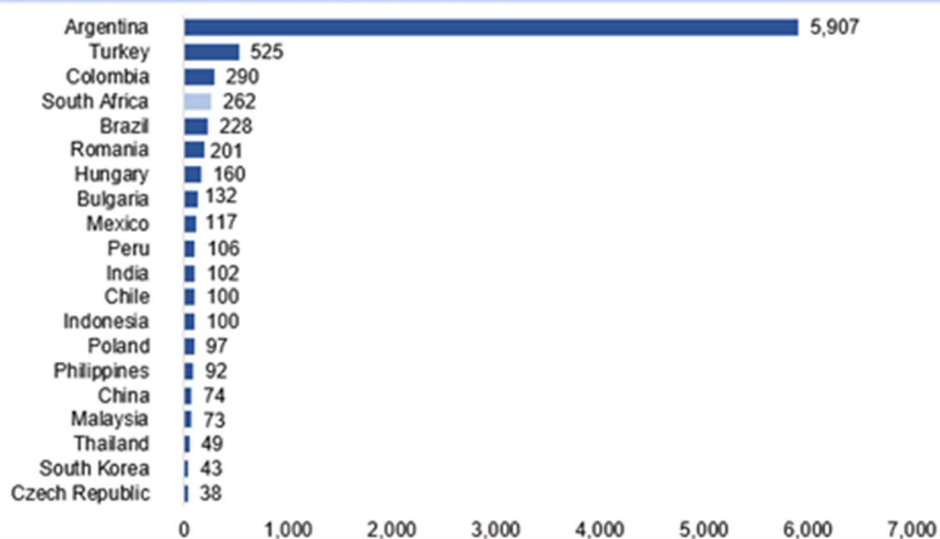


Emerging Markets Interest Return – values 2 January 2023 to 13 March 2023

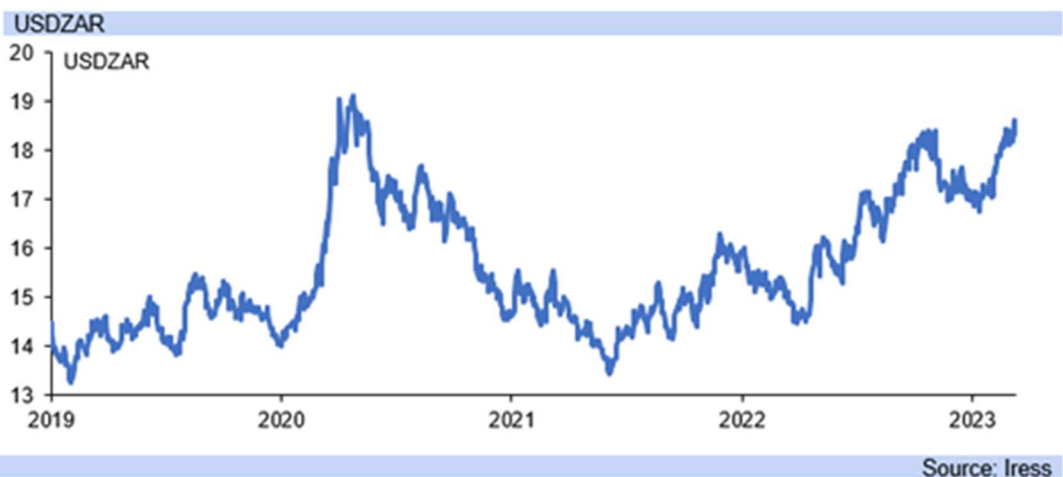
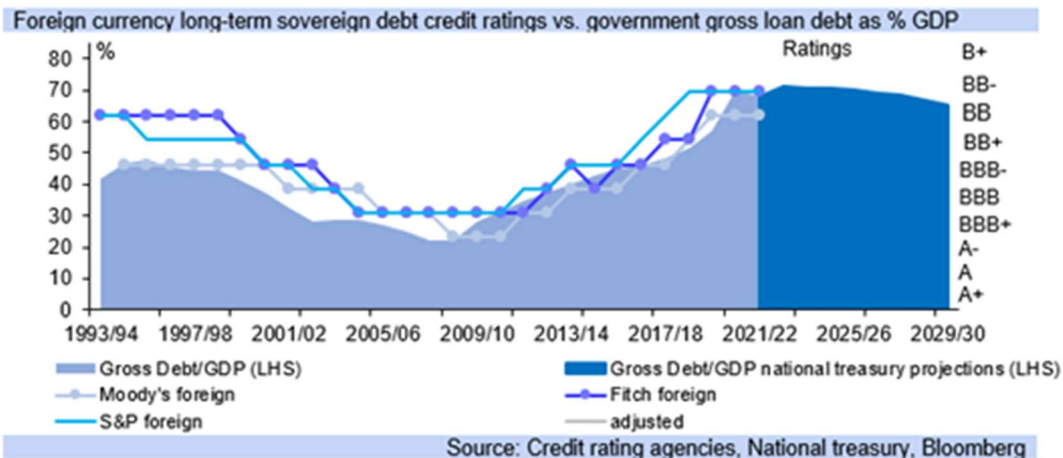


Source: Bloomberg

Emerging Markets CDS (risk) Spreads – values 13 March 2023



Source: Bloomberg



- The rand weakened over last week, reaching R18.73/USD, R19.78/EUR and R22.20/GBP as risk sentiment elevated on the collapse of SVB (Silicon Valley Bank (SVB) Financial Group) as a run on the bank saw it unable to remain in business.
- Today HSBC's purchase of SVB UK (UK arm of SVB), calmed markets somewhat, while US Treasury Secretary, Janet Yellen, said the US banking system remains resilient, and Biden added the US financial system would weather the fallout.
- SVB is the largest US bank to have failed in over a decade. Its collapse added to worries that the already tighter lending environment, on the upwards interest rate cycle, would cause other banks to pull back on lending to start-ups and SMEs.
- With about US\$209bn reported in assets, SVB is the second largest bank failure in the US, with 2008's collapse of Washington Mutual the largest. Many of SVB's clients were reported to be tech and healthcare start-ups, and venture capital funds.
- Rising interest rates in the US have worsened conditions for businesses, and markets are increasingly worrying about bank liquidity as well as exposure of financial institutions to the upwards rate cycle through bond holdings.

- Markets will also be watching the US inflation data due out tomorrow, with the core CPI measure expected to tip lower from 5.6% y/y in January, although the drop is not expected to be much for February, surveyed at 5.5% y/y.
- US PPI inflation figures come out on Wednesday, and the core measure (excluding food, energy and trade) is also expected to remain above 5.0% y/y, with Fed Chair Jerome Powell remaining very hawkish.
- Powell said last week that “there is little sign of disinflation” for services excluding housing, food and energy and that inflation has reversed the deceleration it showed late 2022, while the latest economic data has come out stronger than expected.
- The modest rise in US unemployment on Friday, to 3.6% y/y from 3.4% y/y, gave the markets, and the rand a small amount of comfort, although the drop in non-farm payrolls to 311k was not as large as was hoped (to 225k) from 517k.

Economic Scenarios: note updated probabilities to reflect elevated downgrade risk on weakening growth									
Extreme Up case 1%	USD/Rand (average)	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24
	Repo rate (end rate)	16.60	15.90	15.50	15.00	14.70	14.60	14.50	14.70
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.									
Up case 1%	USD/Rand (average)	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24
	Repo rate (end rate)	17.00	17.20	17.40	16.90	16.50	16.10	16.00	15.70
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, 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.									
Base case 48%	USD/Rand (average)	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24
	Repo rate (end rate)	17.80	18.40	18.60	18.30	17.80	18.00	18.30	17.90
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.									
Lite (domestic) Down case 40%	USD/Rand (average)	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24
	Repo rate (end rate)	18.00	18.90	19.00	19.20	18.60	18.75	18.90	18.70
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 unfavourable weather conditions, marked rand weakness. Little transition to renewable energy or measures to alleviate climate change. Lengthy greylisting.									
Severe down case 10%	USD/Rand (average)	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24
	Repo rate (end rate)	18.70	19.30	19.70	20.00	20.20	20.50	20.80	21.20
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 Q1.23. 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	18.00	18.90	19.00	19.20	18.60	18.75	18.90	18.70	18.40	18.45	18.45	18.40
GBP/ZAR	22.12	23.44	23.75	24.00	23.44	23.81	24.29	24.40	23.92	23.99	23.99	23.92
EUR/ZAR	19.47	20.70	21.09	21.50	21.02	21.38	21.83	21.97	21.53	21.59	21.59	21.53
ZAR/JPY	7.20	6.80	6.63	6.51	6.64	6.51	6.40	6.42	7.28	7.15	7.10	7.07
CHF/ZAR	19.66	20.80	20.88	20.78	19.92	20.07	20.40	20.53	20.22	20.27	20.27	20.22
AUD/ZAR	12.48	13.42	13.78	14.11	13.76	13.88	14.08	14.03	13.98	14.21	14.58	14.54
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	134	132	131	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	18.70	19.30	19.70	20.00	20.20	20.50	20.80	21.20	20.90	20.90	21.00	20.80
GBP/ZAR	22.99	23.93	24.63	25.00	25.45	26.04	26.73	27.67	27.17	27.17	27.30	27.04
EUR/ZAR	20.23	21.13	21.87	22.40	22.83	23.37	24.02	24.91	24.45	24.45	24.57	24.34
ZAR/JPY	6.93	6.66	6.40	6.25	6.11	5.95	5.82	5.66	6.41	6.32	6.24	6.25
CHFZAR	20.43	21.24	21.65	21.64	21.64	21.94	22.45	23.28	22.97	22.97	23.08	22.86
AUDZAR	12.96	13.70	14.28	14.70	14.95	15.17	15.50	15.90	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	134	132	131	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	17.00	17.20	17.40	16.90	16.50	16.10	16.00	15.70	15.40	15.40	15.50	15.30
GBP/ZAR	20.90	21.33	21.75	21.13	20.79	20.45	20.56	20.49	20.02	20.02	20.15	19.89
EUR/ZAR	18.39	18.83	19.31	18.93	18.65	18.35	18.48	18.45	18.02	18.02	18.14	17.90
ZAR/JPY	7.62	7.47	7.24	7.40	7.48	7.58	7.56	7.64	8.70	8.57	8.45	8.50
CHFZAR	18.57	18.93	19.12	18.29	17.67	17.23	17.27	17.24	16.92	16.92	17.03	16.81
AUDZAR	11.79	12.21	12.62	12.42	12.21	11.91	11.92	11.78	11.70	11.86	12.25	12.09
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	134	132	131	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	16.60	15.90	15.50	15.00	14.70	14.60	14.50	14.70	14.40	14.40	14.50	14.30
GBP/ZAR	20.40	19.72	19.38	18.75	18.52	18.54	18.63	19.18	18.72	18.72	18.85	18.59
EUR/ZAR	17.96	17.41	17.21	16.80	16.61	16.64	16.75	17.27	16.85	16.85	16.97	16.73
ZAR/JPY	7.80	8.08	8.13	8.33	8.40	8.36	8.34	8.16	9.31	9.17	9.03	9.09
CHFZAR	18.14	17.50	17.03	16.23	15.74	15.63	15.65	16.14	15.82	15.82	15.93	15.71
AUDZAR	11.51	11.29	11.24	11.03	10.88	10.80	10.80	11.03	10.94	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
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