

SA Economics



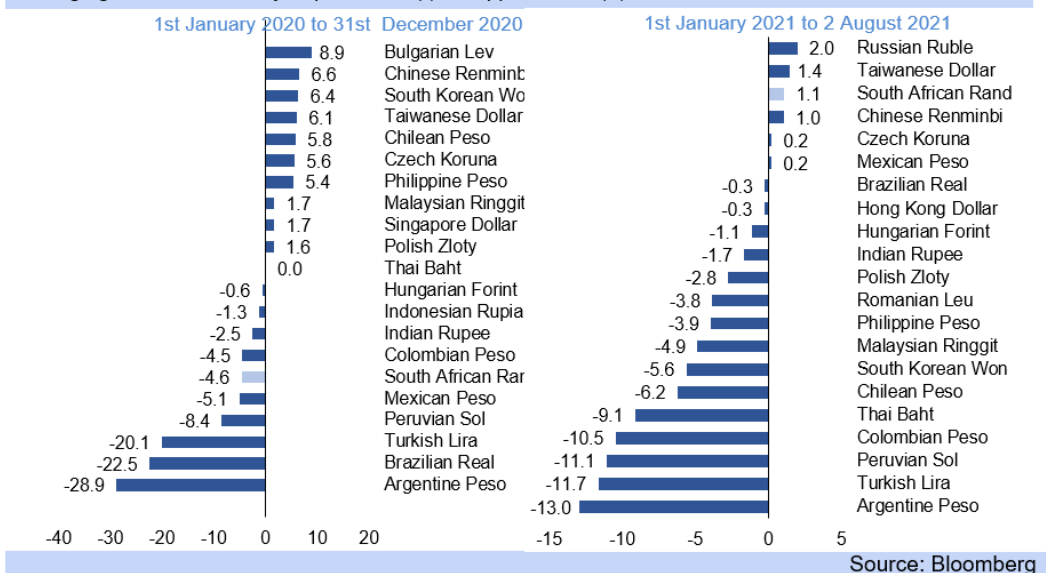
Monday 2 August 2021

Rand note: the rand fails to gain much from the FOMC meeting, but benefits from weaker US GDP, with August typically the most risk-off month given the Northern Hemisphere summer, although the impact is mild this year

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
CHF/ZAR	16.52	15.51	15.69	15.64	15.80	16.16	16.55	16.16	15.99	16.43	16.87	16.32
AUD/ZAR	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

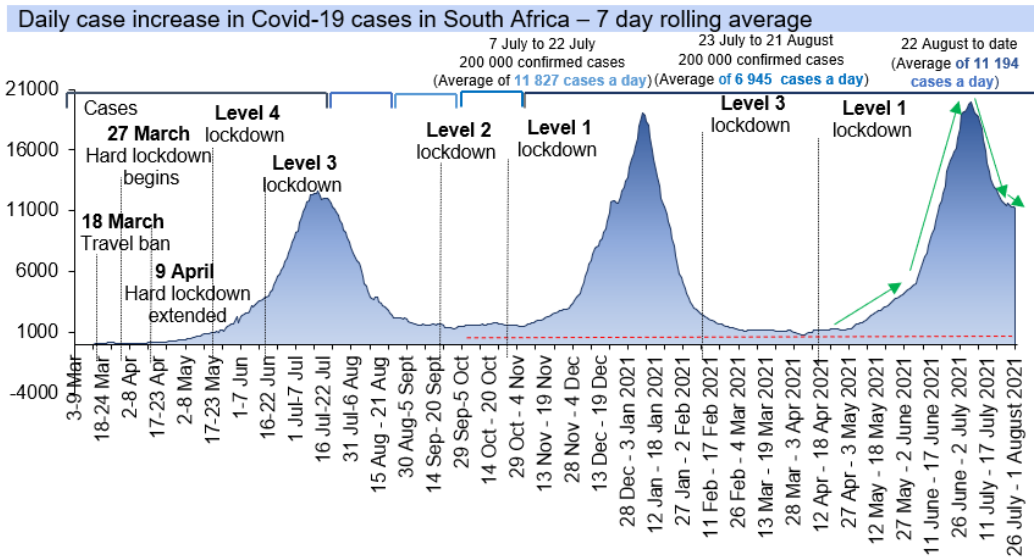
Note: averages, Source: Investec, Iress

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

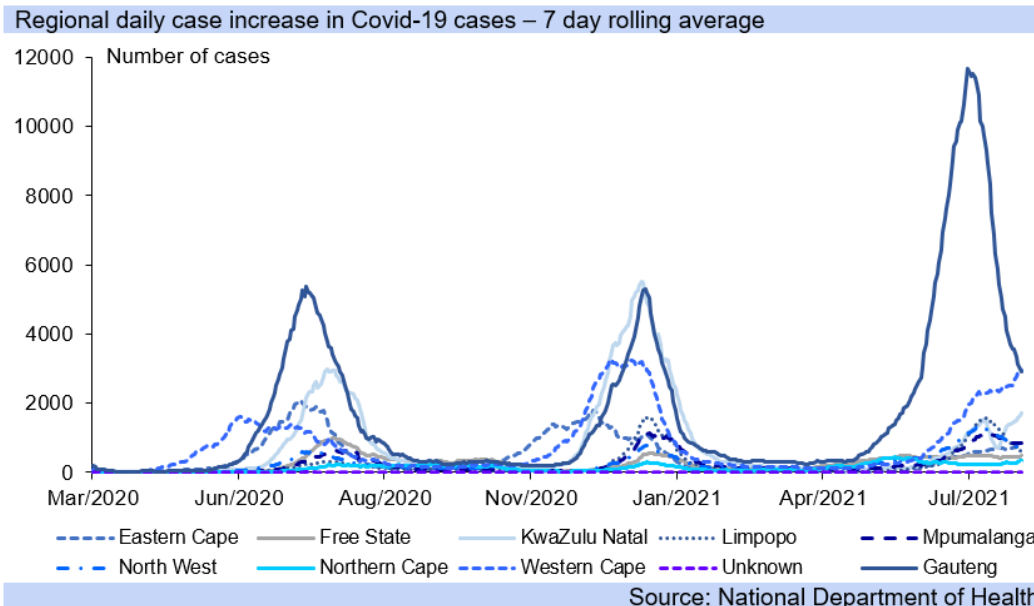


Source: Bloomberg

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Source: National Department of Health

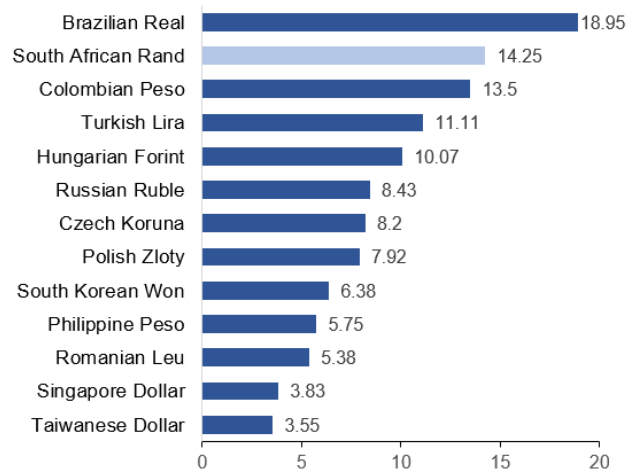


Source: National Department of Health

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Emerging Markets Implied Volatilities – values as at 2 August 2021



Source: Bloomberg

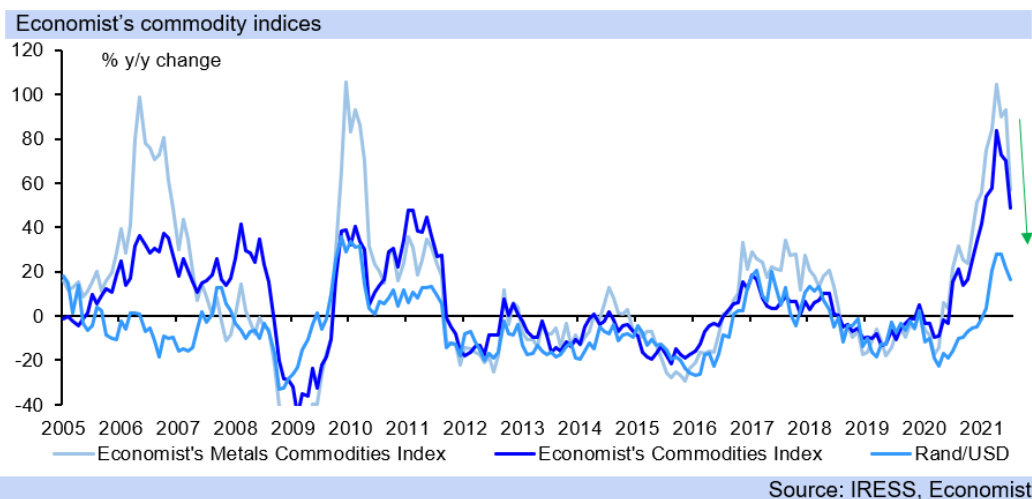
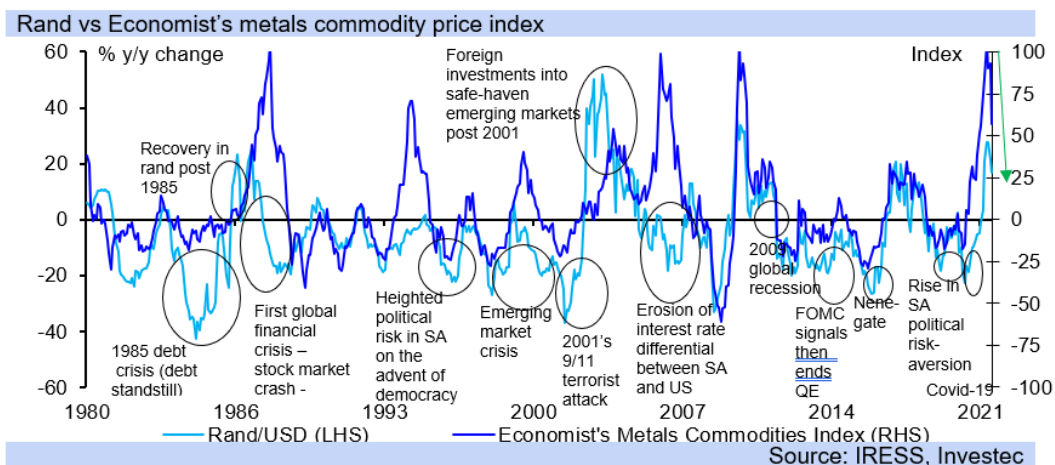
- The rand currently averages R14.53/USD this quarter, typically the worst quarter of the year for the domestic currency, which historically has seen strength in the first and last quarter of the year and weakness in the middle two.
- The sell-in-May and-go-away effect which has been the driver for this typical seasonality has been muted to such an extent it has been barely noticeable, although it has made some showing in August now, the month often most afflicted by this risk-off phenomenon.
- With Q1.21 averaging R14.96/USD, and Q2.21 R14.13/USD, the seasonality of the sell-in-May and-go-away effect of the Northern summer holidays (where investors reduce risk as they take their annual large vacation break) has been eroded.
- For the rand this has been due both to the particular severe strength of commodity prices in Q2.21, but also to less risk-aversion than in other years as lockdown restrictions, travel bans, fear of contracting COVID-19 and vaccine hesitancy have all weighed on traditional travel.
- Instead, the rand took its weakening cue from the June FOMC meeting, moving into the R14.00/USD to R15.00/USD range on FOMC member expectations of a quicker US rate hike trajectory, from the R13.00/USD to R14.00/USD it was in.
- The rand would have seen substantially more weakness were it not for the support it has had from still elevated metal prices (even though metal prices dipped slightly in July), causing the rand to see less support against the FOMC impact which pushed it towards R15.00/USD.
- Indeed, the rand moved very close to R15.00/USD around the July FOMC meeting, but has each day seen mild subsidence, from its worst of R14.997/USD to R14.61/USD yesterday, as the domestic currency pulls closer to the R14.45/USD mark.

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- However, August is likely to be a risky month for the domestic currency, which could see further marked volatility, while September is a month which has seen marked churn in the past. However, the rand could still see further subsidence from current levels.
- While the US GDP figures are nuanced, they are not sparking risk-off either, and indeed, likely to allow some risk on appetite, with the Fed itself also communicating no need to rush and move away from its highly accommodative stance despite FOMC member views.

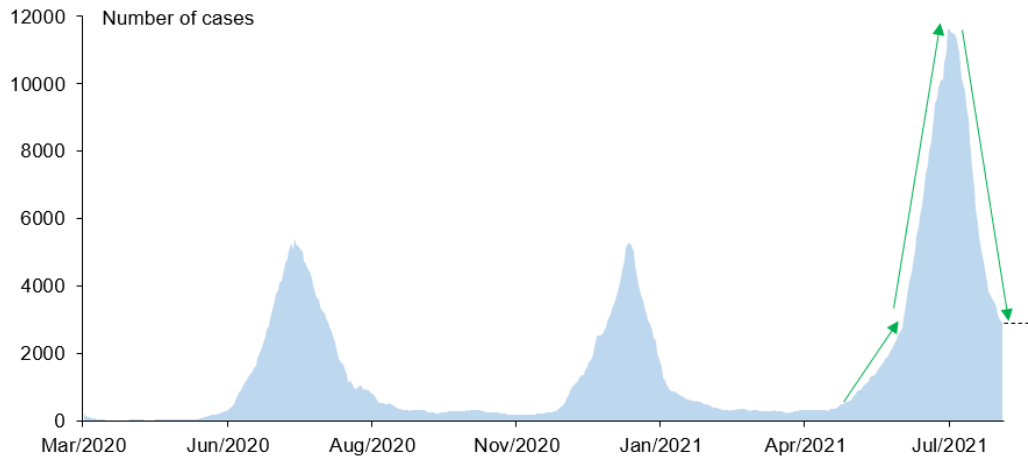
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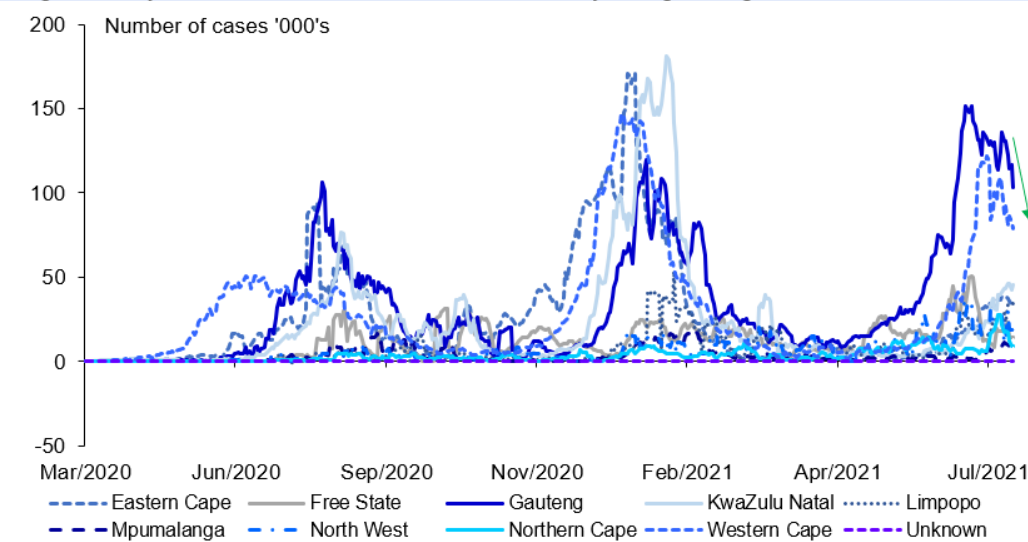


Daily new cases in Gauteng with 7 day rolling average – 1 August 2021



Source: National Department of Health

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

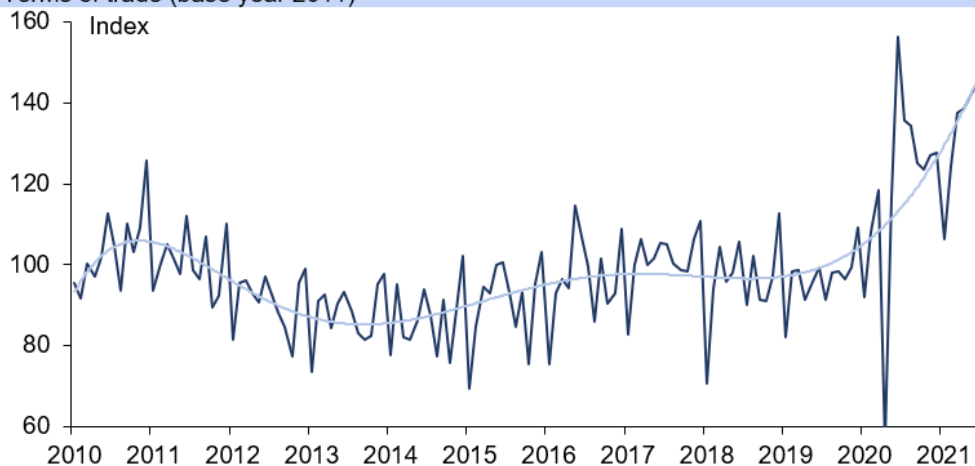


Source: National Department of Health

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Terms of trade (base year 2011)



Source: SARB

- The rand will however be affected for the rest of this year by various US data releases on its jobs market, and this month in particular risks a marked response from markets either way, with the Fed in particular detailing its attention to the jobs market.
- The US economy only saw a slight lift in its annualised growth in Q2.21, to 6.5% q/q, versus 6.3% q/q in Q1/21, but well below the market expectations of 8.5% q/q, but consumer spending expanded by 11.8% q/q annualised.
- The US economy is benefiting from the kick of government pay checks to households and other forms of fiscal stimulus, but failing to make solid inroads on sustainable growth, as infrastructure spend saw a marked contraction of 3.5% q/q annualised in Q2.21.
- Bloomberg noted on Thursday last week that the miss in GDP versus analysts' expectations was largely on the inventory front. Inventories saw a very sharp rundown, as supply chain disruptions and labour shortages persisted, in the face of strong consumer demand.
- However, what the release also showed was a very strong core PCE deflator reading of 6.1% y/y, the Fed's preferred measure of US inflation when it comes to its monetary policy deliberations, while the PCE deflator on its own rose 6.4% y/y.
- These all saw pressure well above the 2% mark the Fed aims for in its twin pronged focus on jobs and inflation in the US. However, the Fed has said it is happy to let inflation run above 2% for a while, and attributes current 'transitory' pressures to supply chain blockages.
- The US data shows the unevenness of the economic recovery, and the markedly higher inflationary pressures counter the more modest than expected growth outcome, with markets seeing a relatively neutral to mildly risk-on reaction for EM currencies.

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- The rand is at R14.43/USD, near our forecast of R14.45 for the quarter and could pull stronger this week. Against the other key crosses the rand is at R17.14/EUR and R20.04/GBP versus yesterday's close of R17.34/EUR and R20.31/GBP.
- To average R14.45/USD this quarter, the rand would need to average about R14.40/USD for the remainder, which is easily doable, with commodity prices likely to remain largely elevated for the rest of this year, while yield seeking behaviour could strengthen.

Economic Scenarios: note currency and probability updates

		Q1.21	Q2.21	Q3.21	Q4.21	Q1.22	Q2.22	Q3.22	Q4.22
Extreme	USD/Rand (average)	14.96	14.13	13.50	13.20	13.00	12.90	12.80	12.70
Up case	Repo rate (end rate)	3.50	3.50	3.25	3.25	3.25	3.25	3.25	3.25
1%	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 EWV – 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	USD/Rand (average)	14.96	14.13	13.70	13.50	13.30	13.40	13.20	13.00
2%	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	USD/Rand (average)	14.96	14.13	14.45	14.35	14.45	14.85	15.15	14.75
48%	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	USD/Rand (average)	14.96	14.13	15.15	15.50	16.00	16.65	16.90	17.00
(domestic)	Repo rate (end rate)	3.50	3.50	3.75	3.75	4.00	4.00	4.25	4.25
Down case	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.								
43%									
Severe down case	USD/Rand (average)	14.96	14.13	15.65	16.40	17.00	17.50	18.00	18.50
6%	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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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

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
CHFZAR	16.52	15.51	16.99	17.88	18.59	19.05	19.66	20.27	20.55	21.10	21.48	21.65
AUDZAR	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

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

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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	12.30	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

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