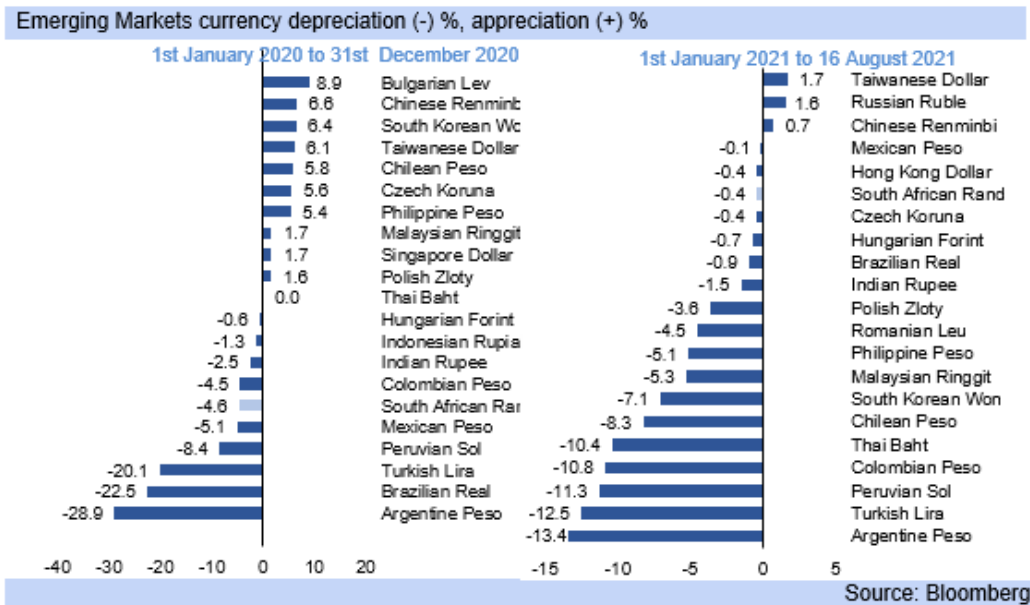


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Monday 16 August 2021

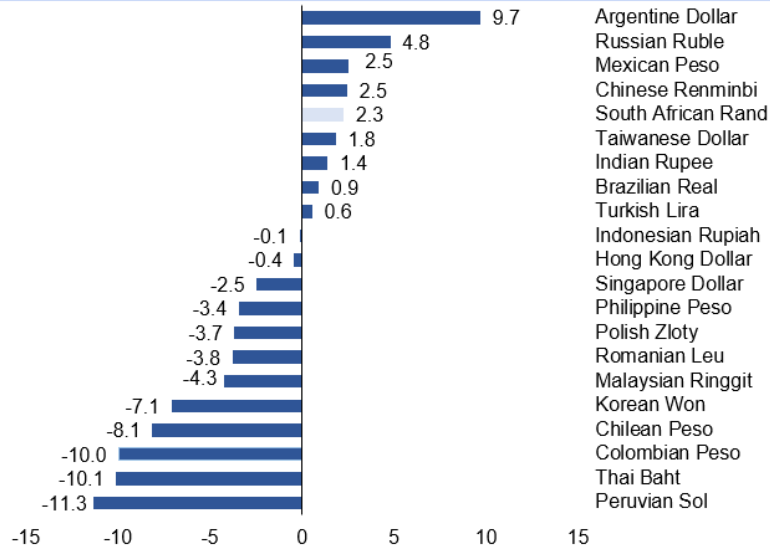
Rand note: the rand has pulled back from last week's R14.91/USD, on the drop in US consumer confidence and monthly CPI while Finance Minister Godongwana sounds the right notes on fiscal restraint, cheering markets



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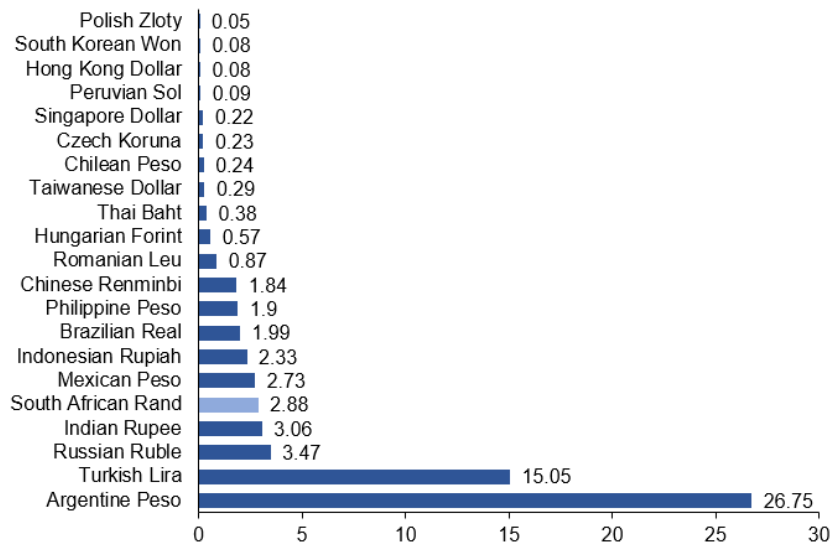


Emerging Markets Carry Return – values as at 16 August 2021



Source: Bloomberg

Emerging Markets Interest Return – values as at 16 August 2021

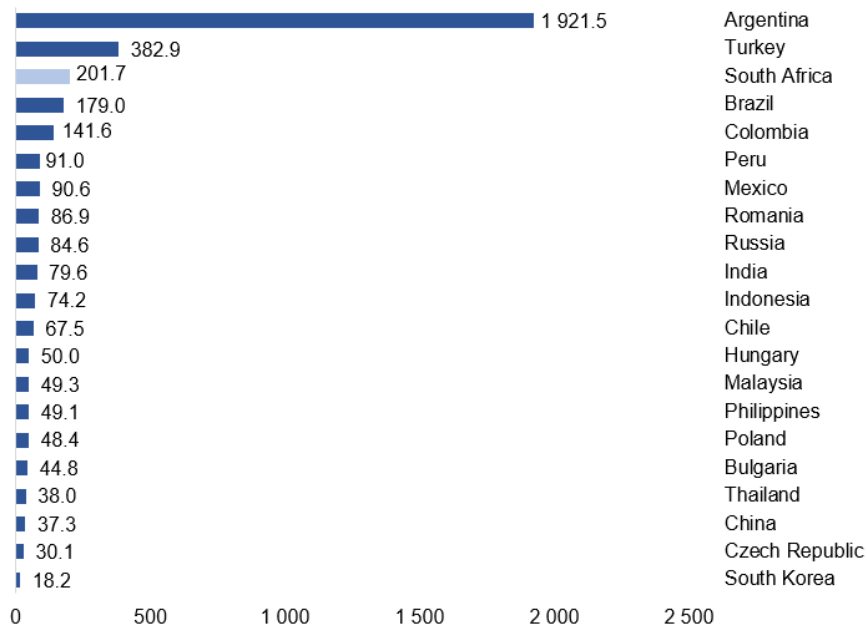


Source: Bloomberg

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Emerging Markets CDS Spreads – values as at 16 August 2021



Source: Bloomberg

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	14.45	14.35	14.45	14.85	15.15	14.75	14.55	14.95	15.35	14.85
GBP/ZAR	20.63	19.75	19.73	19.87	20.66	21.53	22.42	22.34	21.53	21.68	21.95	21.24
EUR/ZAR	18.03	17.03	17.24	17.36	17.70	18.27	18.86	18.59	18.19	18.69	19.19	18.56
ZAR/JPY	7.09	7.75	7.58	7.46	7.27	7.00	6.86	7.05	7.22	7.16	6.97	7.21
CHFZAR	16.52	15.51	15.69	15.64	15.80	16.16	16.55	16.16	15.99	16.43	16.87	16.32
AUDZAR	11.56	10.88	10.99	11.26	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

- The rand has been volatile, weakening on fears the US will hike interest rates before 2023, but pulling back on lower US U Michigan and CPI readings and on reassuring comments from SA's Finance Minister, Enoch Godongwana on policy continuity in fiscal restraint.
- South Africa's new Finance Minister in particular highlighted that non-interest expenditure will be reduced to 4% of GDP with a primary focus on the cost cutting coming from government's wage bill, and that there will be continuity in the fiscal policy trajectory set by Mboweni.

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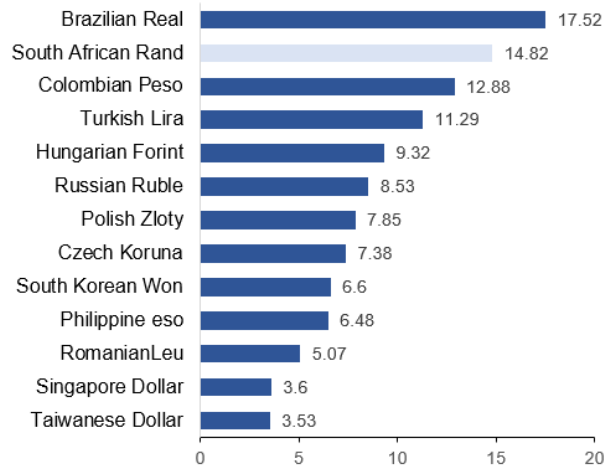
- Adding, "(w)e come from the same party; we do not have different mandates, and from that perspective there will be continuity in terms of the sustainable fiscal path he (Mboweni) has chosen," he said. "As things stand, I do not see any changes in the fiscal framework."
- Minister Godongwana's political seniority and leadership style will aid in his ability to communicate clearly, with a likely interactive style, the ANC's position on fiscal policy restraint, and aid his ability to say no where needed in the face of expenditure pressures.
- The Finance Minister also said there will be no tax increases over the medium term expenditure framework, which is from the current fiscal year of 2021/22 is 2022/23 to 2024/25. The rand doubtless gained some support from all his comments, as did the bond market.
- He further underpinned the need for structural reform, increasing skills capacity instead of introducing the controversial basic income grant (BIG), tying in with government's plan of boosting township economies, which would have the benefit of adding to revenues.
- A more co-ordinated policy stance communicated from all areas of government will boost business confidence, which already will have likely received some support from the new Finance Minister's reassurances, in turn positive for economic growth and job creation.
- The rand however continues to be buffeted by international forces, weakening as market expectations of a 25bp hike in the Fed funds rate in December 2022 solidified, but pulling back as US CPI inflation showed the transitory nature of some of the recent price pressures.
- The domestic currency averages R14.55/USD to date this quarter, with further volatility likely. The rand could pull stronger towards quarter end, and into next quarter, although long-term is still likely to still be at risk of weakness.

Please scroll down to the second section below

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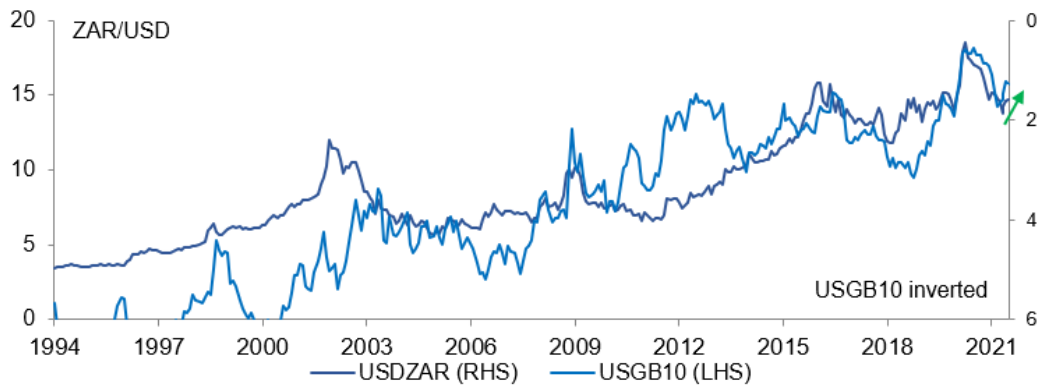


Emerging Markets Implied Volatilities – values as at 16 August 2021



Source: Bloomberg

USDZAR vs US 10-year bond (%) – USGB yield inverted



Source: Iress

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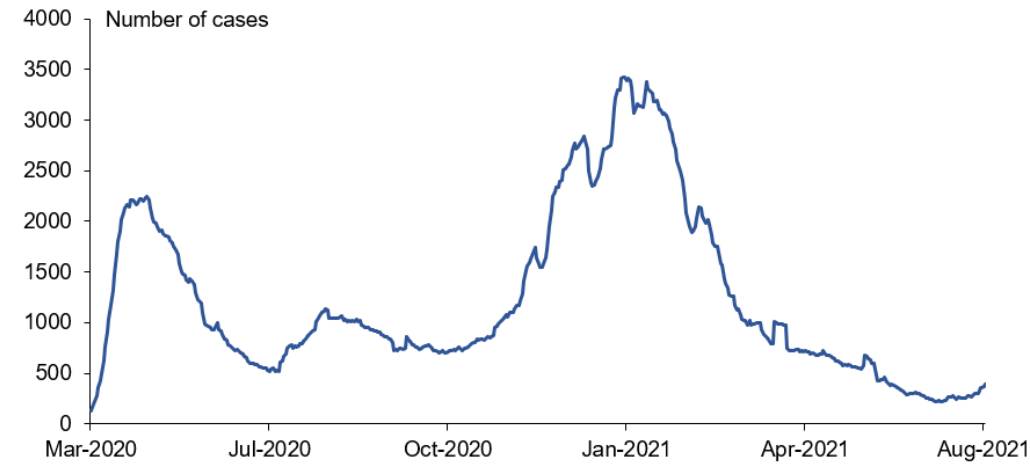


Daily new confirmed COVID-19 cases, US



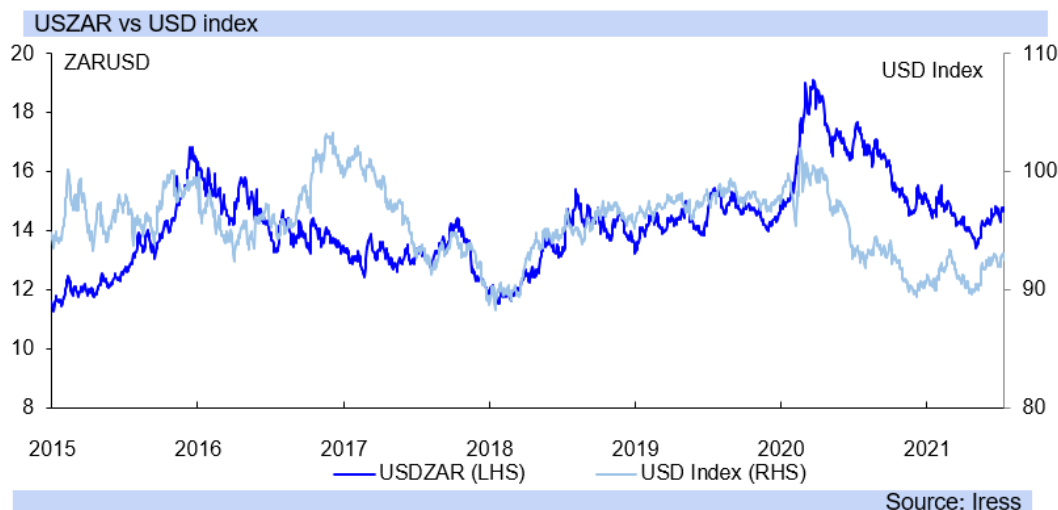
Source: Our World in Data

United States daily confirmed COVID-19 deaths, seven day rolling average



Source: Our World in Data

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- The rand weakened from R13.40/USD in June to R14.74/USD currently, with volatility in between, on the shift in market perceptions to a quicker advent in US QE tapering, and then hikes in US interest rates, with shifting perceptions exacerbating volatility
- However, markets fear QE tapering could begin this year, with US bond yields reacting, and so lead into US rate hikes before 2023, hampering the rand's gains and keeping the domestic currency from gravitating back to R14.00/USD despite positive developments domestically.
- The latest U Michigan reading is important however, as US consumers are feeling significantly less positive currently (in August) than they were in Q2.21, following the risk of higher future interest rates, a higher cost of living and surge in COVID-19 new cases on the delta variant.
- While consumer sentiment saw a sharp increase in Q2.21, and there is some element of correction in the latest figures, the US's rise in delta COVID-19 cases has caused a negative reaction for many on fears of tighter lockdown restrictions and higher unemployment.
- With 2020 a difficult year as personal freedom of movement, entertainment and leisure activities were curtailed, the economy contracted and job losses escalated, the virulence of the delta variant due to its highly contagious nature has been a negative blow to psyches.
- With many thinking that the horror of 2020 had past, and even though it is not likely to be repeated, the start of the delta wave in the US has had a negative impact on confidence, and consumers outlook on unemployment shows fears of a deterioration in prospects.
- The US is not a unidimensional inflation targeter, and as such finds equal importance in the performance of the economy and jobs market, which in turn are impacted by consumer sentiment; and more cautious spending behaviour would impact US economic recovery.

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- So too would greater lockdown restrictions, and the virulency the delta variant is showing is cause for concern, with the US only having vaccinated just over half its population. Yield seeking may return, and uncertainty is still high for experts over the path of the virus.
- Experts on the disease even warn that it is highly possible (a) further new variant/s could emerge that are resistant to the current vaccines. This would damage economic recoveries and the return to 'normal' that monetary policy makers are preparing for.

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 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	14.45	14.35	14.45	14.85	15.15	14.75
	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 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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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

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	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

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