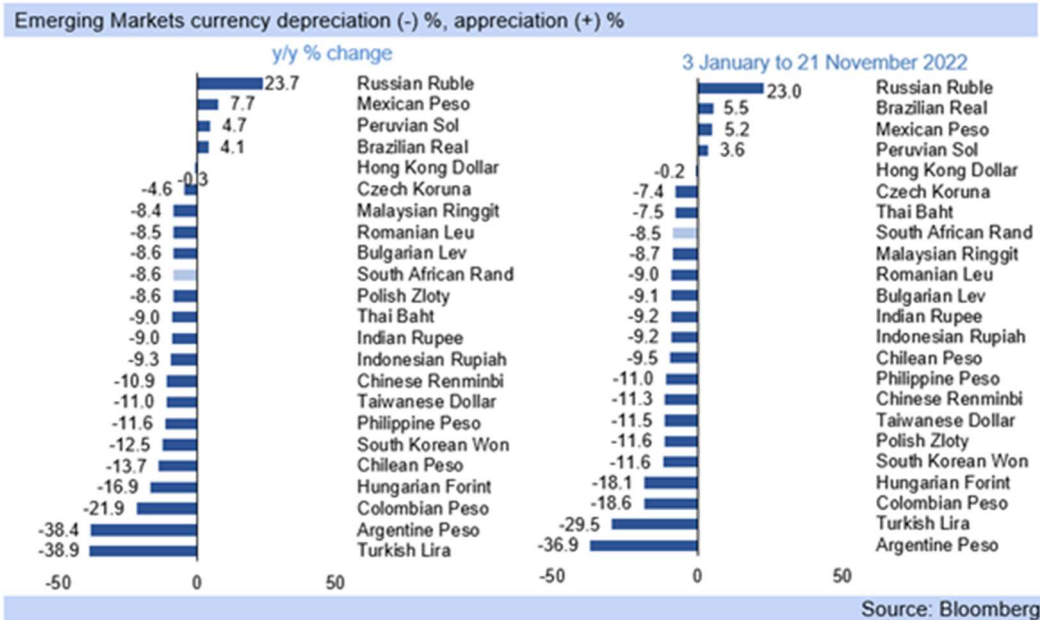




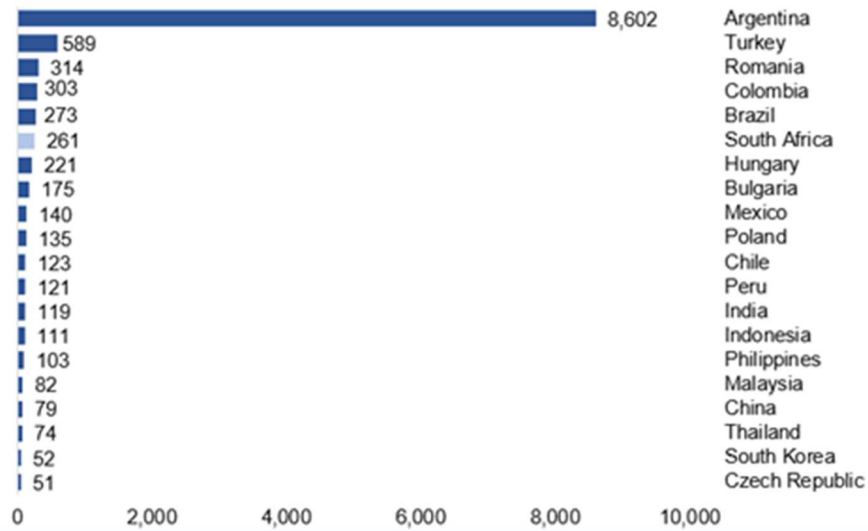
SA Economics

Monday 21 November 2022

Rand note: key credit rating agencies wait for evidence of SA's quickened planned fiscal consolidation to occur

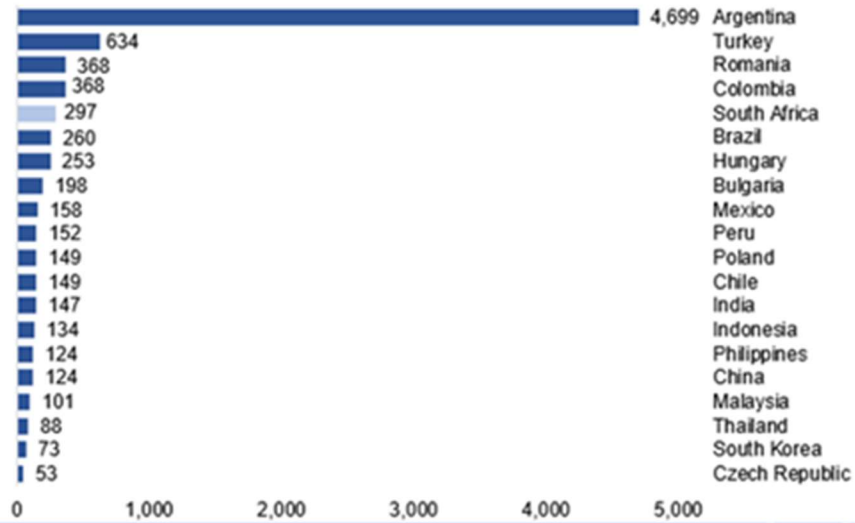


Emerging Markets CDS (risk) Spreads – values 21 November 2022

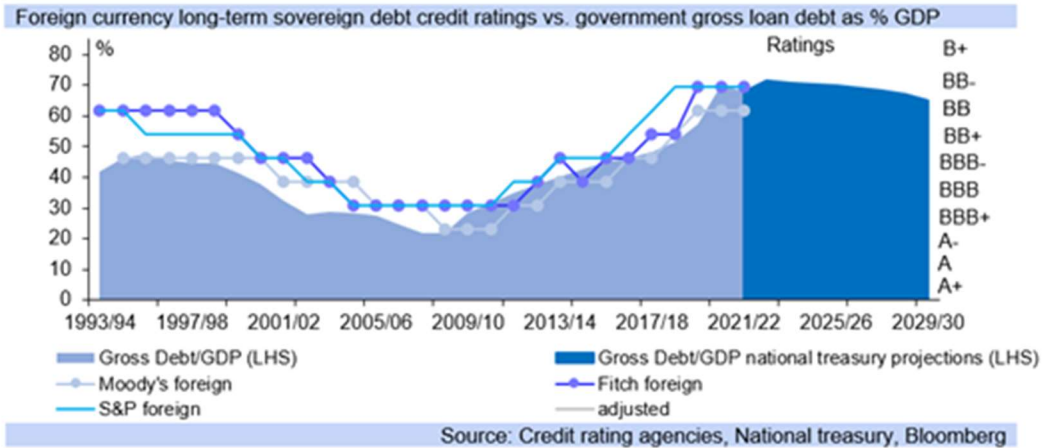


Source: Bloomberg

Emerging Markets CDS (risk) Spreads – values 7 November 2022



Source: Bloomberg



Expected Case: Exchange Rate forecasts

	2022				2023				2024			
	Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24
USD/ZAR	15.21	15.59	17.05	17.50	16.80	16.35	16.10	16.30	16.10	16.35	16.70	16.50
GBP/ZAR	20.40	19.59	20.05	19.88	19.49	19.46	19.56	19.89	19.96	20.44	22.04	22.77
EUR/ZAR	17.07	16.60	17.16	17.27	16.72	16.51	16.58	17.03	17.39	18.80	19.71	20.30
ZAR/JPY	7.65	8.33	8.11	8.50	8.87	8.90	8.76	8.40	8.07	7.34	6.89	6.67
CHF/ZAR	16.47	16.16	17.64	17.58	16.97	16.60	16.42	16.46	16.95	17.58	18.35	18.13
AUD/ZAR	11.02	11.14	11.65	11.11	10.92	10.95	11.11	11.57	12.08	12.75	13.03	12.87
GBP/USD	1.34	1.26	1.18	1.14	1.16	1.19	1.22	1.22	1.24	1.25	1.32	1.38
EUR/USD	1.12	1.06	1.01	0.99	1.00	1.01	1.03	1.05	1.08	1.15	1.18	1.23
USD/JPY	116	130	138	149	149	146	141	137	130	120	115	110

Note: averages, Source: Investec, Iress

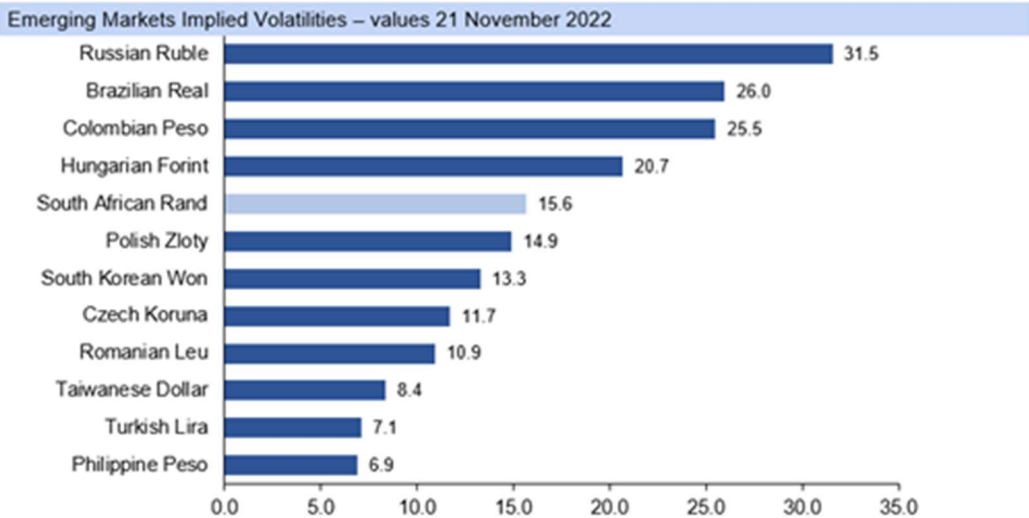
- Standard & Poor's rating agency (S&P), gave South Africa a credit rating review as expected on 18th of November, but did not provide any upgrade to the rating, and left SA on a positive outlook. The rand did not react materially, with the outcome largely priced in.
- While Moody's was scheduled to provide a credit review, it did not do so which is not unusual. Its stable outlook was maintained, as was the Ba2 (the BB equivalent) rating. S&P already had a positive outlook attached to its BB- rating of SA, and left this unchanged on Friday.
- S&P said at the end of last week "(t)he positive outlook reflects our expectation that a net external creditor position, a path toward fiscal consolidation, and the implementation of some structural reforms could lead to an easing of fiscal and economic pressures."
- S&P moved SA's outlook to positive in May, clarifying last Friday it could raise the rating "if growth in economic output and fiscal consolidation continue on a sustained basis, against a backdrop of structural and governance reforms and supportive external sector dynamics".
- However, it also warned "(w)e could revise the outlook to stable if external or domestic shocks subdue South Africa's economic growth over the forecast period, or if fiscal financing or external pressures significantly increase."
- "This could, for example, result from a sharper global economic downturn, particularly in China", although it does expect that economic "(g)rowth will slow but remain stronger than pre-pandemic levels".

- Adding, “downside risks could be exacerbated by the ongoing domestic electricity and infrastructure constraints, along with a sharper economic slowdown in China and the rest of the world.” Additionally, “(m)edium-term fiscal risks remain significant.”
- “Our forecasts are more conservative - we forecast the deficit will only marginally narrow to 4.6% of GDP by fiscal 2025, from 5.1% of GDP in fiscal 2023. Our assumptions incorporate lower revenue growth.” The tone of the S&P review was not as positive as hoped by some.
- After opening today not far removed from Friday’s close, the rand has weakened modestly to R17.46/USD. S&P’s review does highlight a number of concerns which markets also share as well, with a move to a credit rating upgrade unlikely to be plain sailing.

Please scroll down to the second section below

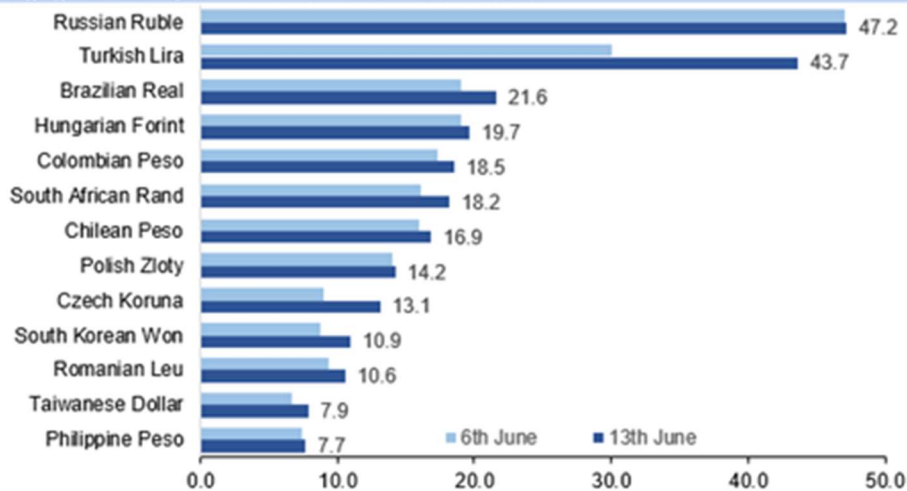
SA credit ratings - Long term foreign currency					
South Africa – S&P Ratings		South Africa – Fitch Rating		South Africa - Moody's Rating	
03/10/1994	BB	22/09/1994	BB	14/10/2004	Baa2
20/11/1995	Upgraded to BB+	19/05/2000	Upgraded to BB+	11/01/2005	Upgraded to Baa1
25/02/2000	Upgraded to BBB-	27/06/2000	Upgraded to BBB-	16/07/2009	Upgraded to A3
07/05/2003	Upgraded to BBB	05/02/2003	Upgraded to BBB	27/09/2009	Downgraded to Baa1
01/08/2005	Upgraded to BBB+	25/08/2005	Upgraded to BBB+	06/11/2014	Downgraded to Baa2
12/10/2012	Downgraded to BBB	10/01/2013	Downgraded to BBB	09/06/2017	Downgraded to Baa3
13/06/2014	Downgraded to BBB-	04/12/2015	Downgraded to BBB-	27/03/2020	Downgraded to Ba1
03/04/2017	Downgraded to BB+	07/04/2017	Downgraded to BB+	20/11/2020	Downgraded to Ba2
24/11/2017	Downgraded to BB	03/04/2020	Downgraded to BB		
29/04/2020	Downgraded to BB-	20/11/2020	Downgraded to BB-		

Source: Bloomberg



Source: Bloomberg

Emerging Markets Implied Volatilities – values 13 June 2022



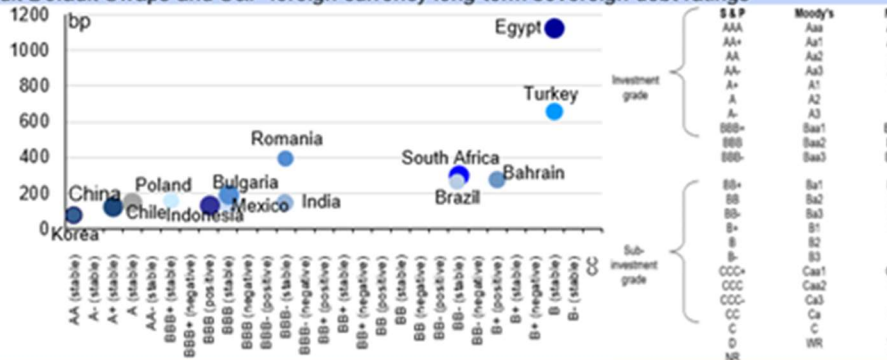
Source: Bloomberg

Fitch Ratings analyst defined peers

Country	LT LDR
Bangladesh	BB-
Brazil	BB-
Cote d'Ivoire	BB-
Dominican Republic	BB-
Guatemala	BB-
Hashemite Kingdom of Jordan	BB-
Namibia	BB-
Seychelles	BB-
South Africa	BB-
Uzbekistan, Republic of	BB-

Source: Fitch

Credit Default Swaps and S&P foreign currency long-term sovereign debt ratings



Source: Bloomberg

- Indeed, S&P warned “(w)e could also revise the outlook to stable if the expected debt transfer from Eskom (CCC+/Negative/--) to the sovereign balance sheet significantly weakens the sovereign's fiscal trajectory without addressing operational and financial shortcomings at the public utilities company.”

- It also highlighted “(o)ne of the key fiscal challenges is that interest expenditure is structurally high, limiting fiscal flexibility, while also cementing large interest payment outflows to nonresidents abroad. We do not expect credit rating upgrades this year.”
- The substantial improvement in government finances and fiscal projections announced in the MTBPS, if fulfilled, means SA would not see any credit rating downgrades, and the rating agencies are eyeing December’s ANC conference and the 2023 Budget to consider uplifts.
- The IMF and Moody’s worry over government’s ability to deliver on the planned fiscal consolidation from continued pressures for a higher than budgeted wage bill, additional relief for SOEs and further social welfare transfer increases, and market players are also doubtful.
- Fitch has not delivered a country review and may raise the outlook from stable to positive as it generally aligns with S&P on SA , but it is potentially unlikely SA will see an actual rating upgrade in Q4.22 as noted above. Fitch does not give scheduled dates for its review of SA.
- In particular, Fitch has said “(s)hould Ramaphosa lose control of the ruling party in the coming months, this would significantly weaken policymaking and reform prospects, which would dent investor sentiment.”
- The rand remains vulnerable to global risk sentiment as well, while domestically markets are tending towards a 75bp instead of a 100bp hike from the MPC this week, which is also weakening the rand. Implementation of stage 5 loadshedding has also weakened the rand.
- The US has hiked interest rates by 100bp more than SA has, and the erosion of the interest rate differential between the two countries has weakened the rand, as has US\$ strength on rising risk aversion globally. The FOMC is set to hike again this year by 50bp in December.
- SA retains a high risk premium, which afflicts the rand negatively as well. The US will publish minutes to the 2nd November FOMC meeting on Wednesday, which could have an impact on markets as the meeting showed a lift in hawkishness.

Economic Scenarios: note updated probabilities

		Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.23
Extreme Up case	USD/Rand (average)	15.21	15.59	17.05	16.40	15.50	14.50	14.00	13.60
1%	Repo rate (end rate)	4.25	4.75	6.25	5.25	4.25	3.75	3.75	3.50
	SA economic growth very quickly rises to 3–5%, then 5–7%. Good governance, growth-creating reforms (structural constraints eradicated), strong property rights, no nationalisation or expropriation without compensation. High business confidence and fixed investment growth, substantial FDI, fiscal consolidation drives debt to low ratios of 2000s. Very subdued domestic inflation on extreme rand strength, very favourable weather conditions. Strong global growth, risk-on, commodity boom. Rapid upgrades of credit ratings to investment grade. No grey listing. Quick transition to renewable energy from fossil fuels.								
Up case	USD/Rand (average)	15.21	15.59	17.05	17.00	16.40	15.50	15.00	14.70
4%	Repo rate (end rate)	4.25	4.75	6.25	5.50	4.75	4.25	4.25	4.25
	Economic growth averages 3.3% over five-year period, but lifts towards 5.0% y/y by period end, rising confidence and investment levels, structural constraints eroded, global growth strong, global financial markets risk-on. No nationalisation or expropriation without compensation. Low domestic inflation on favourable weather and global conditions, rand strength, lower state-controlled price inflation on increased privatisation. Credit rating upgrades on fiscal consolidation, markedly lower borrowings. Substantial transition to renewable energy away from fossil fuel usage, comprehensive measures to alleviate climate change impact on economy. No grey listing.								
Base case	USD/Rand (average)	15.21	15.59	17.05	17.50	16.80	16.35	16.10	16.30
48%	Repo rate (end rate)	4.25	4.75	6.25	7.25	7.25	7.25	6.50	6.50
	Economic growth modest (1.9% average over 5 years) but lifts towards 3.0% y/y by end period on reforms, global financial market risk sentiment is neutral to positive. South Africa follows fiscal consolidation (debt to GDP stabilisation) leading to positive outlooks, then likely credit rating upgrades. The rand stabilises, then strengthens somewhat. Inflation is impacted by the course of weather patterns via food price inflation. A transition to renewable energy and slow move away from fossil fuel usage occurs and measures to alleviate the impact of climate change on the economy are modestly implemented. The Russian/Ukraine conflict eases and does not exacerbate. Little expropriation without compensation. Temporary grey listing.								
Lite Down case	USD/Rand (average)	15.21	15.59	17.05	18.30	18.50	18.00	18.20	17.90
36%	Repo rate (end rate)	4.25	4.75	6.25	7.50	8.00	8.50	9.00	9.00
	Weak GDP growth (0.9% average over 5-years), swing toward left leaning policies. Business confidence depressed, substantial electricity and water shedding, very weak rail capacity, civil and political unrest, very little investment growth, recession. Increased state borrowings, risk of credit rating downgrades rises, then occurs later in period. Some expropriation of private sector property without compensation with a negative impact on the economy. High inflation on unfavorable weather conditions, marked rand weakness. Little transition to renewable energy or measures to alleviate climate change. Grey listed.								
Severe down case	USD/Rand (average)	15.21	15.59	17.05	18.70	19.30	19.50	19.70	19.90
11%	Repo rate (end rate)	4.25	4.75	6.25	8.00	9.00	10.00	10.50	10.50
	Lengthy global recession, global financial crisis – insufficient monetary and other support domestically and internationally. ANC coalition with the extreme left in 2024. Widespread, severe services load shedding, severe civil and political unrest. Government borrows from increasingly wider sources, SA rated single B from all three key agencies, then CCC grade, increased risk of default, sinks deeper into a debt trap. Failure to transition to renewable energy and to sufficient measures to alleviate the impact of climate change. Very high inflation on very adverse weather conditions, severe rand weakness. Expropriation of private property without compensation with a marked negative economic impact. Grey listed.								

Note: Event risk begins Q4.22. Source: Investec

Lite Down Case: Exchange Rate forecasts

	2022				2023				2024			
	Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24
USD/ZAR	15.21	15.59	17.05	18.30	18.50	18.00	18.20	17.90	18.10	18.20	18.20	18.00
GBP/ZAR	20.40	19.59	20.06	20.79	21.46	21.42	22.11	21.84	22.44	22.75	24.02	24.84
EUR/ZAR	17.07	16.60	17.16	18.06	18.41	18.18	18.75	18.71	19.55	20.93	21.48	22.14
ZAR/JPY	7.65	8.33	8.12	8.13	8.05	8.08	7.75	7.65	7.18	6.59	6.32	6.11
CHF/ZAR	16.47	16.16	17.64	18.39	18.69	18.27	18.56	18.07	19.05	19.57	20.00	19.78
AUD/ZAR	11.02	11.14	11.65	11.62	12.03	12.06	12.56	12.71	13.58	14.20	14.20	14.04
GBP/USD	1.34	1.26	1.18	1.14	1.16	1.19	1.22	1.22	1.24	1.25	1.32	1.38
EUR/USD	1.12	1.06	1.01	0.99	1.00	1.01	1.03	1.05	1.08	1.15	1.18	1.23
USD/JPY	116	130	138	149	149	146	141	137	130	120	115	110

Note: averages, Source: Investec, Iress

Severe Down Case: Exchange Rate forecasts												
	2022				2023				2024			
	Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24
USD/ZAR	15.21	15.59	17.05	18.70	19.30	19.50	19.70	19.90	20.10	20.00	19.80	19.60
GBP/ZAR	20.40	19.59	20.06	21.25	22.39	23.21	23.94	24.28	24.92	25.00	26.14	27.05
EUR/ZAR	17.07	16.60	17.16	18.46	19.20	19.70	20.29	20.80	21.71	23.00	23.36	24.11
ZAR/JPY	7.65	8.33	8.12	7.96	7.72	7.46	7.16	6.88	6.47	6.00	5.81	5.61
CHFZAR	16.47	16.16	17.64	18.79	19.50	19.79	20.09	20.09	21.16	21.51	21.76	21.54
AUDZAR	11.02	11.14	11.65	11.87	12.55	13.07	13.59	14.13	15.08	15.60	15.44	15.29
GBP/USD	1.34	1.26	1.18	1.14	1.16	1.19	1.22	1.22	1.24	1.25	1.32	1.38
EUR/USD	1.12	1.06	1.01	0.99	1.00	1.01	1.03	1.05	1.08	1.15	1.18	1.23
USD/JPY	116	130	138	149	149	146	141	137	130	120	115	110

Note: averages, Source: Investec, Iress

Up Case: Exchange Rate forecasts												
	2022				2023				2024			
	Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24
USD/ZAR	15.21	15.59	17.05	17.00	16.40	15.50	15.00	14.70	14.50	14.90	15.00	14.50
GBP/ZAR	20.40	19.59	20.06	19.32	19.02	18.45	18.23	17.93	17.98	18.63	19.80	20.01
EUR/ZAR	17.07	16.60	17.16	16.78	16.32	15.66	15.45	15.36	15.66	17.14	17.70	17.84
ZAR/JPY	7.65	8.33	8.12	8.75	9.09	9.39	9.40	9.32	8.97	8.05	7.67	7.59
CHFZAR	16.47	16.16	17.64	17.08	16.57	15.73	15.30	14.84	15.26	16.02	16.48	15.93
AUDZAR	11.02	11.14	11.65	10.79	10.66	10.39	10.35	10.44	10.88	11.62	11.70	11.31
GBP/USD	1.34	1.26	1.18	1.14	1.16	1.19	1.22	1.22	1.24	1.25	1.32	1.38
EUR/USD	1.12	1.06	1.01	0.99	1.00	1.01	1.03	1.05	1.08	1.15	1.18	1.23
USD/JPY	116	130	138	149	149	146	141	137	130	120	115	110

Note averages, Source: Investec, Iress

Extreme Up Case: Exchange Rate forecasts												
	2022				2023				2024			
	Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24
USD/ZAR	15.21	15.59	17.05	16.40	15.50	14.50	14.00	13.60	13.30	13.10	13.10	12.90
GBP/ZAR	20.40	19.59	20.06	18.63	17.98	17.26	17.01	16.59	16.49	16.38	17.29	17.80
EUR/ZAR	17.07	16.60	17.16	16.19	15.42	14.65	14.42	14.21	14.36	15.07	15.46	15.87
ZAR/JPY	7.65	8.33	8.12	9.07	9.61	10.03	10.07	10.07	9.77	9.16	8.78	8.53
CHFZAR	16.47	16.16	17.64	16.48	15.66	14.72	14.28	13.73	14.00	14.09	14.40	14.18
AUDZAR	11.02	11.14	11.65	10.41	10.08	9.72	9.66	9.66	9.98	10.22	10.22	10.06
GBP/USD	1.34	1.26	1.18	1.14	1.16	1.19	1.22	1.22	1.24	1.25	1.32	1.38
EUR/USD	1.12	1.06	1.01	0.99	1.00	1.01	1.03	1.05	1.08	1.15	1.18	1.23
USD/JPY	116	130	138	149	149	146	141	137	130	120	115	110

Note: averages, Source: Investec, Iress