

SA Economics



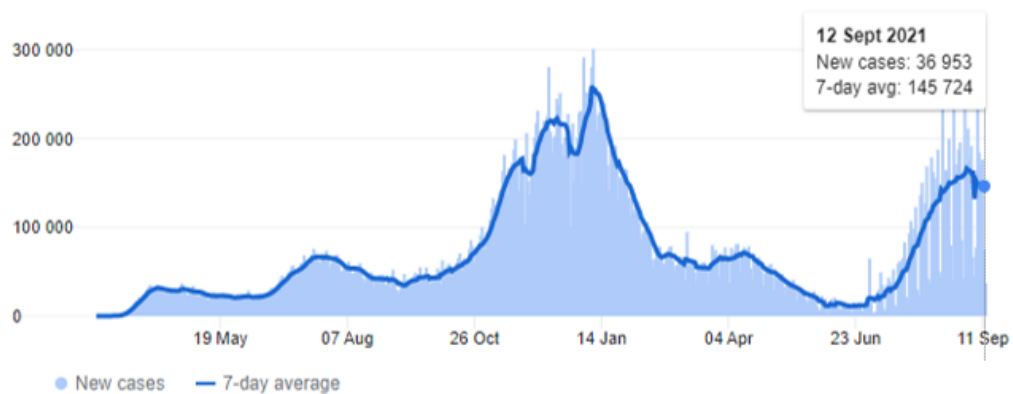
Monday 13 September 2021

Rand note: the rand is on track to average R14.55/USD this quarter, and will likely benefit for as long as the Fed's dovish tone persists towards its future planned monetary policy normalisation, but COVID-19 waves still remain a risk

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	14.55	14.45	14.45	14.85	15.15	14.75	14.55	14.95	15.35	14.85
GBP/ZAR	20.63	19.75	19.87	20.00	20.66	21.53	22.42	22.34	21.53	21.68	21.95	21.24
EUR/ZAR	18.03	17.03	17.36	17.48	17.70	18.27	18.86	18.59	18.19	18.69	19.19	18.56
ZAR/JPY	7.09	7.75	7.52	7.40	7.27	7.00	6.86	7.05	7.22	7.16	6.97	7.21
CHF/ZAR	16.52	15.51	15.79	15.75	15.80	16.16	16.55	16.16	15.99	16.43	16.87	16.32
AUD/ZAR	11.56	10.88	11.06	11.34	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

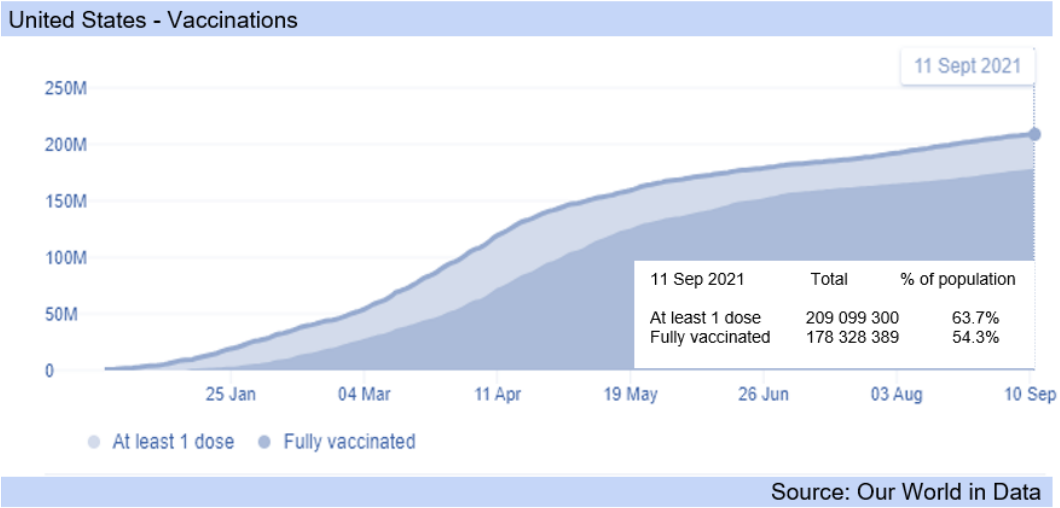
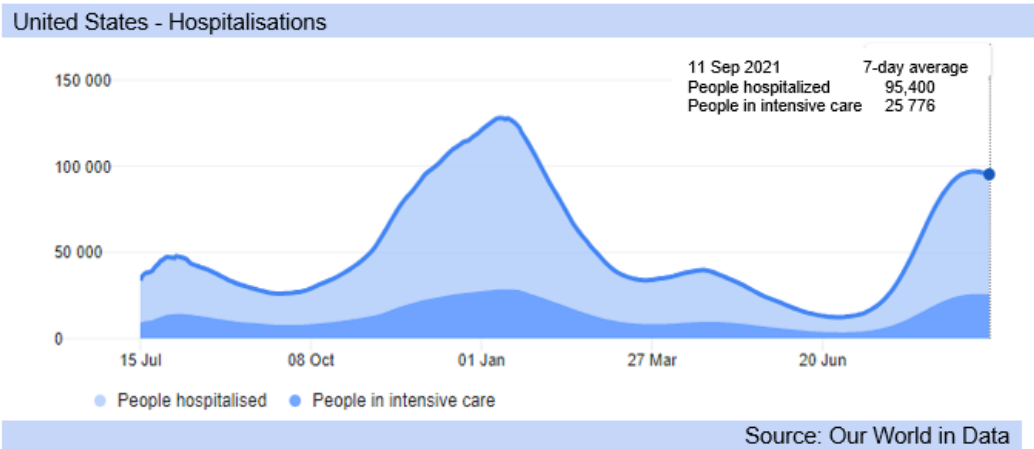
Note: averages, Source: Investec, Iress

United States – new cases

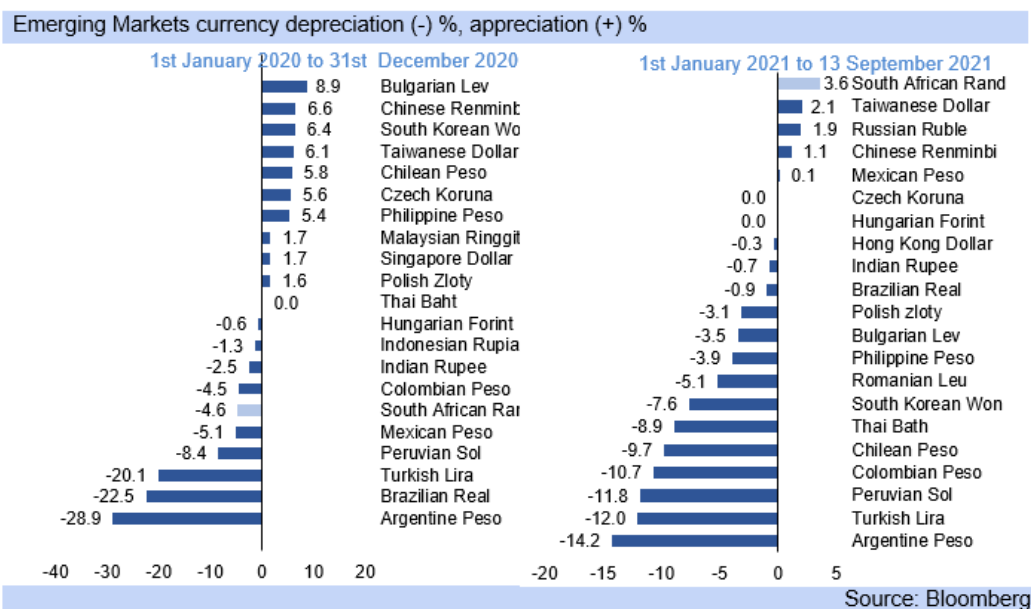


Source: The New York Times

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- The US has seen a small dip in its third wave, but it is too early to be certain this signifies an actual moderation in the wave itself, and the path of COVID-19 remains uncertain, both in the US and overall globally, with further waves expected over next year too.
- The Fed has sounded caution on normalising monetary policy in the face of this uncertainty, which has benefited the rand and some other risk-on trades but has also caused some volatility, with focus on US economic indicators for when QE tapering will begin.
- US inflation remains historically high, due in large part to disruptions to both the US and global economies by COVID-19. Key is supply chain disruptions, aside (but not removed) from high commodity prices, and supply chain pressures are not likely to disappear in the short term.
- Higher US interest rates would not help in forcing down supply side inflation pressures, and nor indeed would reducing QE either to address supply side price pressures, while the US economy is generally being recognised as having hit its growth peak this year in Q2.21.
- The US third wave of COVID-19 infections has prevailed over Q3.21, and this will have dampened the quarter's growth rate, having already been shown to have dampened consumer and business confidence, and having some impact in activity in monthly indicators.
- The US's third wave has also had a marked, negative impact on the labour market, and this is not yet at an end. The US shows hospitalisations in the third wave are not yet declining, deaths are still increasing, and this has added to fears, impacting joining the labour market.

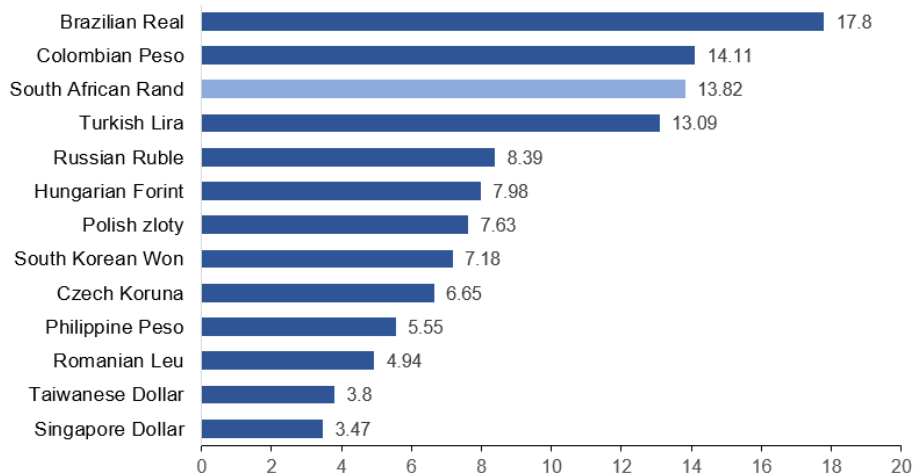
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- Recent weakish US labour market figures have been ignored by many hawkish proponents for sooner monetary policy normalisation, as has the heavily supply-side nature of inflation, but this does not mean some demand side price pressures have not been evident.
- However, worryingly, scientists point not only to fourth and additional waves of COVID-19 globally running through next year, but also of the risk of variants significantly immune to current vaccines, and even these mutations forming in the delta variant.
- Consequently, it remains highly uncertain still what the path will be for COVID-19, the virus has not reached its end, and the Fed is cognisant of this, taking a balanced approach to providing monetary policy support to the economy - but also a longer-term view.

Please scroll down to the second section below

Emerging Markets Implied Volatilities – values 13 September 2021

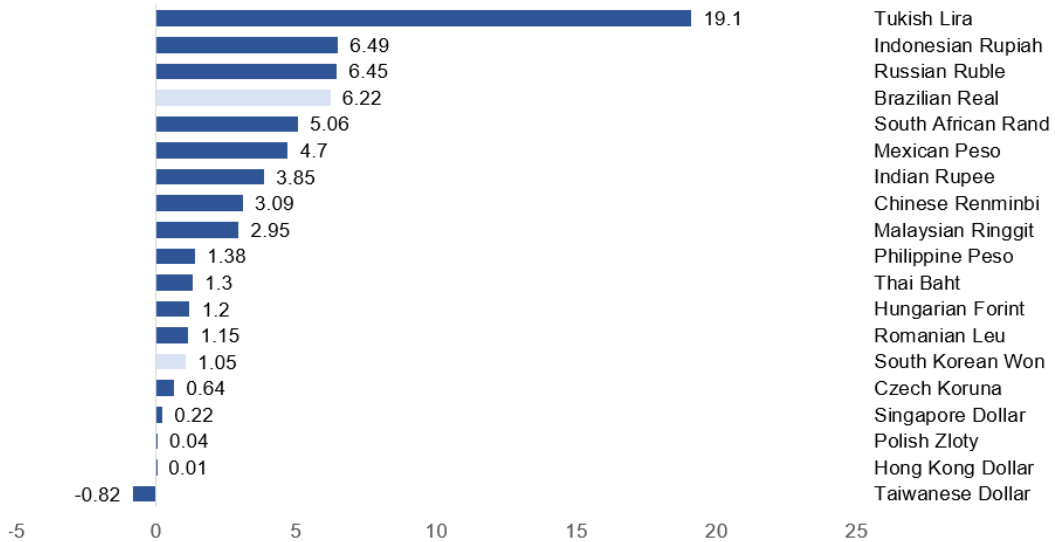


Source: Bloomberg

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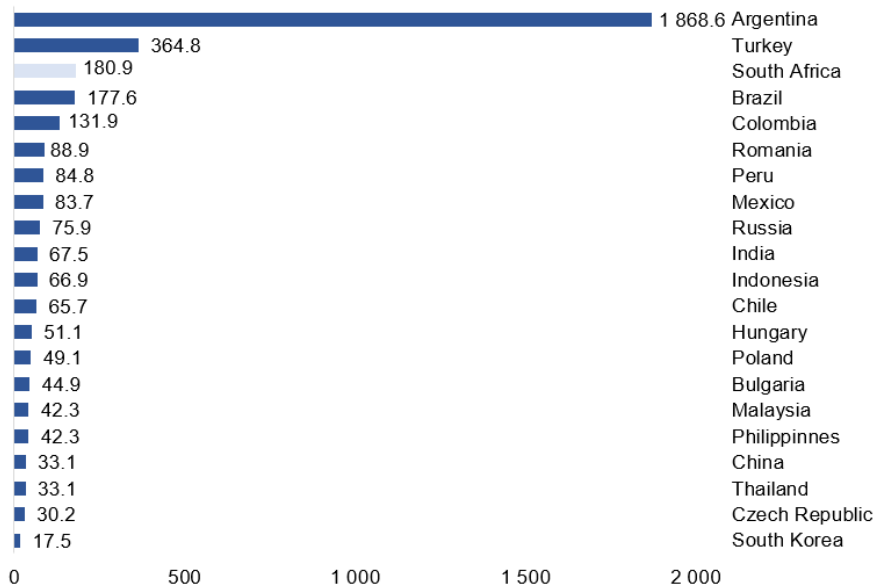


Emerging Markets Implied Rates – values 13 September 2021



Source: Bloomberg

Emerging Markets CDS Spreads – values 13 September 2021

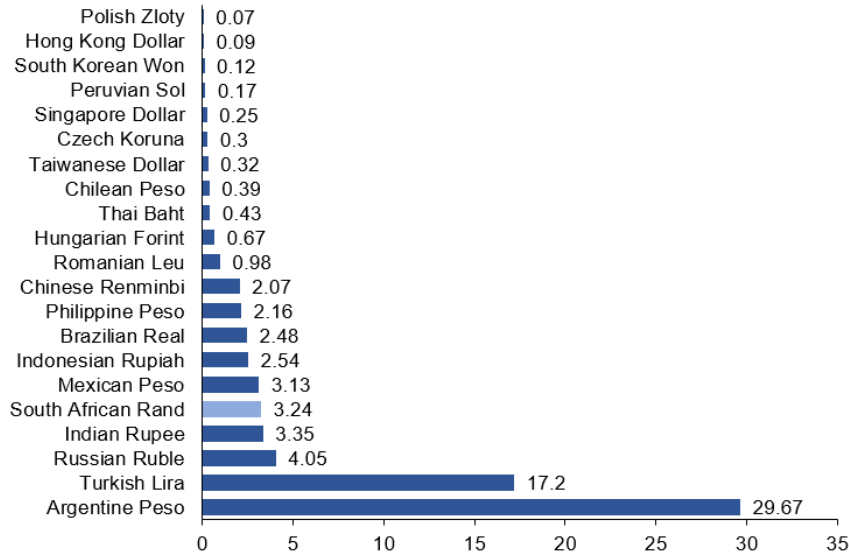


Source: Bloomberg

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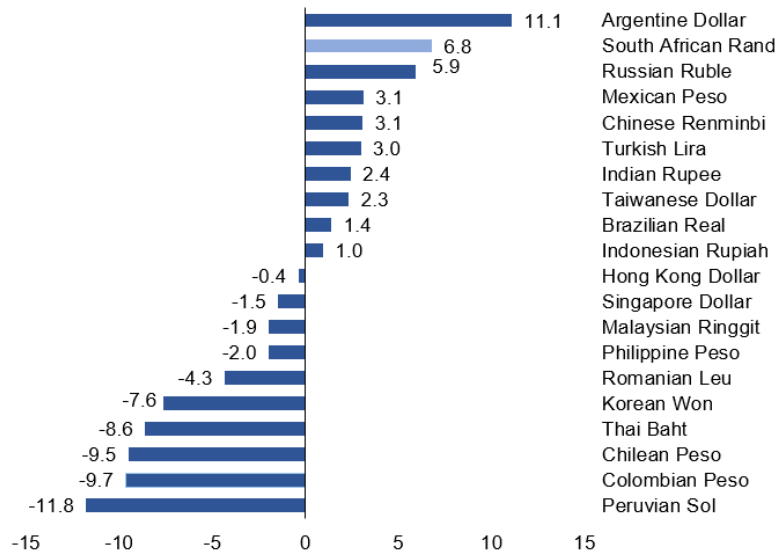


Emerging Markets Interest Return – values 13 September 2021



Source: Bloomberg

Emerging Markets Carry Return – values 13 September 2021



Source: Bloomberg

- Should many in the scientific community prove correct on the path of COVID-19, there will not be a quick, permanent rebound from the impact of COVID-19, but instead what is becoming more likely as the virus devolves are further disruptions to economic activity.

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- Some of the push from commentators for the US to normalise its monetary policy more rapidly than it is signalling may well be coming from this desire to get past COVID-19 as quickly as possible, which could be clouding judgements.
- However, supply blockages and bottlenecks, high prices of transportation and logistics and other impediments to the global supply chain are not quickly overcome, nor have they been overcome, and these cannot be ignored as key price drivers, as have been base effects.
- This does not mean that US monetary policy normalisation is not appropriate, and should not occur, but rather that a cautious approach is needed instead, and the Fed may even become more cautious should the US third wave linger, instead of subsiding quickly.
- The previous two waves (based on seven day rolling averages) of the US's COVID-19 infections saw substantial stops and starts in building their peaks, with the larger second wave seeing some marked drops in infections before a second and third mini peak.
- The US also saw a particularly flat, but lengthy, first wave of COVID-19 infections, and so a peak on a first lengthy plateau on marked lockdown. The third wave in contrast sees a much more open economy, and is still showing daily infections spiking up.
- The US third wave could well run into October, and this will worry potential labour market participants, as well as affect economic activity, and if it worsens, would also negatively affect market sentiment and so could cause rand weakness.
- There is a balance for the rand, and the strength in the US economy to date, and improvements in the US labour market, along with the Fed's mature approach to higher inflation through signalling it is not an immediate concern, has supported market optimism.
- However, should the US economy show markedly slowing growth, even less appetite for labour market participation and indeed exits from the labour market, financial markets could turn risk off, with resultant rand weakness – which is still a risk.

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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
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 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	14.55	14.35	14.45	14.85	15.15	14.75
	Repo rate (end rate)	3.50	3.50	3.50	3.50	3.50	3.50	3.75	3.75
	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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Life 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

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
USD/JPY	106	109	109	107	105	104	104	104	106	107	107	107

Note averages, Source: Investec, Iress

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

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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
CHF/ZAR	16.52	15.51	16.99	17.88	18.59	19.05	19.66	20.27	20.55	21.10	21.48	21.65
AUD/ZAR	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