

# SA Economics

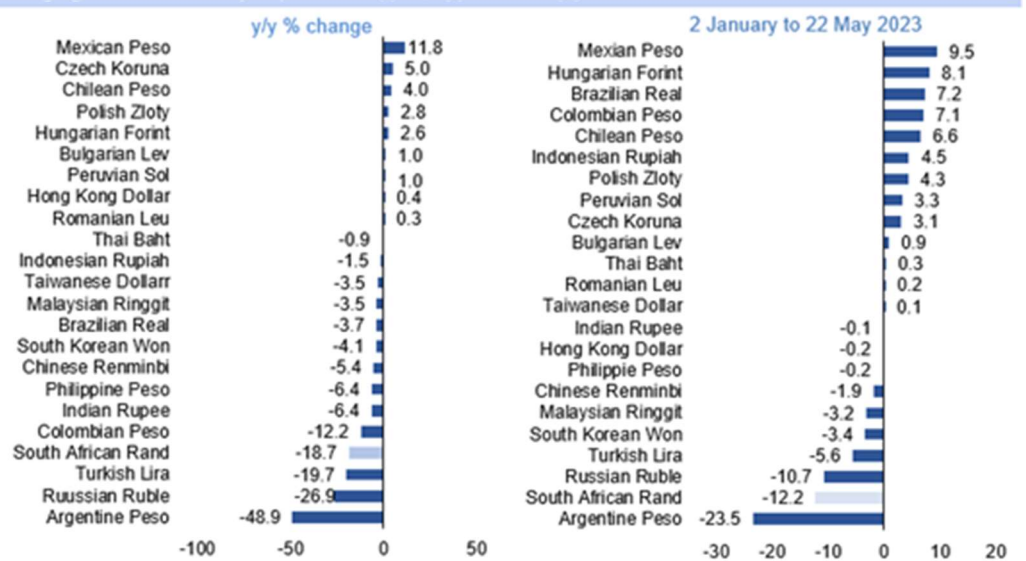


Rand note: domestic currency vulnerable ahead of MPC meeting on Thursday

Monday 22 May 2023

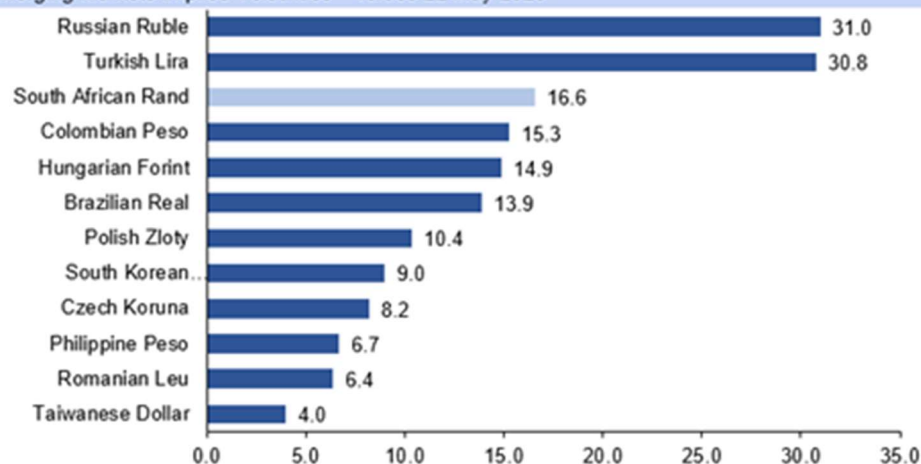
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# Emerging Markets currency depreciation (-) %, appreciation (+) %



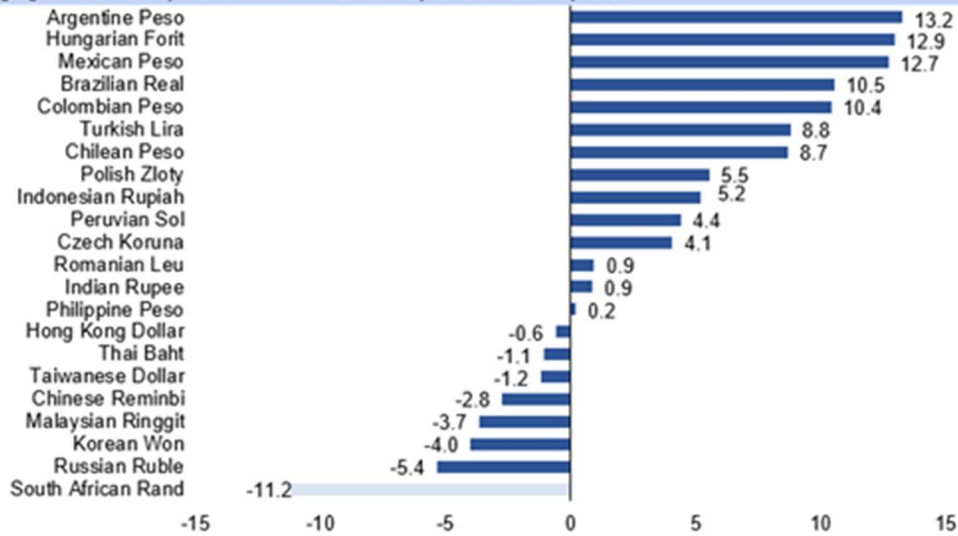
Source: Bloomberg

# Emerging Markets Implied Volatilities – values 22 May 2023



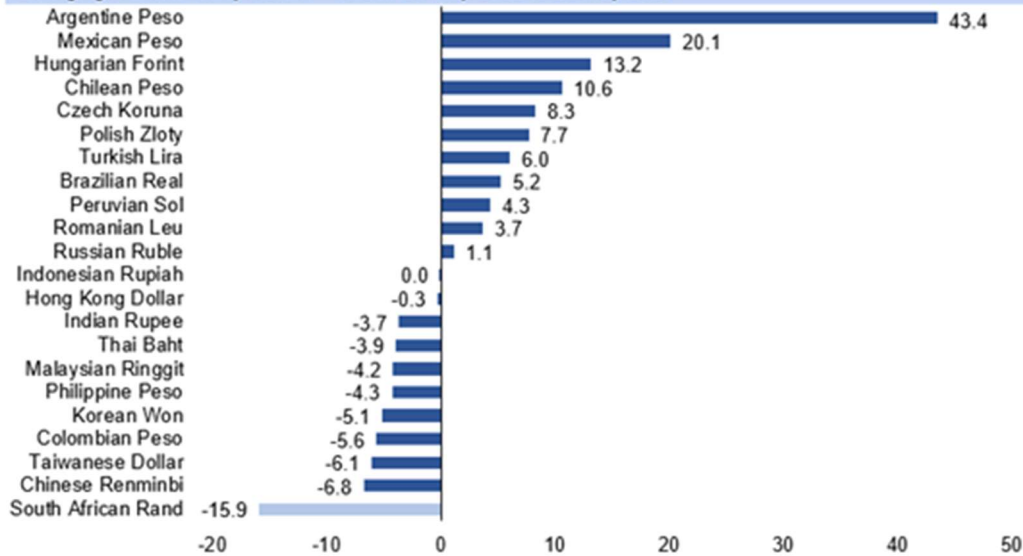
Source: Bloomberg

Emerging Markets Carry Return – values 2 January 2023 to 22 May 2023



Source: Bloomberg

Emerging Markets Carry Return – values 23 May 2022 to 22 May 2023



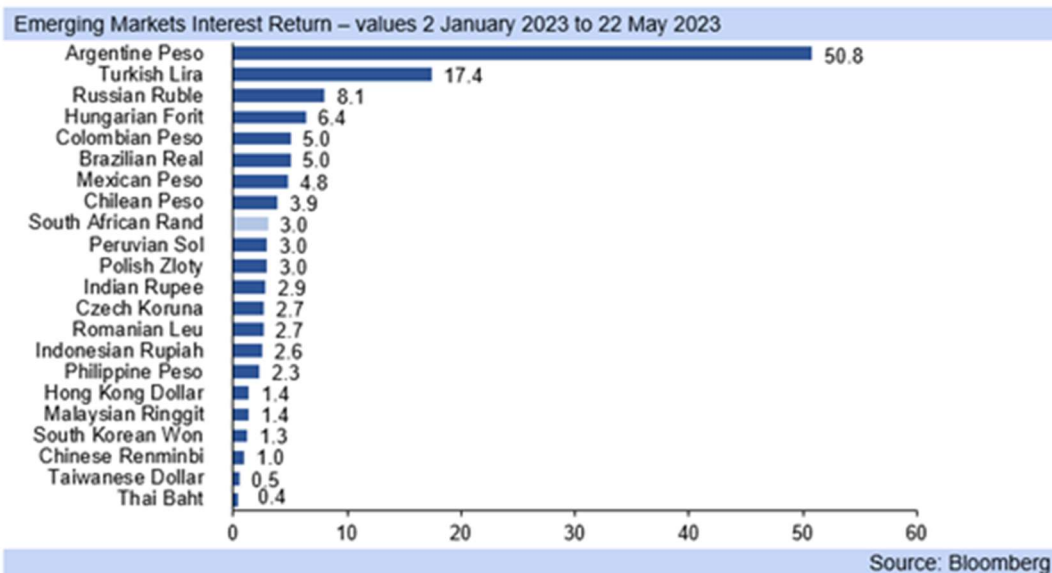
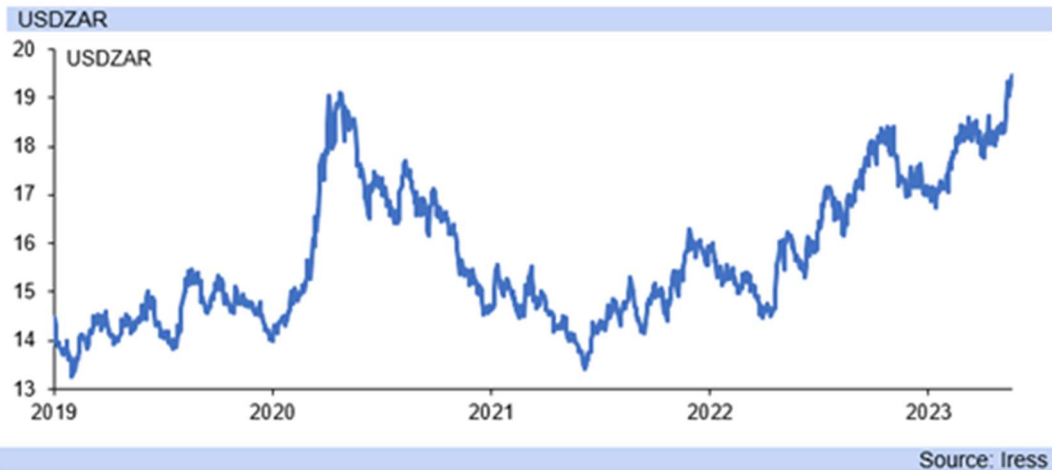
Source: Bloomberg

Expected Case: Exchange Rate forecasts												
	2023				2024				2025			
	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24	Q1.25	Q2.25	Q3.25	Q4.25
USD/ZAR	17.76	18.00	17.80	17.60	17.25	17.45	17.65	17.35	17.05	17.05	17.15	16.95
GBP/ZAR	21.59	22.44	22.25	22.18	22.08	22.60	23.03	22.73	22.17	22.17	22.30	22.04
EUR/ZAR	19.06	19.79	19.76	19.89	19.84	20.33	20.74	20.47	19.95	19.95	20.07	19.83
ZAR/JPY	7.45	7.36	7.22	7.16	7.16	6.99	6.86	6.92	7.86	7.74	7.64	7.67
CHF/ZAR	19.20	20.01	19.56	19.22	18.80	19.09	19.38	19.13	18.74	18.74	18.85	18.63
AUD/ZAR	12.14	12.13	12.28	12.50	12.42	12.56	12.80	12.67	12.96	13.13	13.55	13.39
GBP/USD	1.22	1.25	1.25	1.26	1.28	1.30	1.31	1.31	1.30	1.30	1.30	1.30
EUR/USD	1.07	1.10	1.11	1.13	1.15	1.17	1.18	1.18	1.17	1.17	1.17	1.17
USD/JPY	132	132	129	126	124	122	121	120	122	125	128	130
Note: averages, Source: Investec, Iress												

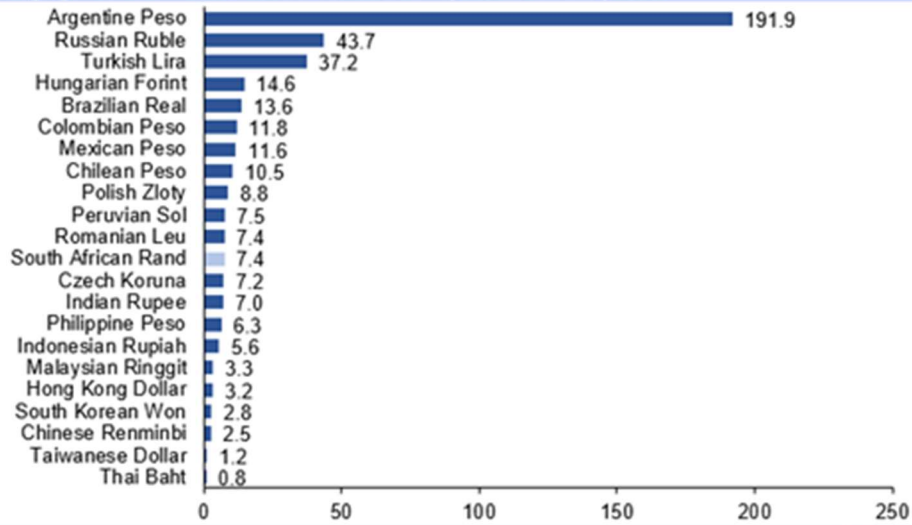
- The rand has returned to levels of around R19.52/USD as foreign investor sentiment towards SA remains very negative, with electricity outages worsening and no concrete progress yet in increasing power supply for this year.
- Markets also worry about recession in the US, the nearing fiscal cliff and disappointment over the weakness of China's recovery, while SA is expected to see an interest rate decision this week between a 25bp or 50bp lift, when a 75bp rise is needed instead to strengthen the rand meaningfully.
- South Africa has seen the rand reach historic lows against the US dollar this year as global financial markets have seen sentiment turn increasingly risk averse, with the sell off of risk assets increasing, and SA having done little to shore up its currency.
- While we expect a 50bp lift, higher interest rates weaken the economy, along with substantial electricity and water shedding capacity and very weak rail and port capacity, all of which is negative for the rand and has seen the probability of the lite down case rise (see scenario table below).
- Looking forward, interest rates are expected to fall next year in South Africa, if not by Q4.23 already, while inflation is likely to be lower in the second half of this year compared to the first half, and fall over 2024.
- Economic growth, while likely stagnating this year, is expected to lift successively over the next few years at an accelerating pace as renewable energy increasingly replaces Eskom's falling production, and adding to fixed investment growth.
- Globally, while markets continue to fret about the US debt ceiling borrowing limitation, and lack of action so far from the US Congress in raising it (an annual event which typically sees an eventual alleviating rise), this year tensions are high.
- Treasury Secretary, Janet Yellen, estimates that the US is likely to run out of money by the start of June, with failure to reach an agreement to raise the debt ceiling well before then risking market turmoil, and some fear igniting recession.

- The rand has depreciated on US dollar strength as safe haven flows into US treasuries, increase in times of elevating risk aversion. The US is expected to resolve its debt ceiling crisis this week, as next week sees June beginning.

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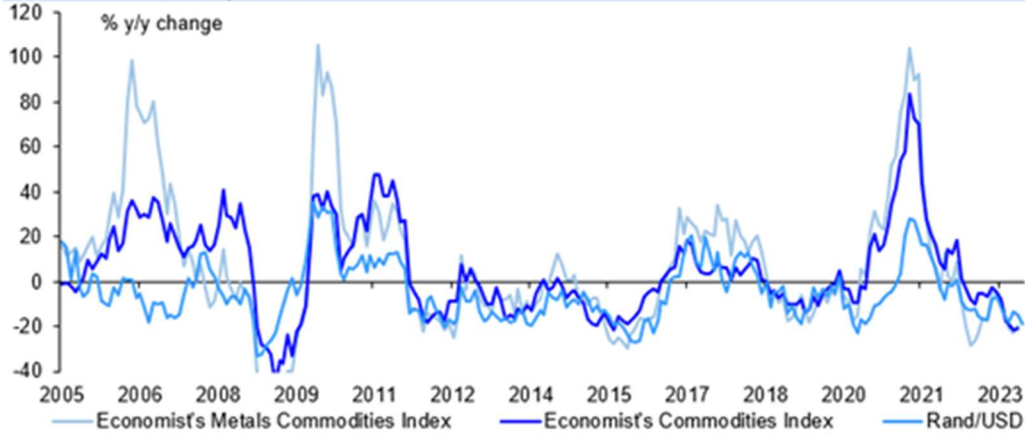


Emerging Markets Interest Return – values 23 May 2022 to 22 May 2023

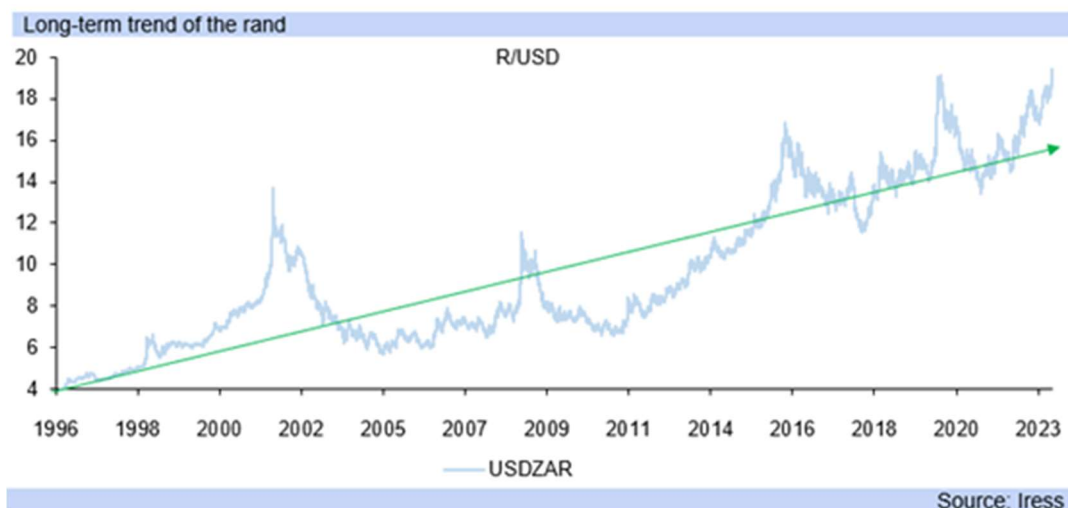


Source: Bloomberg

Economist's commodity indices



Source: IRESS, Economist



- Also in the US, Fed Chair Powell is believed to have given his clearest signal yet of a June pause in interest rate hikes, stating “(h)aving come this far we can afford to look at the data and the evolving outlook to make careful assessments”.
- “We’ve come a long way in policy tightening and the stance of policy is restrictive and we face uncertainty about the lagged effects of our tightening so far and about the extent of credit tightening from recent banking stresses”.
- He added “(w)hile the financial stability tools helped to calm conditions in the banking sector, developments there on the other hand are contributing to tighter credit conditions and are likely to weigh on economic growth, hiring and inflation”.
- The IIF (Institute of International Finance) highlighted recently that “(g)lobal debt is now \$45trn higher than its pre-pandemic level and is expected to continue increasing rapidly,” at near record levels of US\$305trn.
- The IIF (global association of the financial services industry) adds that “(i)f this trend continues, it will have significant implications for international debt markets, particularly if interest rates remain higher for longer”.
- Also increasing market risk concerns, China is reported to be calling in loans to a number of poor countries, including Pakistan, Zambia, Mongolia, Kenya and Laos, weakening economies as hard currency savings are eroded.
- Debt forgiveness is reportedly off the table, with Zambia already having defaulted, and both the IMF and World Bank urging debt forgiveness, but China in turn urging the same from these two multilaterals, viewed as representatives of the US.



- “We call on these institutions to actively participate in relevant actions in accordance with the principle of ‘joint action, fair burden’ and make greater contributions to help developing countries tide over the difficulties,” China is reported to have said.
- IMF Managing Director Kristalina Georgieva said “(m)y view is that we have to drag them — maybe that’s an impolite word — we need to walk together,”. “Because if we don’t, there will be catastrophe for many, many countries.”

Life Down Case: Exchange Rate forecasts												
	2023				2024				2025			
	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24	Q1.25	Q2.25	Q3.25	Q4.25
USD/ZAR	17.76	18.60	18.70	19.00	18.60	18.75	18.90	18.70	18.60	18.70	18.70	18.60
GBP/ZAR	21.59	23.19	23.38	23.94	23.81	24.28	24.66	24.50	24.18	24.31	24.31	24.18
EUR/ZAR	19.06	20.45	20.76	21.47	21.39	21.84	22.21	22.07	21.76	21.88	21.88	21.76
ZAR/JPY	7.45	7.12	6.87	6.63	6.64	6.51	6.40	6.42	7.20	7.06	7.01	6.99
CHF/ZAR	19.20	20.68	20.55	20.74	20.27	20.51	20.75	20.62	20.44	20.55	20.55	20.44
AUD/ZAR	12.14	12.53	12.90	13.49	13.39	13.50	13.70	13.65	14.14	14.40	14.77	14.69
GBP/USD	1.22	1.25	1.25	1.26	1.28	1.30	1.31	1.31	1.30	1.30	1.30	1.30
EUR/USD	1.07	1.10	1.11	1.13	1.15	1.17	1.18	1.18	1.17	1.17	1.17	1.17
USD/JPY	132	132	129	126	124	122	121	120	122	125	128	130

Note: averages, Source: Investec, Iress

Up Case: Exchange Rate forecasts												
	2023				2024				2025			
	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24	Q1.25	Q2.25	Q3.25	Q4.25
USD/ZAR	17.76	17.50	17.20	16.90	16.50	16.10	16.00	15.70	15.40	15.40	15.50	15.30
GBP/ZAR	21.59	21.82	21.50	21.29	21.12	20.85	20.88	20.57	20.02	20.02	20.15	19.89
EUR/ZAR	19.06	19.24	19.09	19.10	18.98	18.76	18.80	18.53	18.02	18.02	18.14	17.90
ZAR/JPY	7.45	7.57	7.47	7.46	7.48	7.58	7.56	7.64	7.92	8.12	8.26	8.50
CHF/ZAR	19.20	19.46	18.90	18.45	17.99	17.61	17.57	17.31	16.92	16.92	17.03	16.81
AUD/ZAR	12.14	11.79	11.87	12.00	11.88	11.59	11.60	11.46	11.70	11.86	12.25	12.09
GBP/USD	1.22	1.25	1.25	1.26	1.28	1.30	1.31	1.31	1.30	1.30	1.30	1.30
EUR/USD	1.07	1.10	1.11	1.13	1.15	1.17	1.18	1.18	1.17	1.17	1.17	1.17
USD/JPY	132	132	129	126	124	122	121	120	122	125	128	130

Note averages, Source: Investec, Iress

Severe Down Case: Exchange Rate forecasts												
	2023				2024				2025			
	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24	Q1.25	Q2.25	Q3.25	Q4.25
USD/ZAR	17.76	19.30	19.70	20.00	20.20	20.50	20.80	21.20	20.90	20.90	21.00	20.80
GBP/ZAR	21.59	24.06	24.63	25.20	25.86	26.55	27.14	27.77	27.17	27.17	27.30	27.04
EUR/ZAR	19.06	21.22	21.87	22.60	23.23	23.88	24.44	25.02	24.45	24.45	24.57	24.34
ZAR/JPY	7.45	6.86	6.52	6.30	6.11	5.95	5.82	5.66	5.84	5.98	6.10	6.25
CHF/ZAR	19.20	21.46	21.65	21.84	22.02	22.42	22.84	23.38	22.97	22.97	23.08	22.86
AUD/ZAR	12.14	13.00	13.59	14.20	14.54	14.76	15.08	15.48	15.88	16.09	16.59	16.43
GBP/USD	1.22	1.25	1.25	1.26	1.28	1.30	1.31	1.31	1.30	1.30	1.30	1.30
EUR/USD	1.07	1.10	1.11	1.13	1.15	1.17	1.18	1.18	1.17	1.17	1.17	1.17
USD/JPY	132	132	129	126	124	122	121	120	122	125	128	130

Note: averages, Source: Investec, Iress



Extreme Up Case: Exchange Rate forecasts												
	2023				2024				2025			
	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24	Q1.25	Q2.25	Q3.25	Q4.25
USD/ZAR	17.76	16.60	15.90	15.50	15.00	14.60	14.50	14.40	14.30	14.40	14.50	14.30
GBP/ZAR	21.59	20.70	19.88	19.53	19.20	18.91	18.92	18.86	18.59	18.72	18.85	18.59
EUR/ZAR	19.06	18.25	17.65	17.52	17.25	17.01	17.04	16.99	16.73	16.85	16.97	16.73
ZAR/JPY	7.45	7.98	8.08	8.13	8.23	8.36	8.34	8.33	8.53	8.68	8.83	9.09
CHF/ZAR	19.20	18.46	17.47	16.92	16.35	15.97	15.92	15.88	15.71	15.82	15.93	15.71
AUD/ZAR	12.14	11.18	10.97	11.01	10.80	10.51	10.51	10.51	10.87	11.09	11.46	11.30
GBP/USD	1.22	1.25	1.25	1.26	1.28	1.30	1.31	1.31	1.30	1.30	1.30	1.30
EUR/USD	1.07	1.10	1.11	1.13	1.15	1.17	1.18	1.18	1.17	1.17	1.17	1.17
USD/JPY	132	132	129	126	124	122	121	120	122	125	128	130

Note: averages, Source: Investec, Iress

Economic Scenarios: note updated expected and downside qualitative, probabilities												
		Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24			
Extreme Up case 1%	USD/Rand (average)	17.76	16.60	15.90	15.50	15.00	14.60	14.50	14.40			
	Repo rate (end rate)	7.75	7.50	7.25	7.00	6.50	6.50	6.50	6.25			
	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. Very short grey listing. Quick transition to renewable energy from fossil fuels. Economic growth lifts towards 5.0% y/y, rising business confidence and investment, 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 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. Grey listed for less than eighteen months.											
Up case 1%	USD/Rand (average)	17.76	17.20	17.40	17.00	16.90	17.10	16.90	16.60			
	Repo rate (end rate)	7.75	7.75	7.75	7.50	7.00	7.00	6.75	6.50			
	Economic growth modest lifts towards 3.0% y/y on reforms, global financial market risk sentiment is neutral to positive. SA remains in the BB credit rating category bracket on fiscal consolidation (debt to GDP stabilisation). The rand stabilises, then strengthens somewhat. Inflation is impacted by 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. Little to no expropriation without compensation. Temporary grey listing.											
Base case 46%	USD/Rand (average)	17.76	17.95	17.75	17.55	17.20	17.40	17.60	17.30			
	Repo rate (end rate)	7.75	8.25	8.25	8.00	7.50	7.50	7.50	7.00			
	Economic growth modest lifts towards 3.0% y/y on reforms, global financial market risk sentiment is neutral to positive. SA remains in the BB credit rating category bracket on fiscal consolidation (debt to GDP stabilisation). The rand stabilises, then strengthens somewhat. Inflation is impacted by 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. Little to no expropriation without compensation. Temporary grey listing.											
Lite (domestic) Down case 42%	USD/Rand (average)	17.76	18.90	19.30	19.00	18.70	19.00	19.10	18.90			
	Repo rate (end rate)	7.75	8.50	9.00	9.50	9.50	9.50	9.50	9.50			
	The lite down case has the same expected international environment as the base case, but the domestic environment differs. Business confidence depressed, substantial electricity and water shedding, very weak rail capacity, civil and political unrest, little investment growth, swing toward left leaning policies recession. Temporary increase in state borrowings, risk of credit rating downgrades rise, then occur later in period, but sees eventual fiscal consolidation. Expropriation of private sector property is very limited and has a modestly 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. Lengthy greylisting.											
Severe down case 10%	USD/Rand (average)	17.76	19.30	19.70	20.00	20.20	20.50	20.80	21.20			
	Repo rate (end rate)	7.75	9.25	10.50	11.00	11.00	11.50	11.50	12.00			
	Lengthy global recession, global financial crisis – insufficient monetary and other support domestically and internationally. ANC/EFF coalition 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, eventually 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 on the economy. Very high inflation on very adverse weather conditions, severe rand weakness. Full implementation of expropriation without compensation occurs (particularly for land held for speculative purposes), with a significant negative impact on the economy. SA blacklisted.											

Note: Event risk begins Q2.23. Source: Investec

