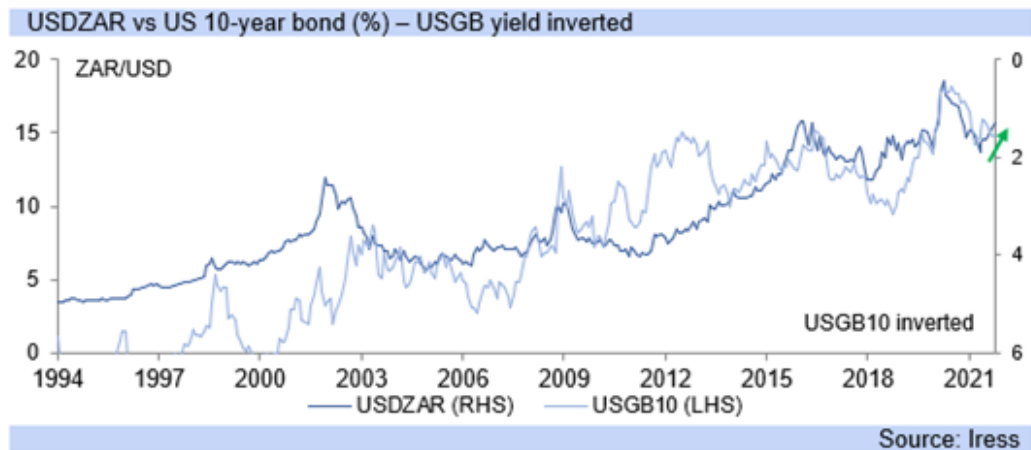
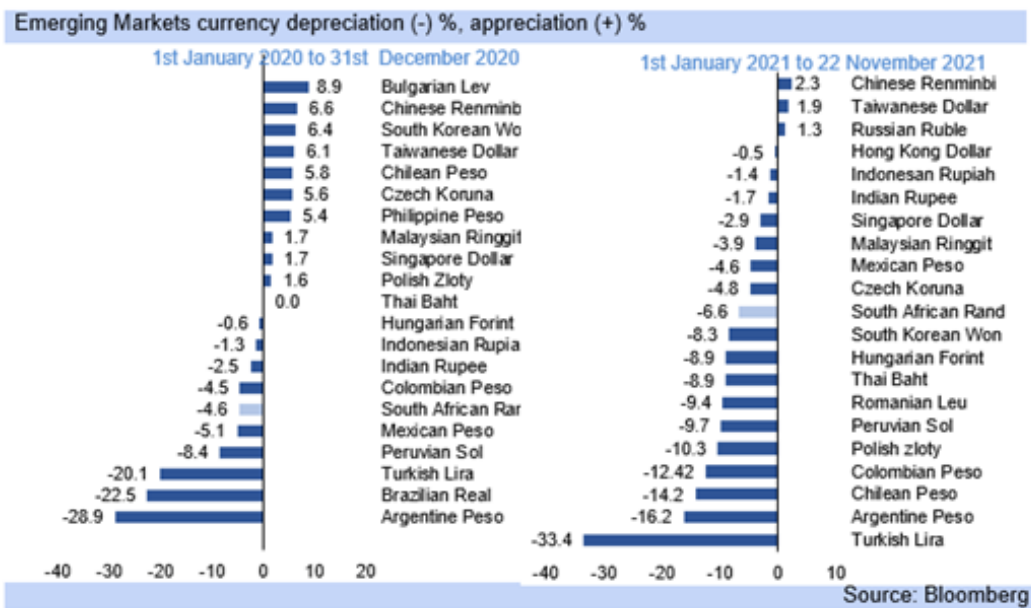


# SA Economics

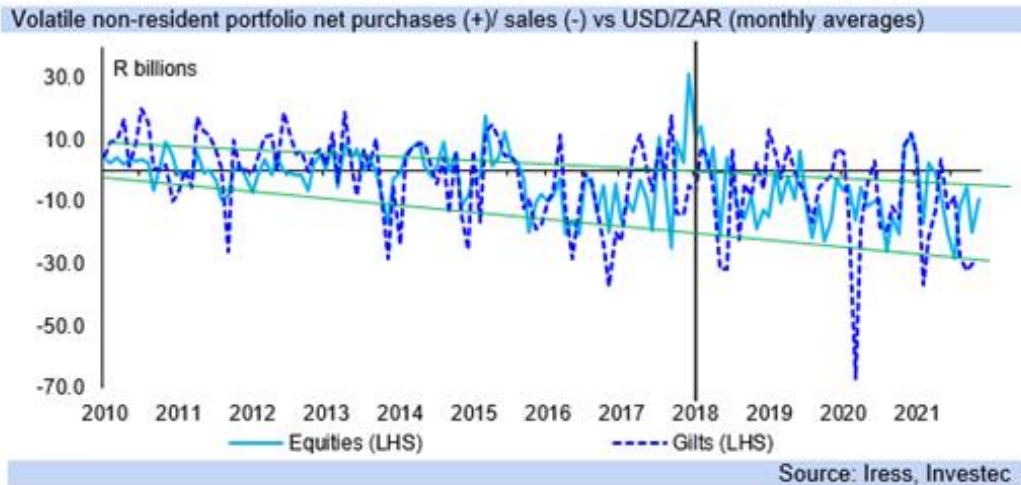


Monday 22 November 2021

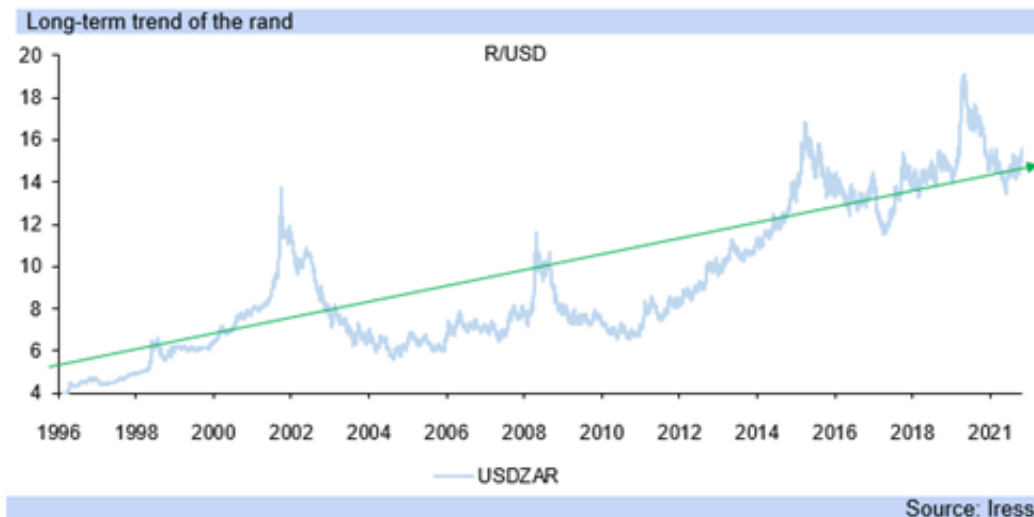
Rand note: the rand fails to see much strength as the credit rating agencies leave SA's rating unchanged as expected but global factors continue to provide a drag on EM assets



# SA Economics



# SA Economics



- Risk classes continue to be heavily graduated, with EM assets losing out, particularly in the currency space while advanced economies continue to see gains particularly in equities, and this has benefited SA equity prices too, but the rand remains mired weaker.
- Figures from Iress and the IFF (Institute of International Financial) show that -R29bn in bonds owned by foreigners were sold in November net of purchases, after a -R32bn on a net basis in October, and a loss of -R30bn in September.
- Foreigners have also been dumping SA equities on a net basis according to the same figures, with -R9bn sold off in November, -R20bn in October and -R6bn in September (August -R11bn), and indeed each month recording a net sell-off this year.
- The Fed QE tapering has added to negative foreigner investor perceptions of emerging markets. The MTBPS recently warranted no change in SA credit ratings from Moody's and S&P, with no comment from Fitch either.
- Moody's "completed the periodic review of a group of issuers that includes South Africa and may include related ratings through a discussion held on 14 October 2021. The review did not involve a rating committee, and this publication does not announce a credit rating action".
- "The (existing) credit profile of South Africa (issuer rating Ba2) reflects the country's "baa3" economic strength, balancing deep-rooted structural impediments to growth against its deteriorating but still strong economic resiliency derived from economic diversification".
- Furthermore, "its "baa3" institutions and governance strength based on the country's robust ranking in the Worldwide Governance Indicators and evidence of the institutions' capacity to preserve macroeconomic stability".

# SA Economics



- While “its "caa2" fiscal strength reflect(s) the continued, long-standing rise in government debt levels and deteriorating debt affordability, and its "baa" susceptibility to event risk driven by political risk and banking sector risk.”
- The rand currently averages R15.00/USD so far this quarter, with just over half the quarter reached. The ongoing negative market sentiment to EM's risks further vulnerability for the domestic currency. Both Moody's and Fitch have retained SA on negative rating outlooks.

Please scroll down to the second section below

# SA Economics



## Economic Scenarios: note interest rate hikes pushed out in expected case

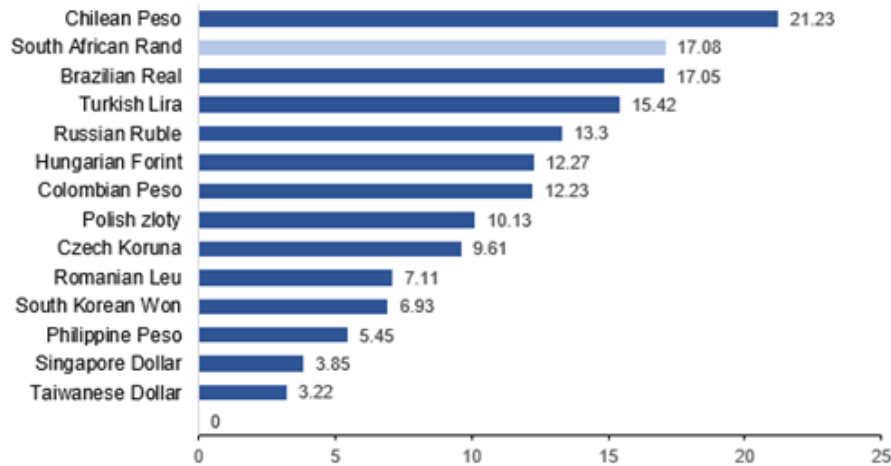
		Q1.21	Q2.21	Q3.21	Q4.21	Q1.22	Q2.22	Q3.22	Q4.22
<b>Extreme</b> Up case 1%	USD/Rand (average)	14.96	14.13	14.64	13.80	13.30	13.00	12.90	12.80
	Repo rate (end rate)	3.50	3.50	3.50	3.25	3.25	3.25	3.25	3.25
	Impact of Covid-19 pandemic very rapidly resolved - economic growth of 3–5%, then 5-7% for SA. Good 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). <b>Strong global growth, commodity boom. Stabilisation of credit ratings, then credit rating upgrades.</b>								
<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	3.75
	Quick rebound from Covid-19 pandemic, rising confidence and investment levels - structural problems worked down. <b>No further credit rating downgrades, rating outlooks move to stable and eventually positive, strong fiscal consolidation (government debt projections fall substantially).</b> 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	15.40	15.25	15.45	15.70	15.50
	Repo rate (end rate)	3.50	3.50	3.50	3.75	4.00	4.00	4.25	4.50
	Recovery from the sharp global economic slowdown by 2024 in real terms– <b>sufficient global and domestic monetary and other policy supports to growth and financial markets occur and risk sentiment stabilises then improves.</b> Expropriation of private sector property is limited and does not have a negative impact on the economy or on market sentiment. <b>SA remains in the BB category rating bracket for Moody's – fiscal consolidation (debt to GDP stabilisation) occurs.</b>								
<b>Lite</b> (domestic) Down case 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. <b>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.</b> 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). <b>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.</b> 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

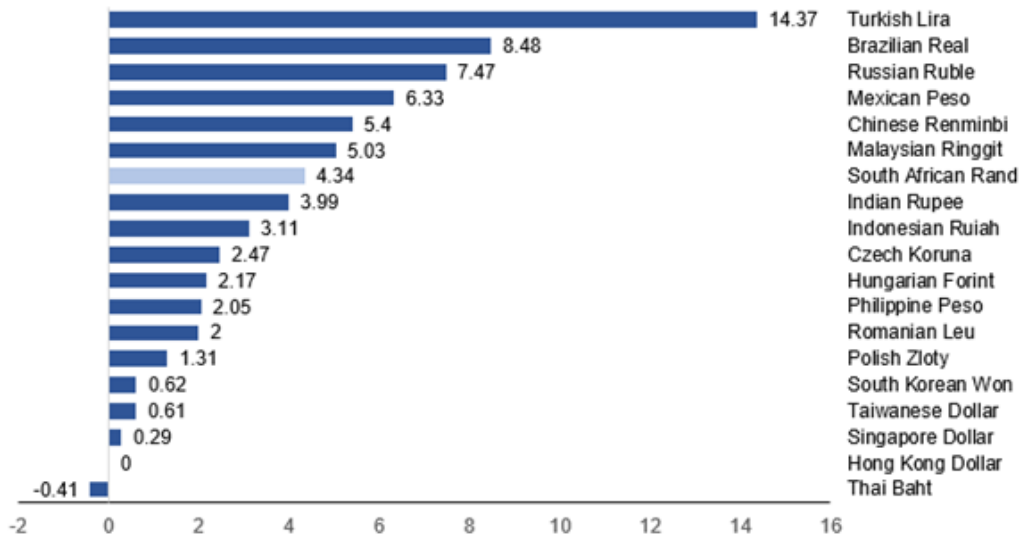


Emerging Markets Implied Volatilities – values 22 November 2021



Source: Bloomberg

Emerging Markets Implied Rates – values 22 November 2021

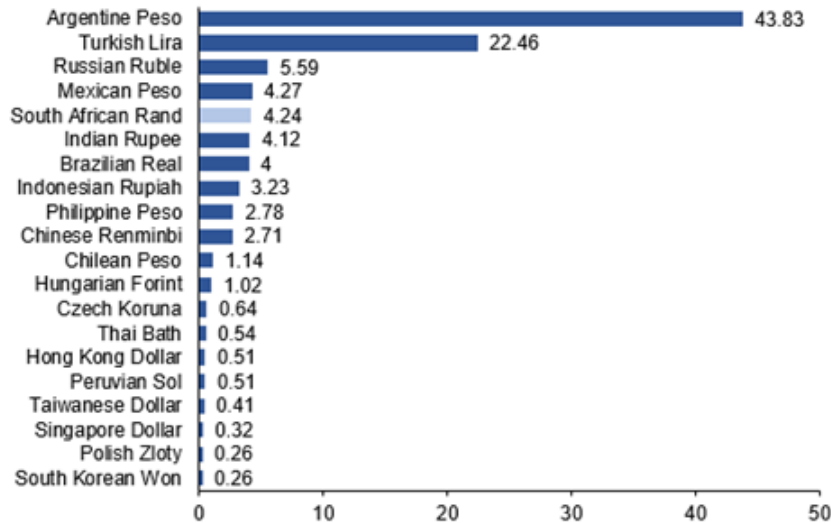


Source: Bloomberg

# SA Economics

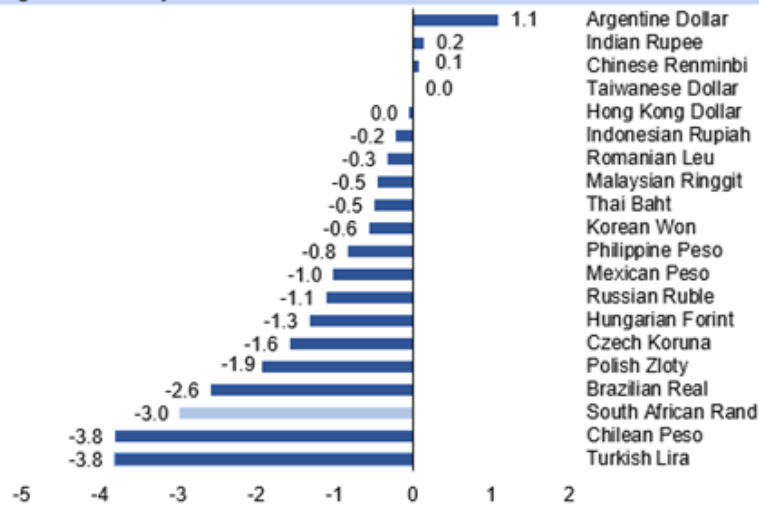


Emerging Markets Interest Return – values 22 November 2021



Source: Bloomberg

Emerging Markets Carry Return – values 22 November 2021



Source: Bloomberg

- The rand has weakened to R15.84/USD today, from R15.15/USD on Monday, and failing to return to R15.15/USD over the course of last week on a sustainable basis, with EM currencies in general seeing malaise at the start of the FOMC tapering programme.

# SA Economics



- The rand will remain highly volatile, vulnerable to US data releases, particularly any seen as likely to speed up the tapering of the US asset purchase programme, and in particular speed up the advent of higher US interest rates.
- Emerging market currencies are taking their steer from financial global markets, and global investor sentiment, with concerns over high inflation yet to abate, while international oil prices are still elevated, only having seen very mild easing last week.
- The fourth wave of COVID-19 continues to build globally, with the US seeing its infection curve now on an upwards trajectory, while the UK is experiencing ongoing upwards momentum in its curve which rocketed higher in July and is still yet to subside.
- Germany is seeing a particularly sharp climb in cases now in its fourth wave, and the next wave of COVID-19, while not yet apparent in SA, may be building, with 687 new cases reported yesterday, versus 205 new cases on 7<sup>th</sup> November, and 398 on 15<sup>th</sup> November.
- SA may be seeing its fourth wave build, beginning in November as was feared, as the start of a new wave of COVID-19 infections is usually slow to rise and so in a months' time may be more apparent, if indeed this is the start of SA's fourth wave.
- The COVID-19 numbers are very low in SA currently, while vaccinations are at 24.6 million. Currently, 42 doses have been administered out of 100 people in South Africa (Bloomberg), and so SA remains at risk, with thirteen months estimated for SA to reach 75%.
- The global time to 75% vaccination of the world's population is three months in comparison, while 27 countries have already reached this mark. The new delta variant, AY4.2, has been reported as possibly more infectious than the delta variant itself.
- The rand is reflecting risk aversion, globally towards EM currencies. Should the fourth wave underway globally become severe, this would also increase risk-off and could see the rand weaken somewhat further.

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
CHFZAR	16.52	15.51	15.95	17.45	18.66	19.50	20.20	20.74	20.55	21.10	21.48	21.65
AUDZAR	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	15.40	15.25	15.45	15.70	15.50	15.35	15.75	16.15	15.65
GBP/ZAR	20.63	19.75	20.18	21.38	21.88	22.63	23.39	23.48	22.72	22.84	23.09	22.38
EUR/ZAR	18.03	17.03	17.26	18.23	18.38	18.85	19.47	19.38	19.19	19.69	20.19	19.56
ZAR/JPY	7.09	7.75	7.52	7.13	7.02	6.80	6.62	6.71	6.84	6.79	6.63	6.84
CHFZAR	16.52	15.51	15.95	16.55	16.41	16.68	17.08	16.85	16.87	17.31	17.75	17.20
AUDZAR	11.56	10.88	10.76	11.35	11.44	11.59	11.93	11.94	11.97	12.29	12.60	12.21
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
CHF/ZAR	16.52	15.51	15.95	15.05	14.77	14.48	14.48	14.35	13.96	13.74	13.52	13.35
AUD/ZAR	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