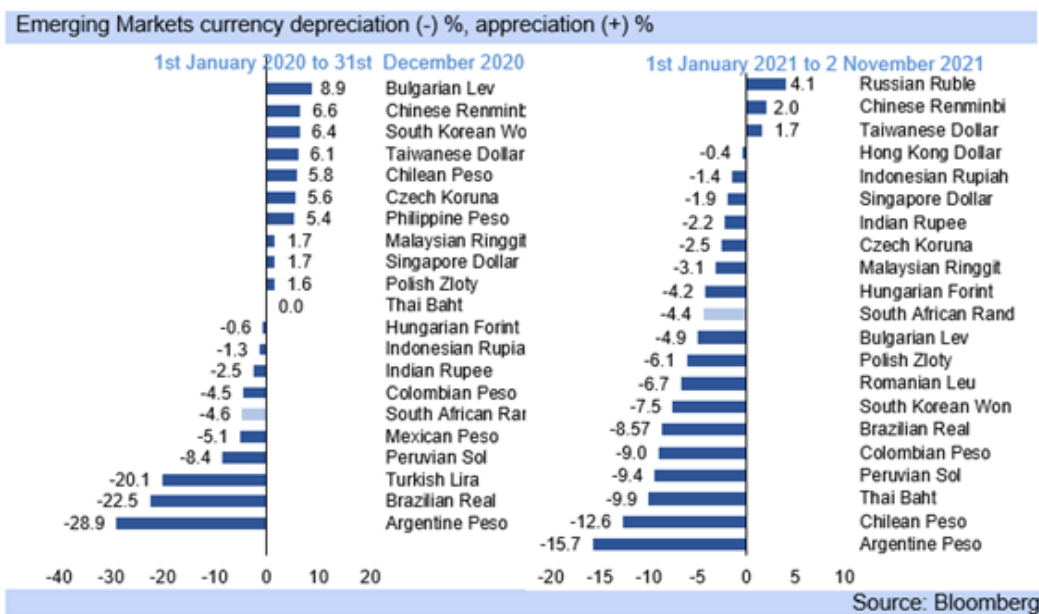


SA Economics



Tuesday 2 November 2021

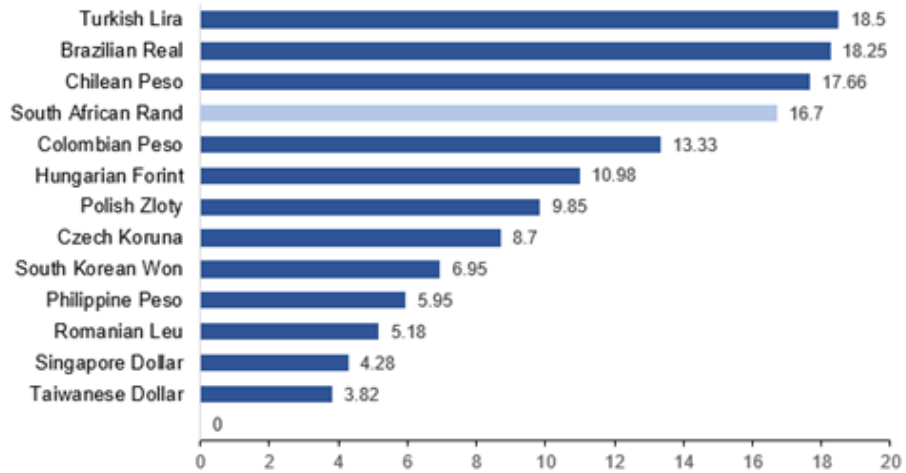
Rand note: rand has weakened in anticipation of the FOMC meeting, with oil exporting EMs seeing some currency gains, particularly those which have lifted interest rates while the elections results are coming through



SA Economics

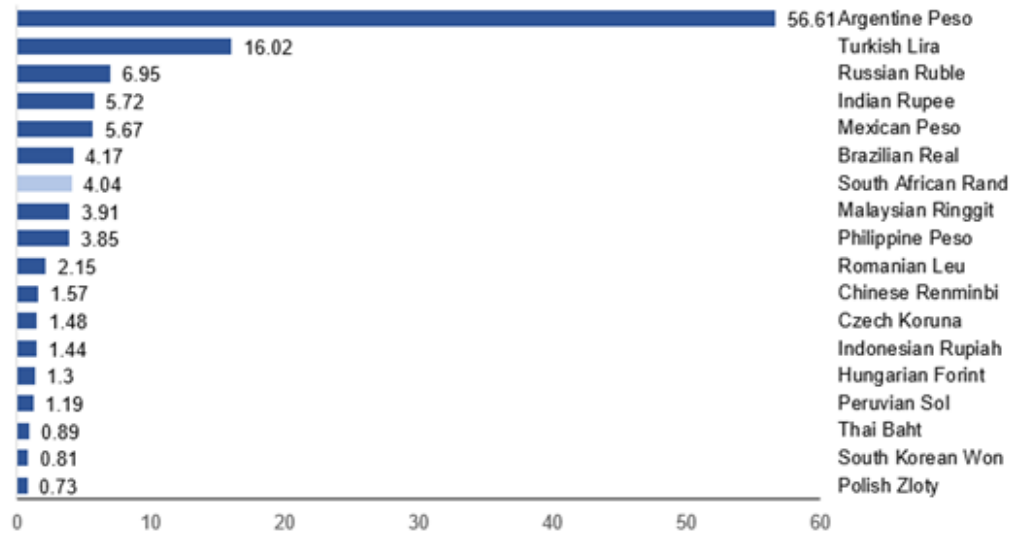


Emerging Markets Implied Volatilities – values 2 November 2021



Source: Bloomberg

Emerging Markets Implied Rates – values 2 November 2021

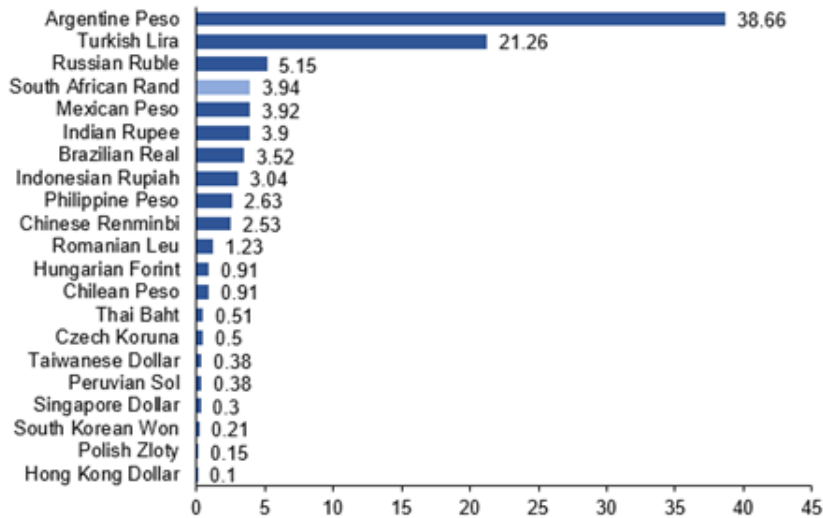


Source: Bloomberg

SA Economics

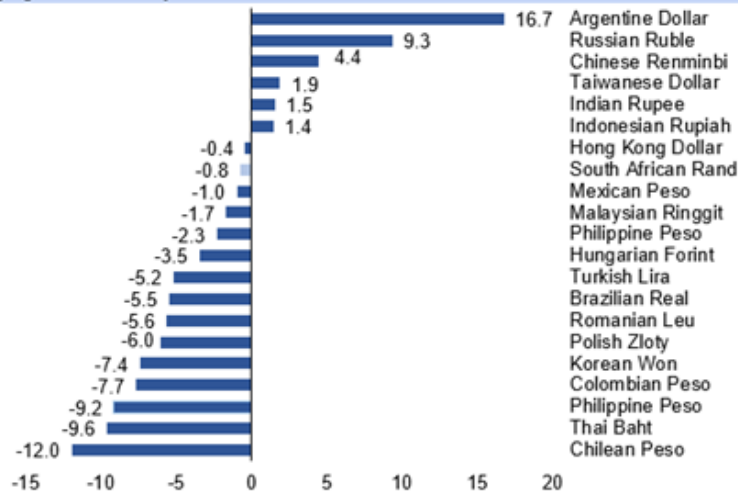


Emerging Markets Interest Return – values 2 November 2021



Source: Bloomberg

Emerging Markets Carry Return – values 2 November 2021



Source: Bloomberg

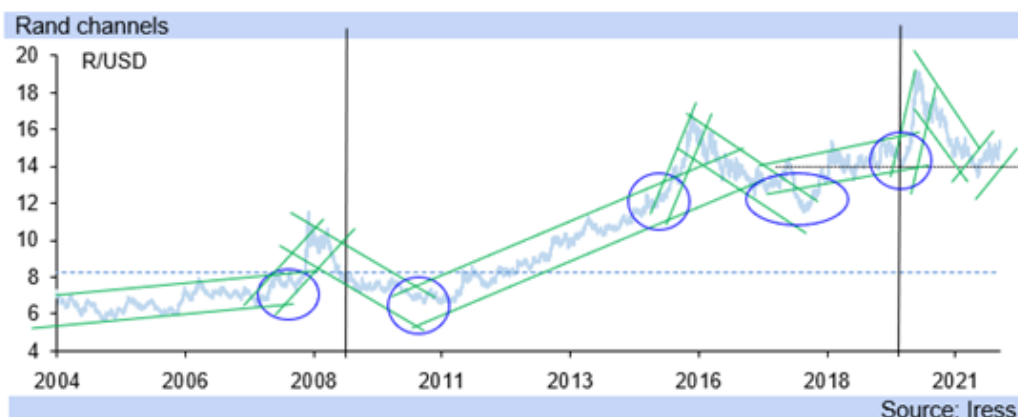
- The domestic currency ran to R15.49/USD ahead of tomorrow's US FOMC meeting outcome, with market participants fearing indications of a quickening in FOMC member's interest rate hike forecasts, although the actual dot plot forecast graph is not due.

SA Economics

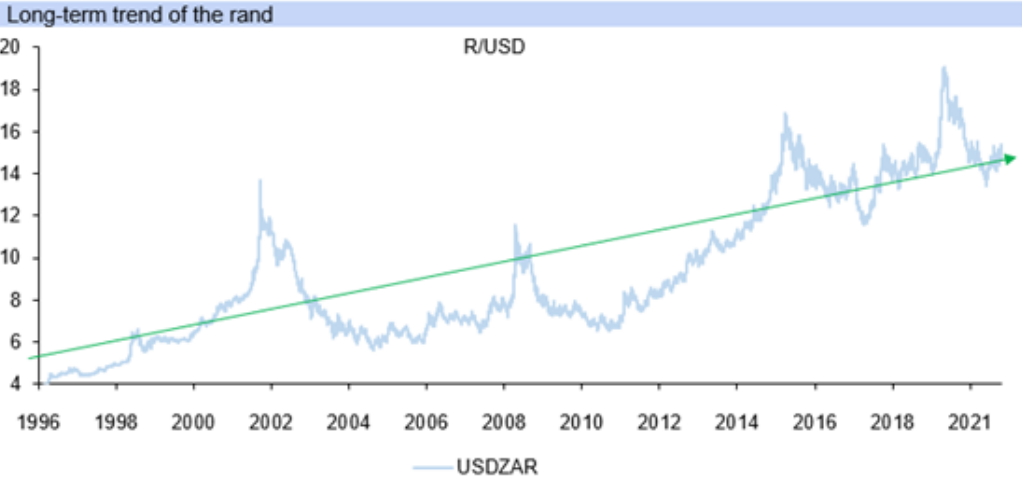


- The FOMC meeting tomorrow night is hoped to give a clear indication on whether there is a reduction in dovishness of the FOMC. A start to QE tapering would be an indication of a reduction, as would any marked worries on inflation, but would be negative for the rand.
- The US PCE deflator out last week at 4.4% is high, but in line with expectations, while the US GDP outcome disappointed down to 2% q/q annualised, versus previously 6.7% and expected at 2.6% for Q3.21.
- However, October is showing some good University of Michigan readings, while the ISM readings are up into the 70s also for October. Even the Markit PMI was above 50 for the US last month. However, inflation readings are high across the board.
- The mixed data for Q3.21 in the US, versus individual economic data reading in October for a number of areas of activity, appears to be indicating a lift in GDP in Q4.21, although only one month's partial set of data may be too sparse for the FOMC.
- Additionally, while the inflation readings have proved much stickier than initially thought, the FOMC has not panicked about them, with wage increases pushing up, showing second round effects, but these are also due to labour shortages.
- Markets are worrying over FOMC QE easing, and this is afflicting the rand today, and will likely continue to do so tomorrow until the meeting tomorrow night. South Africa's municipal election results are starting to come through today.
- With 40% counted by 4pm today, the results reported so far show the ANC at 47% of the vote, the DA 23%, EFF 10%, IFP 4% and the remaining parties all below 4.0% each for the tally nationally, but with very mixed results in municipalities.
- Having reached R15.49/USD today, the rand has strengthened somewhat to R15.42/USD, and will likely remain volatile and weak ahead of the FOMC meeting, and with risks from the election outcome. So far the rand averages R14.81/USD for the month of October.

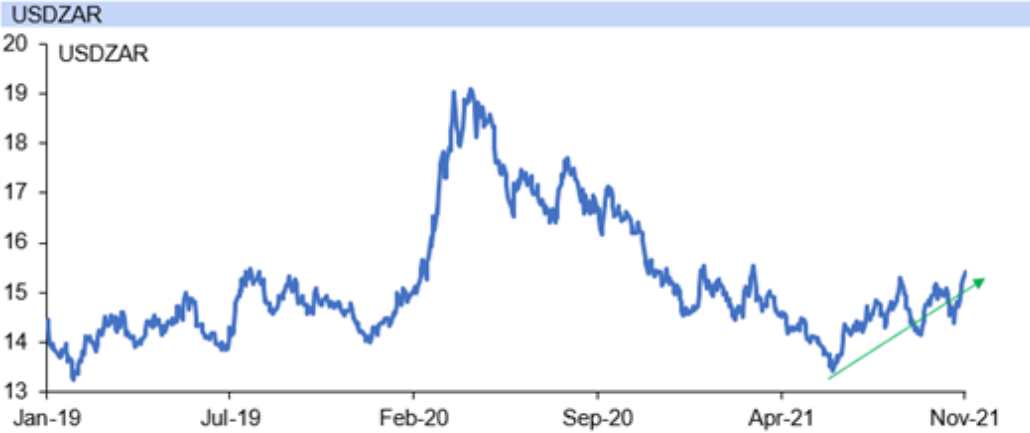
Please scroll down to the second section below



SA Economics



Source: Iress



Source: Iress

SA Economics



SA Economics



		Q1.21	Q2.21	Q3.21	Q4.21	Q1.22	Q2.22	Q3.22	Q4.22
Economic Scenarios: note interest rate hikes pushed out in expected case									
Extreme	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
Up case	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.								
1%									
Up case	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	3.75
2%	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	14.64	14.80	14.65	14.85	15.10	14.90
	Repo rate (end rate)	3.50	3.50	3.50	3.75	4.00	4.00	4.25	4.50
48%	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	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
(domestic)	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.								
Down case									
43%									
Severe	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
down case	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.								
6%									

Note: Event risk begins Q4.21. Source: Investor

- The IEC says SA's election results will be finalized by the end of today, but has also not given a figure yet of voter turnout. However, polls for low voter turnout are so far bearing out with the results that have come in so far.
- 42.6 million South Africans are able to vote, but only 26.2 of these are registered to vote, i.e. 62%. Furthermore, not more than about 50% of these or around 27% are expected to turnout to vote with Ipsos survey outcomes based on the level of apathy in a low scenario.
- Under a medium voter turnout, there is a 42% turnout and a high turnout is 59%. The most probable outcome may be between the medium and high turnout scenarios. The ANC is seen to gain 47% of the vote and the DA 24% under the medium scenario.

SA Economics



- Not all parties surveyed potential outcomes are given, but Action SA is surveyed at 3.0%, IFP 2.7%, FF+1.3% and ACDP 0.7% all under the medium voter turnout scenario, and the outcome may be around half that of the DA for the EFF.
- Ipsos warns “(t)he performance of political parties is influenced fundamentally by different turnout outcomes.” A low turnout is now shown at 39% ANC support and 32% for the DA, while a high turnout is 46% ANC, 24% DA.
- “For instance, a low turnout scenario will be to the benefit of the DA, and the detriment of the ANC. The model is not linear and different scenario’s influence different parties differently.” But it should also be remembered it is a poll and not reality.
- A low voter turnout is more negative for the ANC and so perceived to be for Ramaphosa, although by not voting, voters are showing their displeasure at candidates for their wards and not Ramaphosa himself, but the national outcome is seen to point to 2024.
- However, at the general election there is often a more supportive outcome for a popular president, which should be factored into the ANC elective conference next year, but SA’s politics are likely to remain noisy and so disruptive to business and investor confidence.
- The ANC could work (much) harder on service delivery and eradicating corruption in the run up to 2024, as well as reducing unemployment. The rest of this year and next is also likely to see Ramaphosa push for reform and so faster economic growth.

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	22.14	24.11	25.64	26.82	28.02	27.68	27.84	27.96	28.17
EUR/ZAR	18.03	17.03	17.26	18.87	20.24	21.35	22.32	23.13	23.38	24.00	24.44	24.63
ZAR/JPY	7.09	7.75	7.52	7.08	6.90	6.71	6.58	6.46	6.31	5.99	5.63	5.43
CHF/ZAR	16.52	15.51	15.95	17.45	18.66	19.50	20.20	20.74	20.55	21.10	21.48	21.65
AUD/ZAR	11.56	10.88	10.76	11.78	12.60	13.13	13.68	14.25	14.59	14.98	15.25	15.37
GBP/USD	1.38	1.40	1.38	1.38	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	113	116	118	119	120	118	115	110	107

Note: averages, Source: Investec, Iress

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	21.45	22.96	24.39	25.18	25.75	25.90	25.52	25.03	24.60
EUR/ZAR	18.03	17.03	17.26	18.28	19.28	20.31	20.96	21.25	21.88	22.00	21.88	21.50
ZAR/JPY	7.09	7.75	7.52	7.31	7.25	7.06	7.01	7.03	6.74	6.53	6.29	6.22
CHFZAR	16.52	15.51	15.95	16.90	17.77	18.55	18.96	19.06	19.23	19.34	19.23	18.90
AUDZAR	11.56	10.88	10.76	11.41	12.00	12.49	12.84	13.09	13.65	13.73	13.65	13.42
GBP/USD	1.38	1.40	1.38	1.38	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	113	116	118	119	120	118	115	110	107

Note: averages, Source: Investec, Iress

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	14.80	14.65	14.85	15.10	14.90	14.75	15.15	15.55	15.05
GBP/ZAR	20.63	19.75	20.18	20.48	21.02	21.75	22.50	22.57	21.83	21.97	22.24	21.52
EUR/ZAR	18.03	17.03	17.26	17.46	17.65	18.12	18.72	18.63	18.44	18.94	19.44	18.81
ZAR/JPY	7.09	7.75	7.52	7.65	7.92	7.91	7.85	8.02	8.00	7.59	7.07	7.11
CHFZAR	16.52	15.51	15.95	16.14	16.27	16.55	16.94	16.70	16.21	16.65	17.09	16.54
AUDZAR	11.56	10.88	10.76	10.89	10.99	11.14	11.48	11.47	11.51	11.82	12.13	11.74
GBP/USD	1.38	1.40	1.38	1.38	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	113	116	118	119	120	118	115	110	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	14.64	14.00	13.50	13.40	13.20	13.00	13.00	13.10	13.10	13.20
GBP/ZAR	20.63	19.75	20.18	19.37	19.37	19.63	19.67	19.69	19.24	19.00	18.73	18.88
EUR/ZAR	18.03	17.03	17.26	16.51	16.27	16.35	16.37	16.25	16.25	16.38	16.38	16.50
ZAR/JPY	7.09	7.75	7.52	8.09	8.59	8.77	8.98	9.19	9.08	8.78	8.40	8.11
CHFZAR	16.52	15.51	15.95	15.27	14.99	14.93	14.81	14.57	14.29	14.40	14.40	14.51
AUDZAR	11.56	10.88	10.76	10.31	10.13	10.05	10.03	10.01	10.14	10.22	10.22	10.30
GBP/USD	1.38	1.40	1.38	1.38	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	113	116	118	119	120	118	115	110	107

Note averages, Source: Investec, Iress

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	19.10	19.08	19.04	19.22	19.39	18.80	18.13	17.59	17.37
EUR/ZAR	18.03	17.03	17.26	16.28	16.03	15.86	16.00	16.00	15.88	15.63	15.38	15.19
ZAR/JPY	7.09	7.75	7.52	8.21	8.72	9.04	9.19	9.34	9.29	9.20	8.94	8.81
CHFZAR	16.52	15.51	15.95	15.05	14.77	14.48	14.48	14.35	13.96	13.74	13.52	13.35
AUDZAR	11.56	10.88	10.76	10.16	9.98	9.75	9.80	9.86	9.91	9.75	9.59	9.48
GBP/USD	1.38	1.40	1.38	1.38	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	113	116	118	119	120	118	115	110	107

Note: averages, Source: Investec, Iress