

# SA Economics

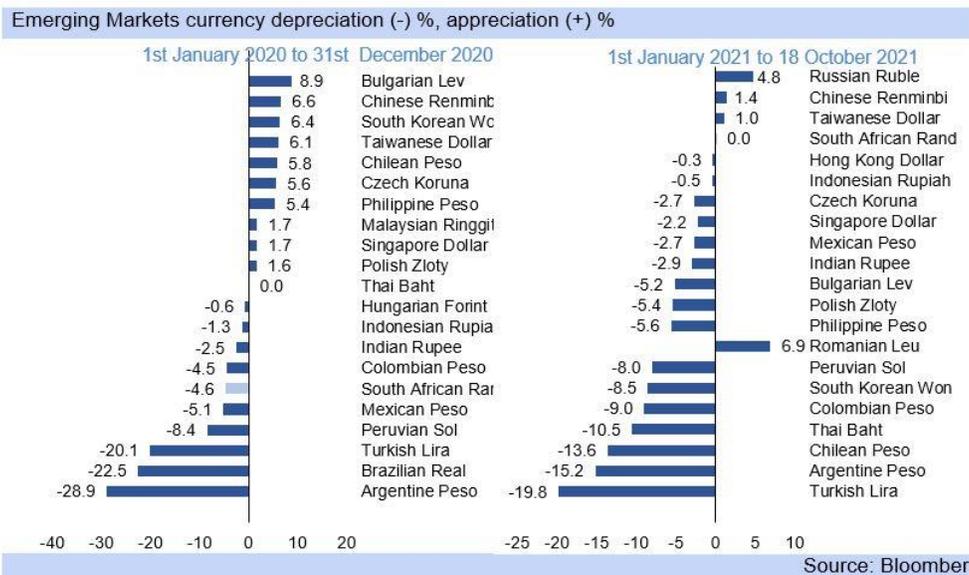


Monday 18 October 2021

Rand note: rand continues to run around R14.70/USD, as risk-off subsides somewhat in global financial markets with an increased chance that QE tapering could be pushed out to December

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
CHF/ZAR	16.52	15.51	15.95	15.79	15.65	15.92	16.32	16.09	16.10	16.54	16.98	16.43
AUD/ZAR	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

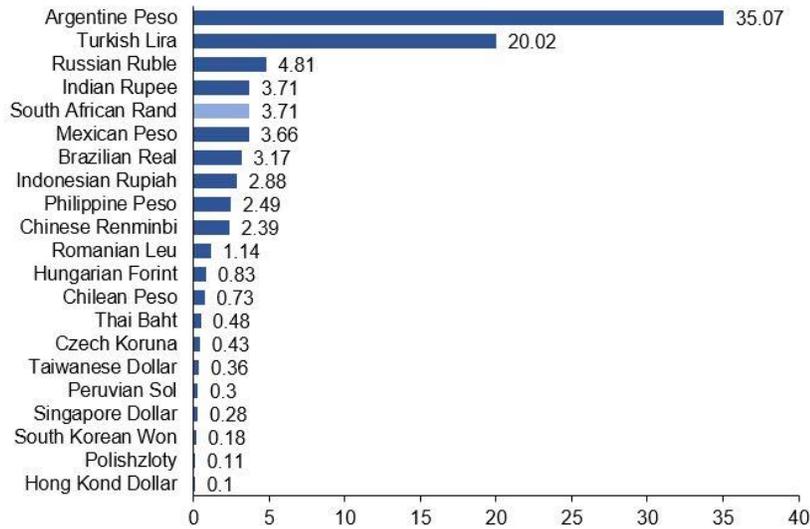
Note: averages, Source: Investec, Iress



# SA Economics

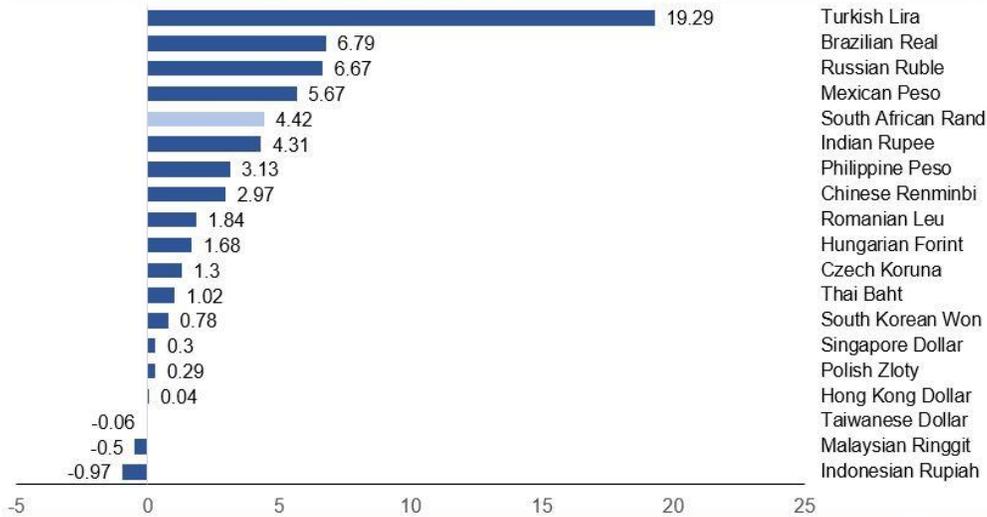


Emerging Markets Interest Return – values 18 October 2021



Source: Bloomberg

Emerging Markets Implied Rates – values 18 October 2021

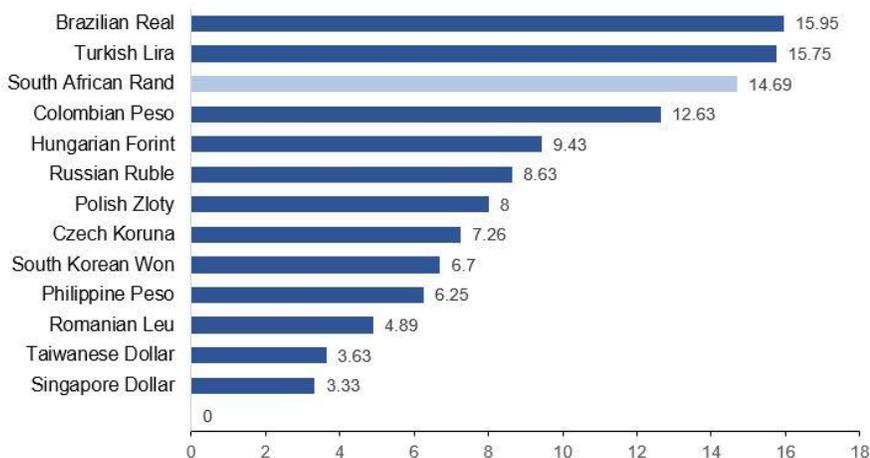


Source: Bloomberg

# SA Economics



Emerging Markets Implied Volatilities – values 18 October 2021



Source: Bloomberg

- The rand has seen some strength last week on the potential reprieve to EM currencies from a later tapering in US monthly asset purchases, as markets continued to digest the weak outcome of US jobs market data with resultant US dollar weakness.
- Recent FOMC communication on a gradual tapering was also supportive, as was the underscoring of still distant US interest rate hikes in the release of its last meeting minutes, with more stringent requirements for hikes than for the start of tapering.
- Indeed, the rand strengthened to R14.60/USD early today, currently averaging R14.91/USD for the first two weeks of Q4.21, but has room for further strength, particularly this month and next, with the first and last quarters also typically seasonally strong for the rand.
- Markets will still keep a close eye on US economic data releases, and the rand is at risk of weakness in particular on signs of a marked strength in the US jobs market data, as expectations have begun to see some shift from a November to a December tapering.
- Additionally, the PBOC (China's Central Bank or the Peoples Bank of China), is reported to have said that Evergrande's (the Chinese property developer giant) risks to the financial system are "controllable", and so not expected to spread, calming international markets.
- So too, another risk driver at the end of September, the unresolved fiscal cliff at that point, has seen a reprieve to December, with markets shrugging off some risk concerns in the interim (QE tapering may well only occur in December).
- The rand has found resistance at R14.60/USD, and likely this will remain a key resistance level for the currency, as markets temporarily make use of the unexpected (to a number) bout of strength in the domestic currency for some sell-orders.
- The rand could see some further attempts at the R14.60/USD resistance level this month and in November, if risk aversion remains moderate, and indeed subdues further in what

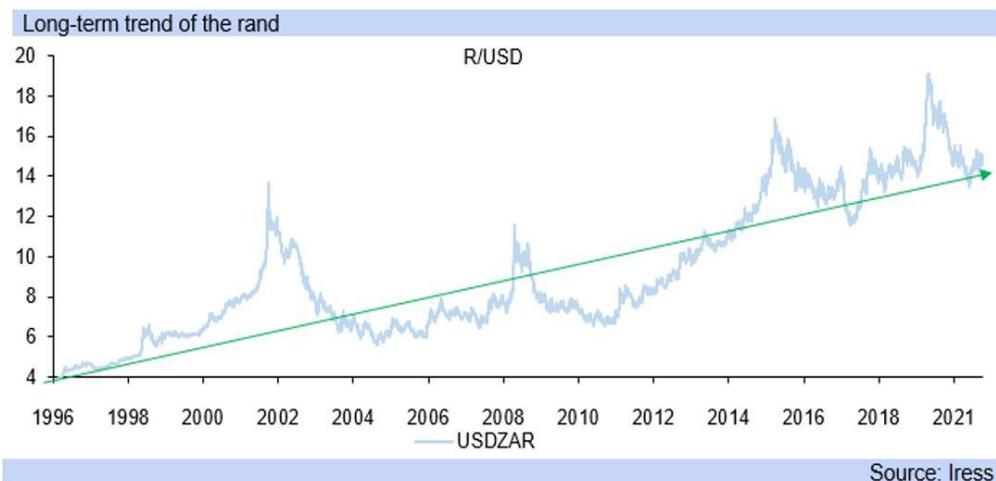
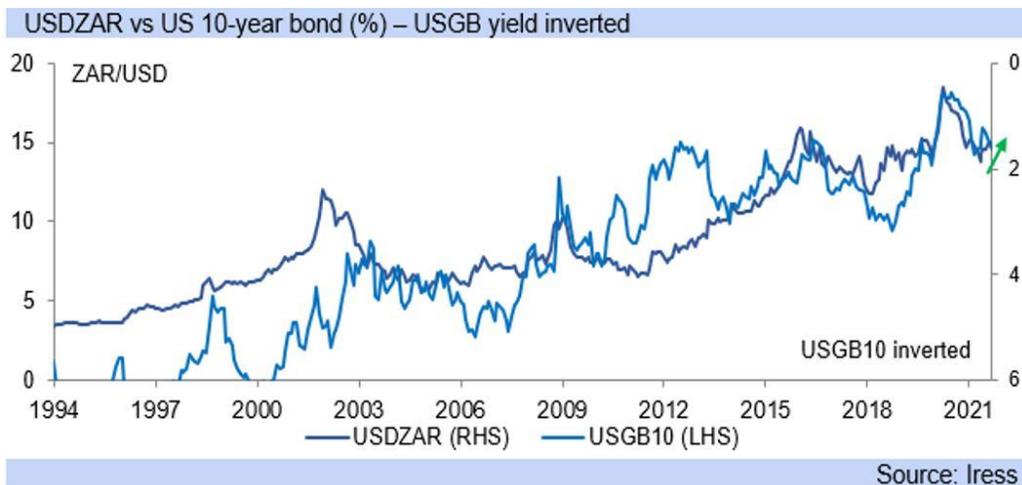
# SA Economics



can be a quiet period, particularly if market views for a December taper firm over this month.

- US inflation will remain of concern, although FOMC members' continue to highlight that "there would likely be sustained downward pressure on inflation in the years ahead", and the domestic currency will remain volatile, but potentially have a strengthening bias this month.

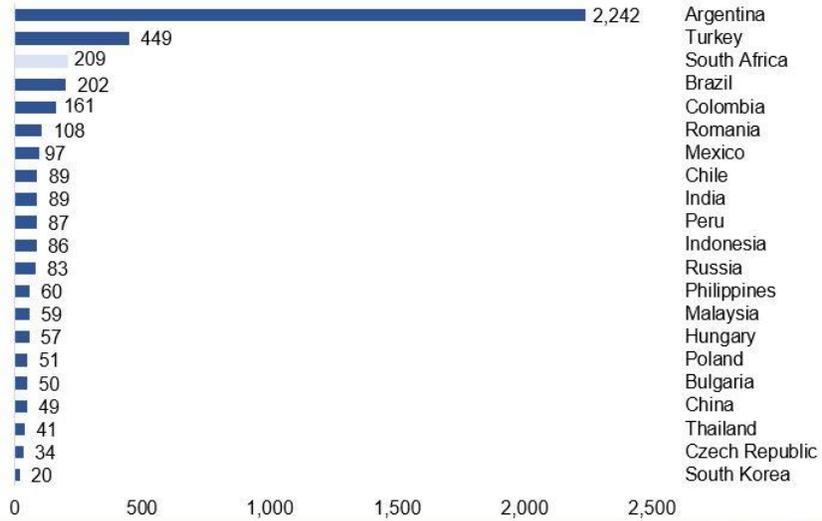
Please scroll down to the second section below



# SA Economics

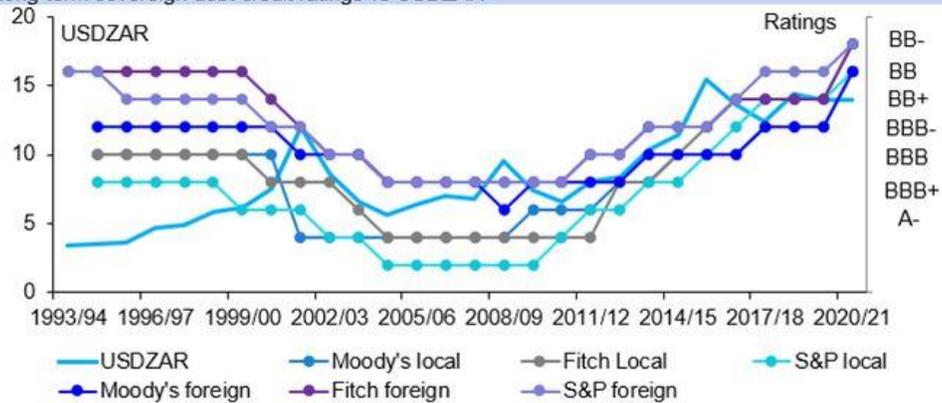


Emerging Markets CDS Spreads – values 18 October 2021



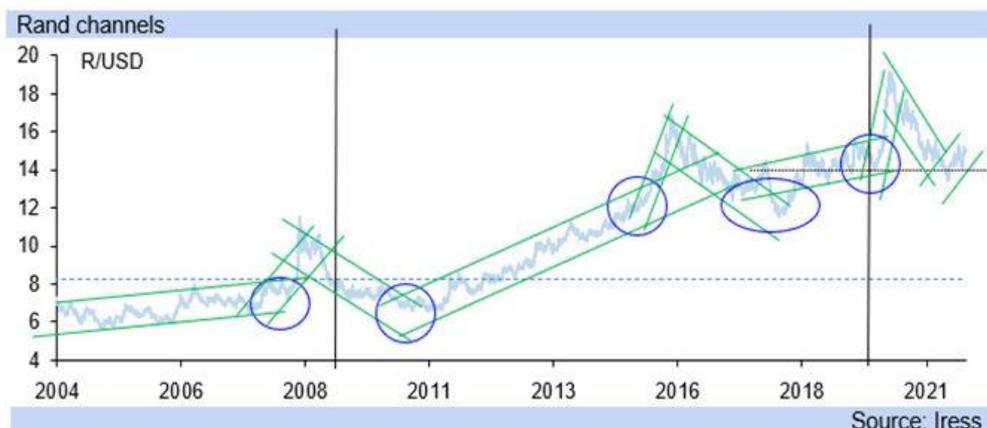
Source: Bloomberg

Long-term sovereign debt credit ratings vs USDZAR



Source: Credit rating agencies, National treasury, Bloomberg

# SA Economics



- That is, the Fed's monetary policy committee's members expect inflation to slow materially back to the 2.0% mark, through the course of next year allowing potentially for a hike in the Fed funds target rate, but particularly by 2023, when all members see higher interest rates.
- Q2.22 will see disinflationary forces exerted from the wearing out of the base effects which have elevated inflation globally and in the US this year from Q2.21, given the collapse in inflation from Q2.20 to Q1.21 on the pandemic effects.
- QE tapering is expected to see some reduction in inflationary forces, as would a further easing in commodity prices. However, the dislocation of supply chains, and in particular shortage of transport facilities for goods globally will likely keep exerting inflationary pressures next year.
- That is, shortages of container ships, as well as reported staff shortages, backlogs in transportation and delays in obtaining inputs will be exacerbated by a lift in demand, even moderate acceleration in economic growth, with this expected to take place next year.
- However, inventory rundowns are exacerbating the situation, and will not be resolved soon as economies are expected to continue growing, and now fall into contractions in demand. Consequent increases in fixed investment also has short-term inflationary consequences.
- As noted previously, US fiscal stimulation will add to inflationary pressures, providing an uncoordinated response on the withdrawal of its very accommodative monetary policy stance. Indeed, markets remain particularly concerned about inflationary pressures.
- The continued rise in the oil price in particular is causing some near-term concerns, with Brent close to US\$86/bbl today, US\$12/bbl up on a month ago, and in rand terms at R1 266/bbl, versus R1 093/bbl a month ago, which will push up inflation in November.
- The most recent update on movements in the components in the fuel price shows an increase in petrol prices of around R1/litre for South Africa. Oil importers in general will see upwards inflationary pressures from the recent high oil price moves.

# SA Economics



- The rand has moved to R14.74/USD this afternoon so far, from close to R14.60/USD, and will remain volatile on sentiment over tapering, global inflation and indeed over the likelihood of interest rate hikes in SA.

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

# SA Economics



## 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, Jress

## 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, Jress

## 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
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, Jress

# SA Economics



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
CHFZAR	16.52	15.51	15.95	14.83	14.31	14.04	14.03	13.91	13.96	13.74	13.52	13.35
AUDZAR	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
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