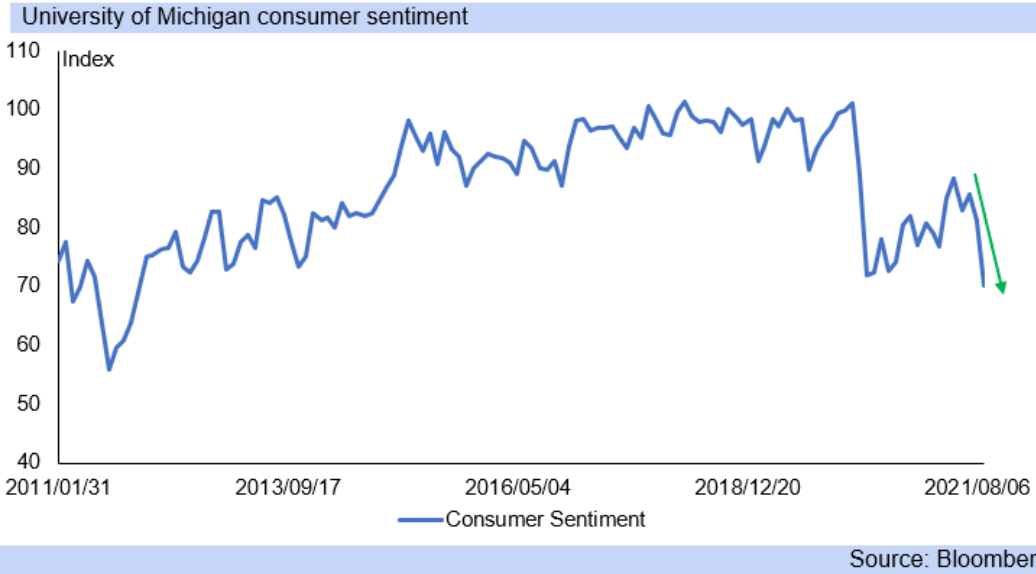
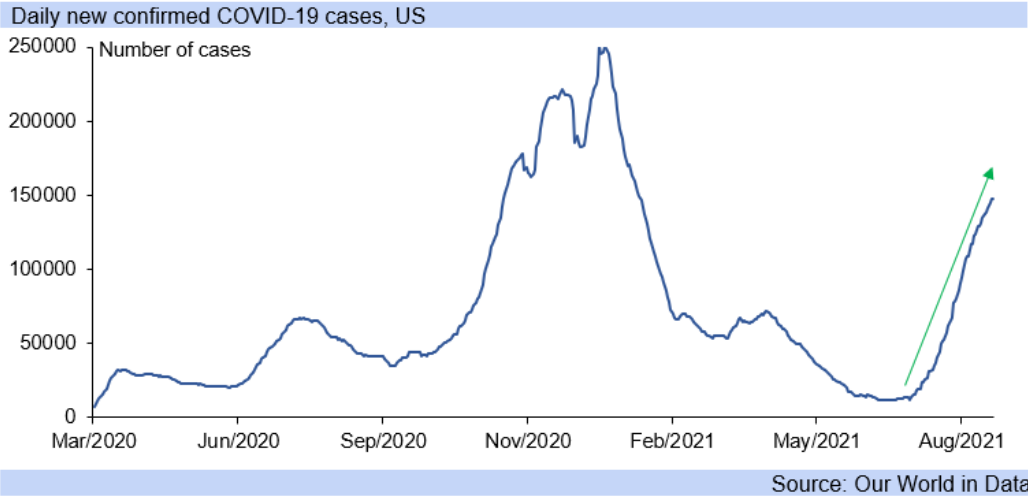


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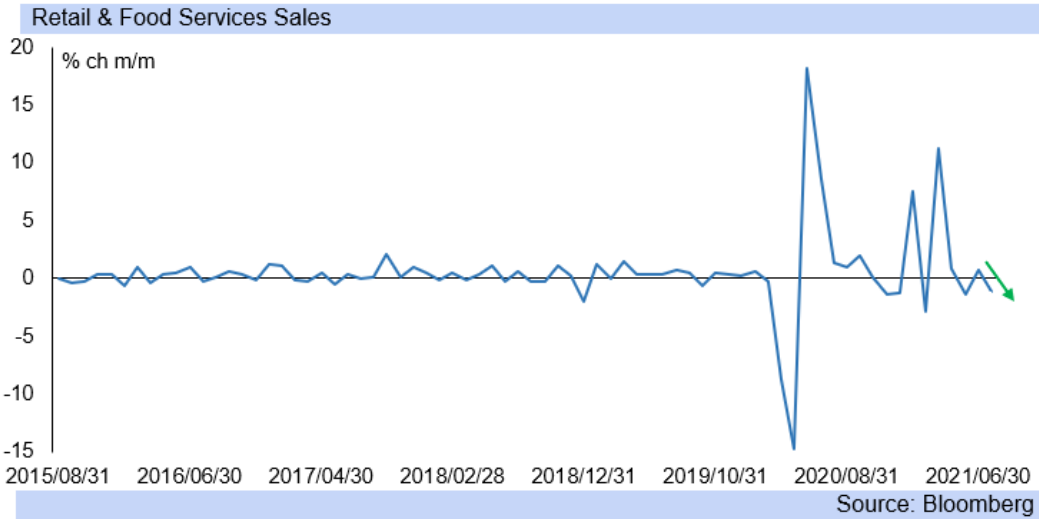
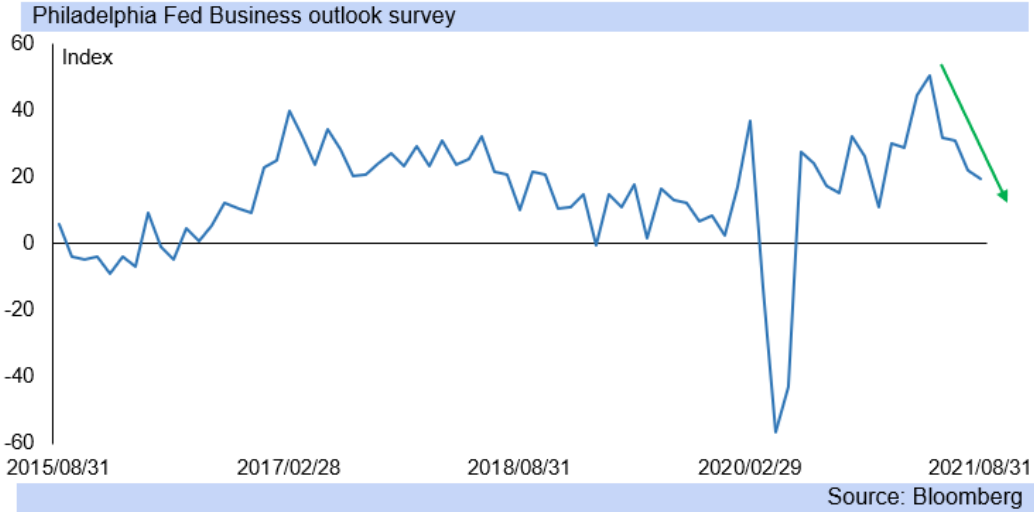


Monday 24 August 2021

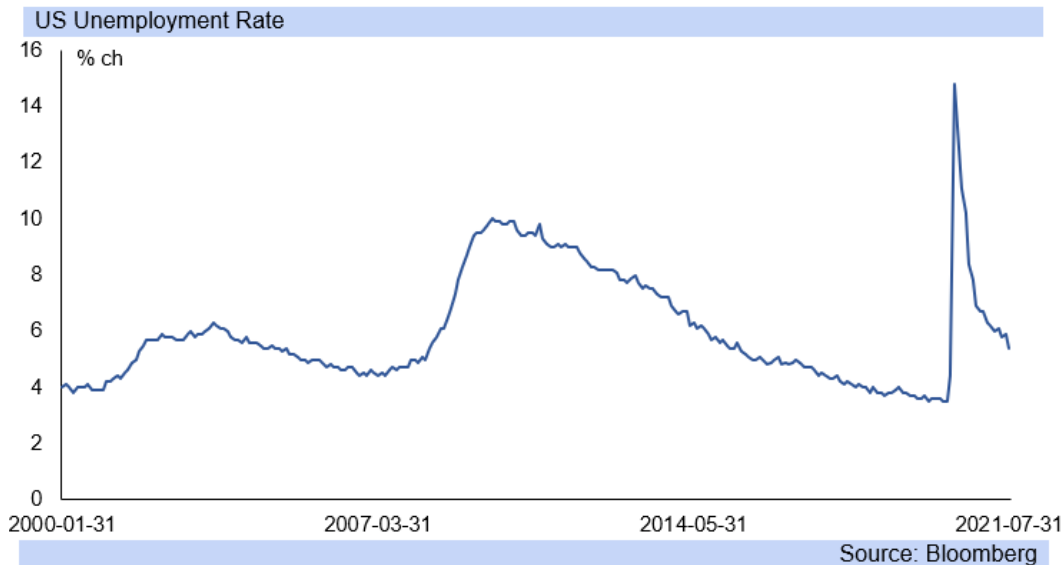
Rand note: rand retains recent weakness on risk aversion in the face of expected US QE tapering already this year, while the rapid run up in the US's third wave of COVID-19 infections negatively affects sentiment



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- The domestic currency lost close to a rand since the start of the month, weakening as markets continue to see early QE tapering, while COVID-19 cases spike in the US in its third wave. However, no new lockdown restrictions in the US have been envisaged so far.
- The third wave of new COVID-19 infections in the United States is accelerating faster than its second wave last winter, but Dr Fauci, chief medical advisor to President Biden, has been reported as saying already at the start of August that the US will not 'lockdown' again.
- Adding at the time "things are going to get worse" as the Delta variant spreads, with "(n)ot enough (vaccinated) to crush the outbreak, but I believe enough to not allow us to get into the situation we were in last winter" with a worst reported new daily case recording of 300 777.
- On the 16th of August this year, the US saw a new daily case's recording of 259 493 infections, with the seven-day average at 142 414 then but rising since, and the first leg of the US's third wave has seen a significantly steeper acceleration than occurred in its second.
- While August's US conference board reading is not out (due at the end of this month), August's U Michigan sentiment reading already showed a dip in consumer confidence as the rapid acceleration of infections worried many, with just over half the US fully vaccinated.
- Globally there have been marked protests against COVID-19 lockdown restrictions, and with the US having opened up, worries abound on the effect of tightening restrictions up again given the strong anti-lockdown sentiment in some quarters which may risk riots.
- The July FOMC minutes showed strong confidence in the recovery of the US economy and the labour market at that time, with this week's Jackson Hole communications

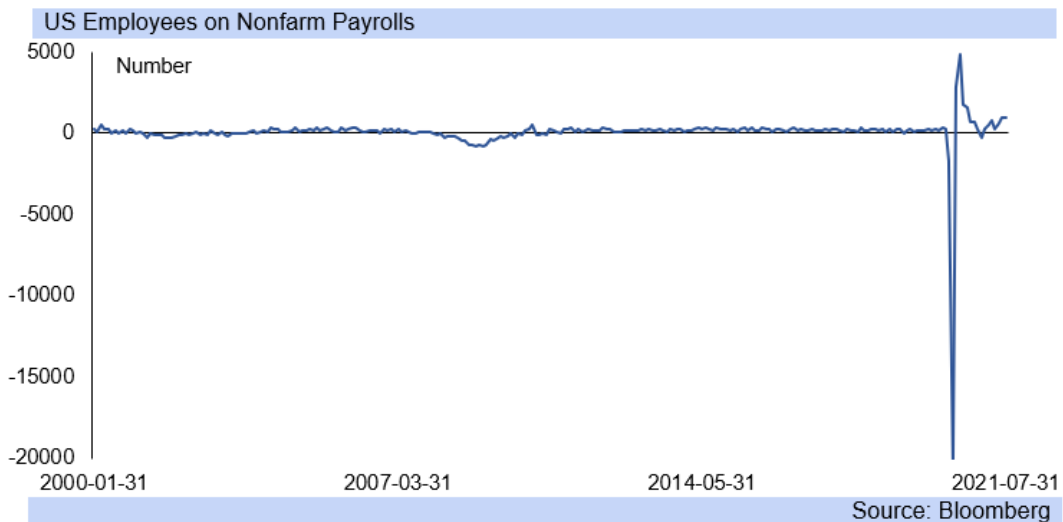
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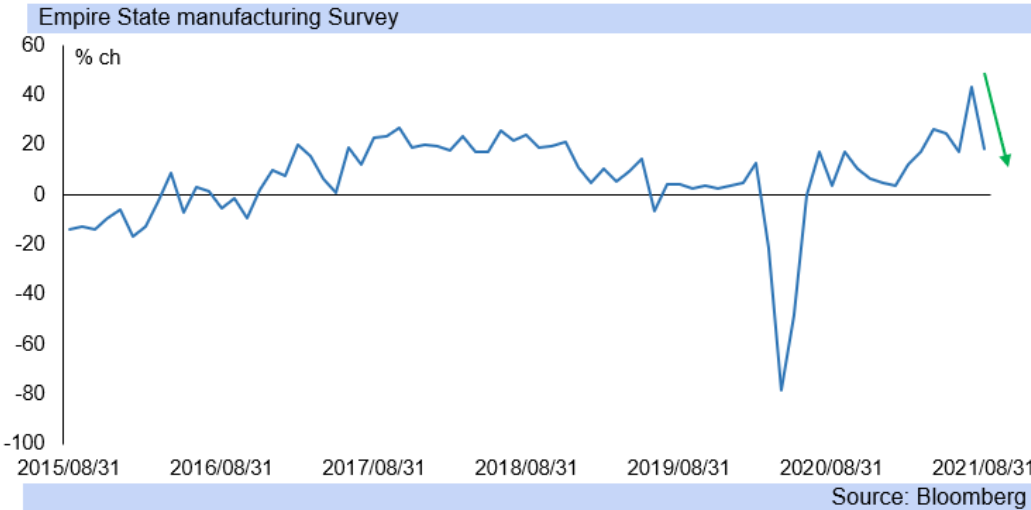
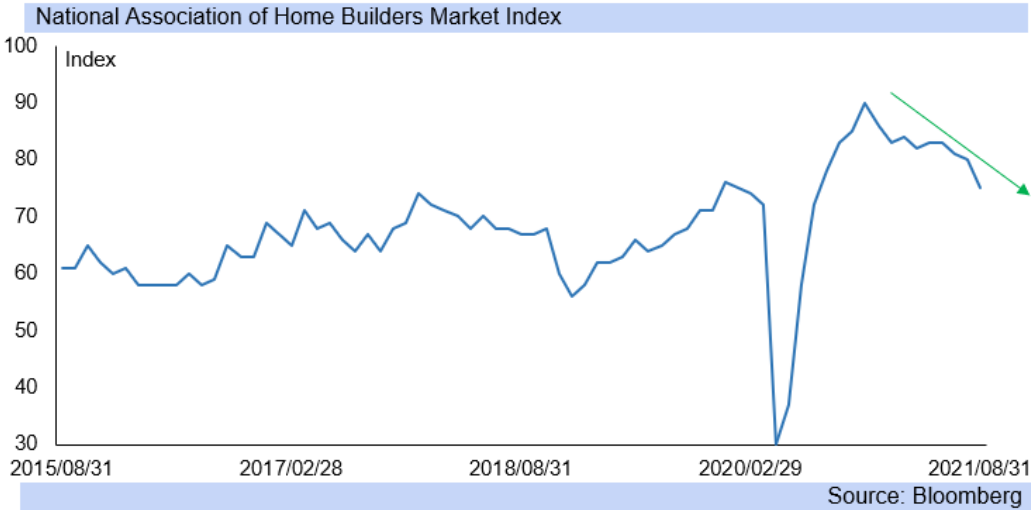
expected to give strong guidance to the advent of tapering, although risks abound from COVID-19.

- Additionally, a number of the most recent US data readings have proved significantly weaker than expected, notably retail sales, the business confidence reading from the Philadelphia Fed, Empire state and ISM manufacturing conditions readings and nonfarm productivity.
- With the US third wave not yet having peaked, and new US COVID-19 deaths already triple since its start, and accelerating, the Jackson Hole Symposium could show concern on the rapid rise in COVID-19 underway and related recent softening in some areas of the economy.

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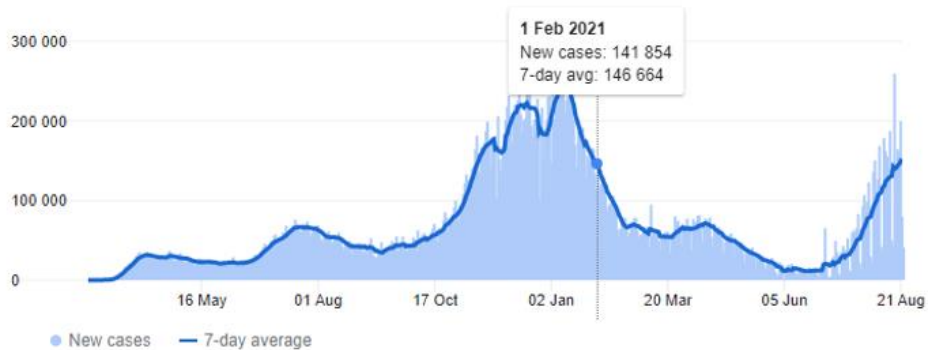
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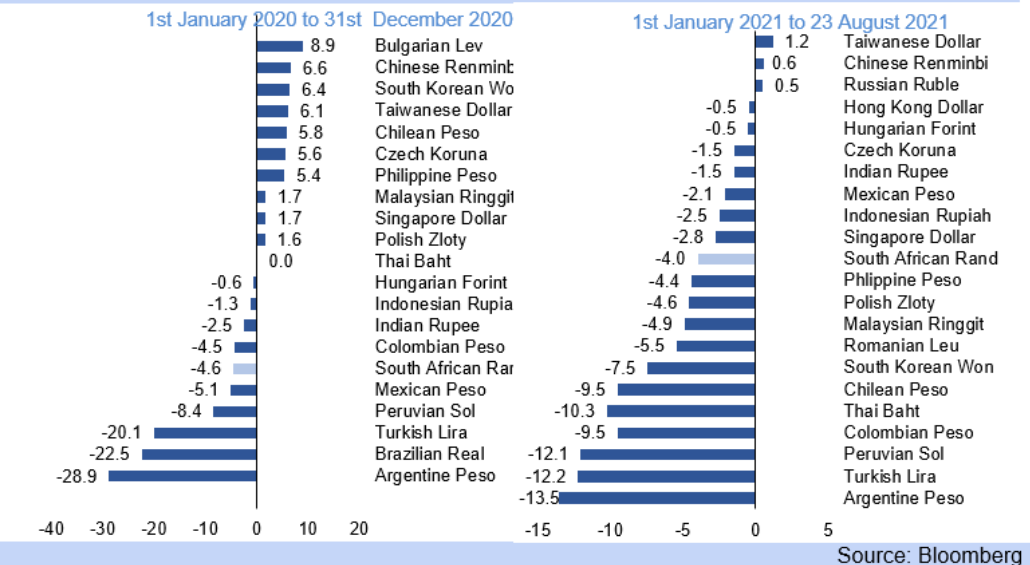


Daily new confirmed COVID-19 cases, US



Source: New York Times

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



Source: Bloomberg

- There has also been evidence on the production and jobs side of the US economy, of some strong data readings, although a slowdown in consumer confidence and retail spend would lead to a negative impact on production and jobs, if pronounced and prolonged.
- The August survey on consumer attitudes and expectations towards personal finances, general business conditions and market conditions or prices, yielded a sentiment reading that was the lowest since 2011, at 70.2 versus 81.2 the month before (for the U Michigan reading).

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- As such, the reading was lower than any level during the pandemic last year and evidences the disappointment and frustration many now feel towards the third wave, when most had thought the pandemic was past.
- Surveys, particularly on consumer sentiment can be variable, and quick to change, but some medical staff in the US have warned of worse to come, with certain hospitals exceeding their capacity in ICUs, and the number of children hospitalised at a new pandemic high.
- US inflation has seen easing pressures after the sharp rise in base effects and supply shortages, and this could result in further moderation in price pressures, with the July FOMC minutes continuing to see inflationary pressures as 'transitory'.
- The July FOMC minutes add that "the probability that the course of the pandemic would turn out to be more adverse than the staff's baseline assumption was viewed to be higher than the probability that a more favourable out-come would occur".
- Furthermore, "the risks to the baseline projection for economic activity were skewed to the downside and that the uncertainty around the forecast was elevated." However, the FOMC notes in particular the recovery in the jobs market.
- A more cautious sounding approach on US monetary policy, and implications for asset purchases would assist the rand, which has seen some strength in relief today so far that the warnings of domestic unrest and looting has not yet manifested to any notable degree.
- Risk-off waned somewhat this afternoon as markets consolidated, but the rand is vulnerable to further weakness, particularly on a worsening in the US growth outlook if US third wave is more severe than the administration anticipates, although this would likely delay QE tapering.

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	14.55	14.45	14.45	14.85	15.15	14.75	14.55	14.95	15.35	14.85
GBP/ZAR	20.63	19.75	19.87	20.00	20.66	21.53	22.42	22.34	21.53	21.68	21.95	21.24
EUR/ZAR	18.03	17.03	17.36	17.48	17.70	18.27	18.86	18.59	18.19	18.69	19.19	18.56
ZAR/JPY	7.09	7.75	7.52	7.40	7.27	7.00	6.86	7.05	7.22	7.16	6.97	7.21
CHF/ZAR	16.52	15.51	15.79	15.75	15.80	16.16	16.55	16.16	15.99	16.43	16.87	16.32
AUD/ZAR	11.56	10.88	11.06	11.34	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

SA Economics



Economic Scenarios: note currency and probability updates

		Q1.21	Q2.21	Q3.21	Q4.21	Q1.22	Q2.22	Q3.22	Q4.22
Extreme Up case 1%	USD/Rand (average)	14.96	14.13	13.50	13.20	13.00	12.90	12.80	12.70
	Repo rate (end rate)	3.50	3.50	3.25	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). Strong global growth, commodity boom. Stabilisation of credit ratings, then credit rating upgrades.								
Up case 2%	USD/Rand (average)	14.96	14.13	13.70	13.50	13.30	13.40	13.20	13.00
	Repo rate (end rate)	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
	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 48%	USD/Rand (average)	14.96	14.13	14.55	14.35	14.45	14.85	15.15	14.75
	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 (domestic) Down case 43%	USD/Rand (average)	14.96	14.13	15.15	15.50	16.00	16.65	16.90	17.00
	Repo rate (end rate)	3.50	3.50	3.75	3.75	4.00	4.00	4.25	4.25
	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.								
Severe down case 6%	USD/Rand (average)	14.96	14.13	15.65	16.40	17.00	17.50	18.00	18.50
	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

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

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