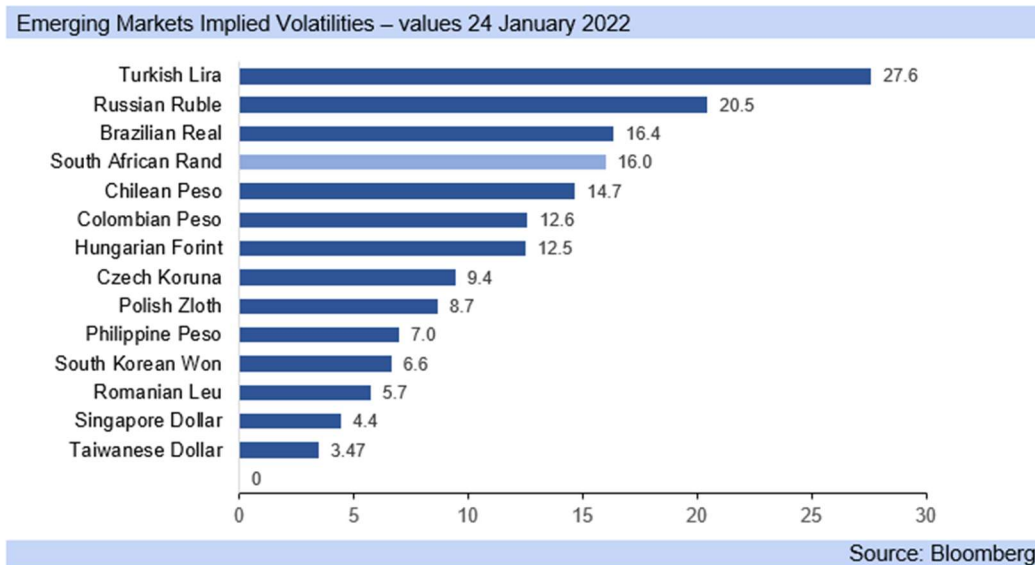
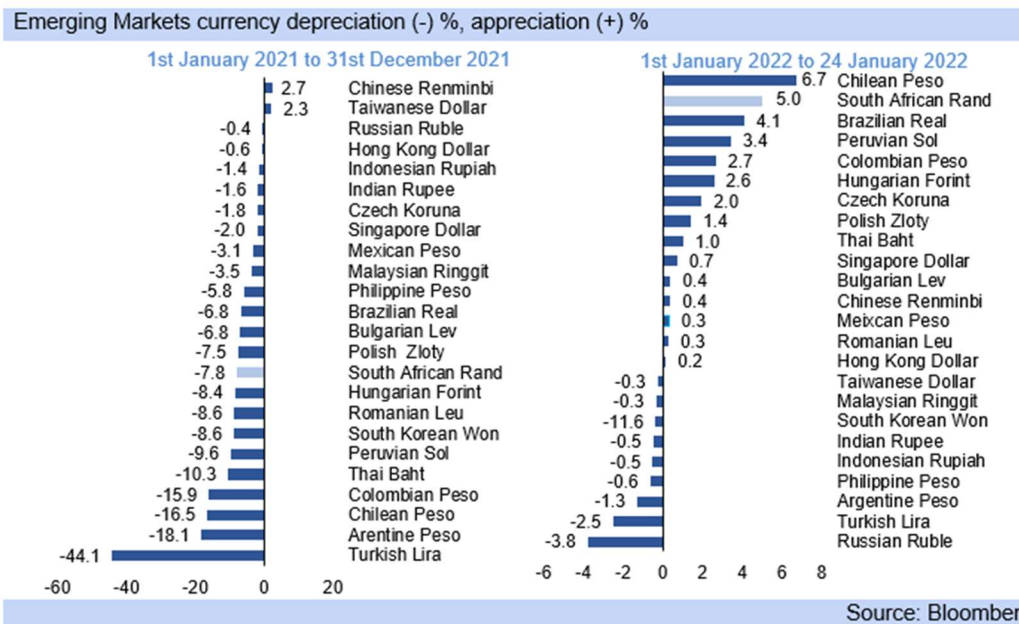


SA Economics



Monday 24 January 2022

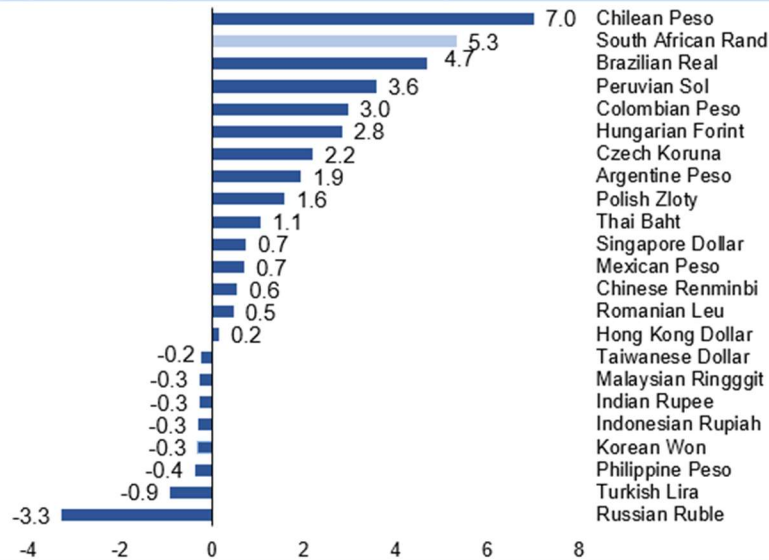
Rand note: rand targets the major resistance level of R15.00/USD, strengthening through the crosses, reaching R20.43/GBP and R17.20/EUR, on positive market sentiment



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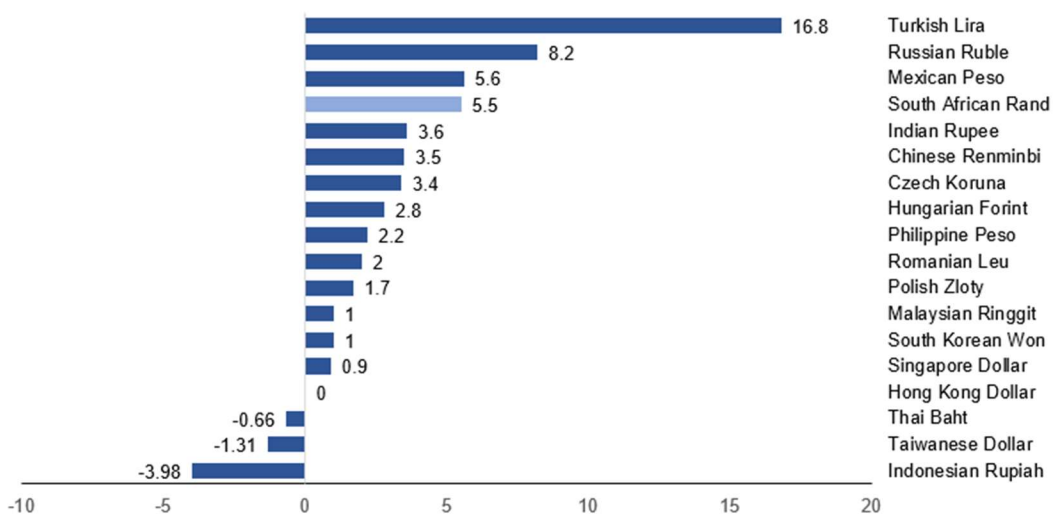


Emerging Markets Carry Return – values 24 January 2022



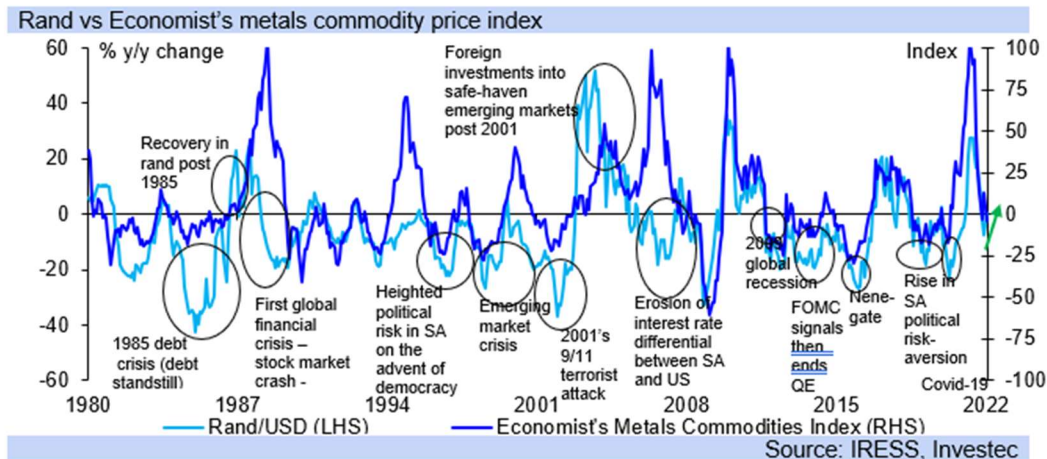
Source: Bloomberg

Emerging Markets Implied Rates – values 24 January 2022



Source: Bloomberg

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- The rand has reached R15.09/USD so far today, as it now targets the key resistance level of R15.00/USD, having convincingly broken through R15.20/USD, benefiting from risk-on sentiment in global financial markets, and from related commodity price strength.
- Foreigners have been positive on SA markets so far this year, purchasing R5.8bn worth of SA bonds (net of sales), and R2.2bn in equities (also on a net basis) in the middle of last week. Overall foreign inflows into South African portfolio assets this year so far total R5.5bn.
- This continues to support the rand's strength, along with strengthening commodity prices, with the (Economist) index for metals prices up 4.6% m/m in January after December's 9.6% y/y rise, as markets continue to anticipate robust global recovery.
- The rand is likely benefiting from a trade surplus in January, as seasonally weak imports at the start of the year, and strengthening metals commodity prices from November, see the domestic currency gain against other currencies generally.
- Indeed, overall commodity prices are up by 7.8% y/y, and food and non-food agricultural goods are 1.8% y/y and 28.9% y/y higher (also Economist commodity price indices), with SA also seeing substantial exports of agricultural food and nonfood goods.
- Adding to positive market sentiment, Fitch has said that the credit rating outlook for emerging market economies (Ems) is improving, albeit with risks, as "(t)he emerging-market (EM) sovereign rating cycle has turned more positive with four upgrades".
- Adding, "(c)ontinuing economic revival after the pandemic, nascent fiscal recoveries and higher commodity prices add up to a moderately net improving or neutral macro credit environment for the main EM regions in 2022".
- The recent approval of a US\$750million World Bank developmental policy loan (DPL) for SA to aid in relief for those negatively affected by the COVID-19 pandemic is seen as market positive, although comes with currency risk despite the low funding cost.

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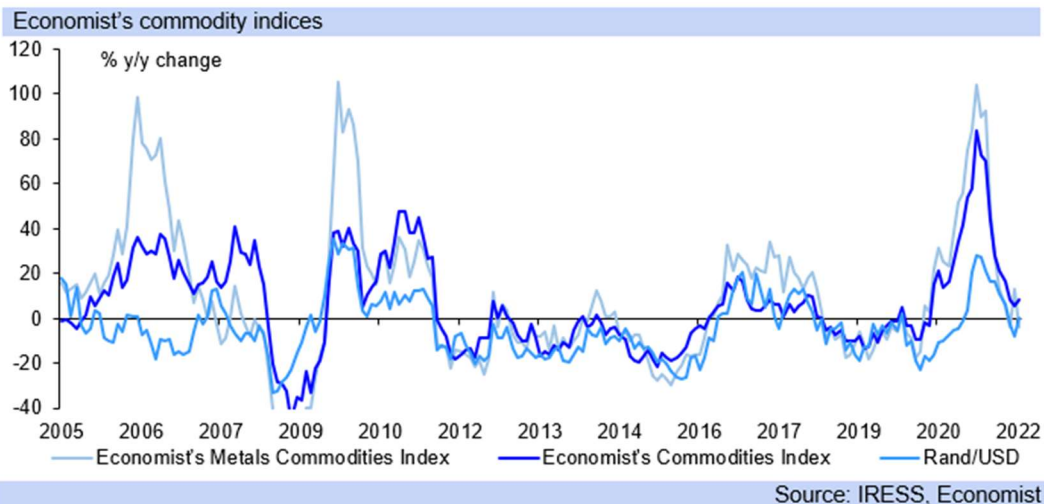


- The low levels of risk aversion on global financial markets tends to be a key driver of the domestic currency at the start of the year, and the rand could quite likely see further strength in Q1.22, before the potential 'sell in May and go away' event.

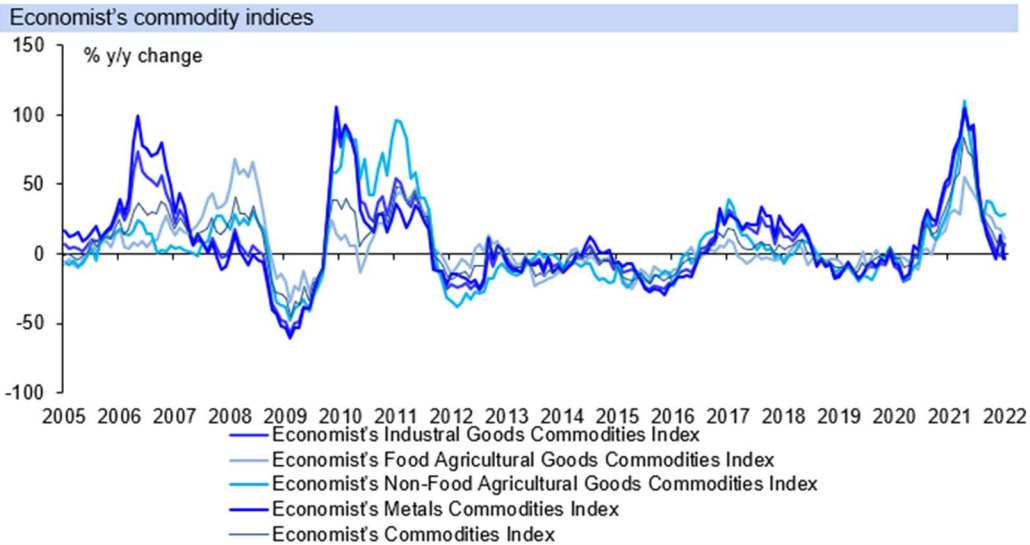
Please scroll down to the second section below

Expected Case: Exchange Rate forecasts												
	2022				2023				2024			
	Q1.22	Q2.22	Q3.22	Q4.22	Q1.22	Q2.22	Q3.22	Q4.22	Q1.24	Q2.24	Q3.24	Q4.24
USD/ZAR	15.50	15.60	15.85	15.65	15.50	15.90	16.30	15.80	15.60	16.10	16.60	16.10
GBP/ZAR	21.23	21.68	22.58	22.93	22.94	23.06	23.31	22.59	22.31	23.02	23.74	23.02
EUR/ZAR	17.83	17.94	18.43	18.58	18.76	19.56	20.38	19.75	19.50	20.13	20.75	20.13
ZAR/JPY	7.48	7.53	7.48	7.64	7.61	7.23	6.75	6.77	6.86	6.65	6.45	6.65
CHF/ZAR	16.90	16.85	17.14	17.05	17.03	17.47	17.91	17.36	17.14	17.69	18.24	17.69
AUD/ZAR	11.47	11.70	12.05	12.05	12.09	12.40	12.71	12.32	12.17	12.56	12.95	12.56
GBP/USD	1.37	1.39	1.42	1.47	1.48	1.45	1.43	1.43	1.43	1.43	1.43	1.43
EUR/USD	1.15	1.15	1.16	1.19	1.21	1.23	1.25	1.25	1.25	1.25	1.25	1.25
USD/JPY	116	118	119	120	118	115	110	107	107	107	107	107

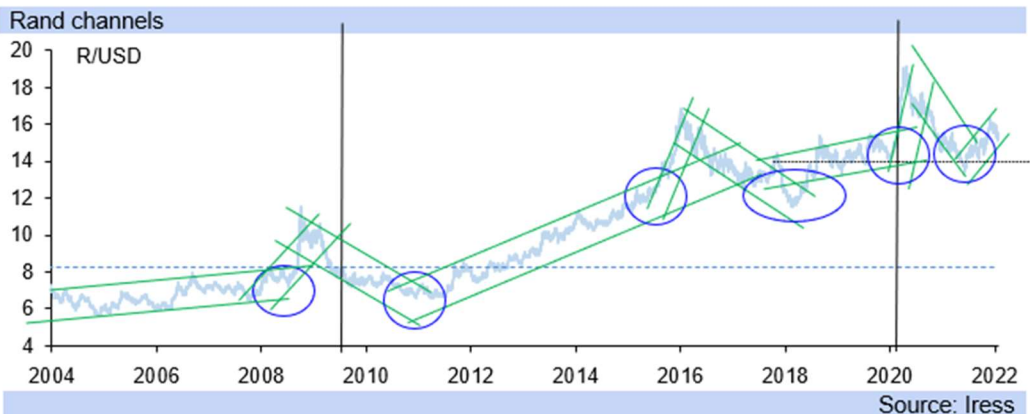
Note: averages, Source: Investec, Iress



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Source: IRESS, Economist

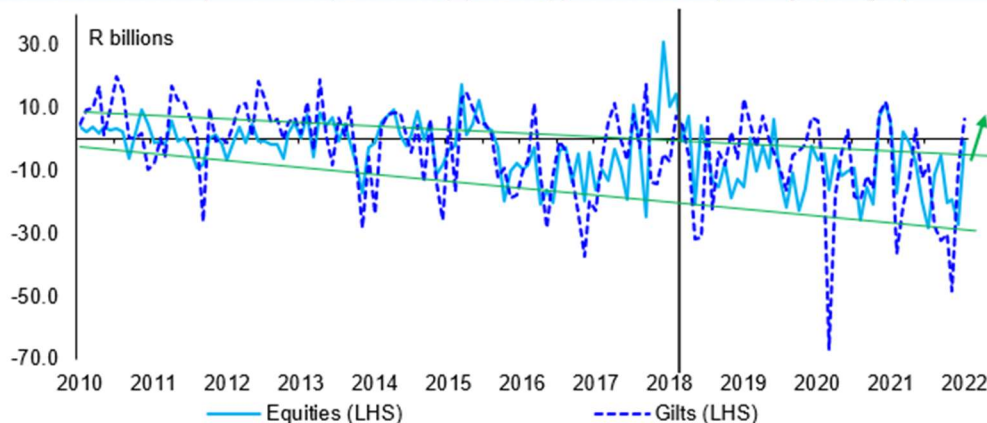


Source: Iress

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Volatile non-resident portfolio net purchases (+)/ sales (-) vs USD/ZAR (monthly averages)



Source: Iress, Investec

- Fitch expects that in 2022 “the ongoing impact of the Covid-19 pandemic, fading base effects and persistent structural constraints will see economic growth slow to 2.1%. Poor labour market conditions will cap private consumption growth”.
- The rating agency, one of the top three globally, added that “government consumption and investment will provide some tailwinds” to economic growth” and for “the South African Reserve Bank (SARB) to maintain a hawkish bias ... over the course of 2022”.
- Key is that Fitch anticipates “President Cyril Ramaphosa to face continued opposition from leftist elements within the ruling African National Congress (ANC),... (but) to (survive) a leadership challenge at the party’s elective conference in December 2022.”
- Markets broadly anticipate such an outcome as well, and that SA will follow a path of fiscal consolidation. Should Ramaphosa not retain ANC leadership at the elective conference at the end of this year the rand would likely collapse as foreigners disinvest.
- Investors would fear major fiscal deterioration under a change of president, as the RET faction and other left leaning political forces are not expected to continue to seek to narrow the fiscal deficit from close to -6.5% currently toward 3% of GDP over the next five years.
- South Africa’s ratio of government debt to GDP is expected to be reined in eventually as well, with debt stabilising. However, eliminating the deeply popular president from the leadership of the ANC, Fitch has said, would likely see “slower progress on structural reforms”.
- National Treasury has said “(t)he World Bank budget support is coming at a critical time for us and will contribute towards addressing the financing gap stemming from additional spending in response to the COVID-19 crisis”.
- “It will assist in addressing the immediate challenge of financing critical health and social safety net programs whilst also continuing to develop our economic reform agenda to build back better.” The monies are not expected to be ring fenced.

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- The World Bank adds “(t)his financing builds on our new World Bank Group Country Partnership Framework (CPF) 2022 – 2026, jointly developed with the government in July 2021, to help stimulate investment and job creation.”

Economic Scenarios: note 1% lower probability on lite down case on Fitch stable outlook, expected case rises by 1%

		Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.23
Extreme Up case 1%	USD/Rand (average)	14.50	14.00	13.80	13.70	13.60	13.40	13.30	13.10
	Repo rate (end rate)	3.25	3.25	3.25	3.25	3.50	3.50	3.50	3.50
	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)	15.20	15.10	15.00	14.90	14.90	14.70	14.60	14.50
	Repo rate (end rate)	3.50	3.50	3.50	3.75	4.00	4.00	4.00	4.25
	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 49%	USD/Rand (average)	15.50	15.60	15.85	15.65	15.50	15.90	16.30	15.80
	Repo rate (end rate)	4.00	4.25	4.25	4.50	4.75	4.75	5.00	5.00
	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 42%	USD/Rand (average)	15.70	16.00	16.65	16.90	17.00	17.50	17.60	17.50
	Repo rate (end rate)	4.00	4.25	4.50	4.75	5.25	5.50	6.00	6.00
	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)	16.00	16.80	17.50	18.00	18.50	18.70	19.20	19.55
	Repo rate (end rate)	4.50	4.75	5.00	5.25	5.75	6.00	6.50	6.50
	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 civil unrest, services strike action and strike action.								

Note: Event risk begins Q1.22. Source: Investec

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Lite Down Case: Exchange Rate forecasts												
	2022				2023				2024			
	Q1.22	Q2.22	Q3.22	Q4.22	Q1.22	Q2.22	Q1.22	Q4.22	Q1.24	Q2.24	Q3.24	Q4.24
USD/ZAR	15.70	16.00	16.65	16.90	17.00	17.50	17.60	17.50	17.20	17.00	16.80	17.00
GBP/ZAR	21.51	22.24	23.72	24.76	25.16	25.38	25.17	25.03	24.60	24.31	24.02	24.31
EUR/ZAR	18.06	18.40	19.36	20.07	20.57	21.53	22.00	21.88	21.50	21.25	21.00	21.25
ZAR/JPY	7.39	7.34	7.12	7.07	6.94	6.57	6.25	6.11	6.22	6.29	6.37	6.29
CHFZAR	17.11	17.28	18.01	18.41	18.68	19.23	19.34	19.23	18.90	18.68	18.46	18.68
AUDZAR	11.62	12.00	12.65	13.01	13.26	13.65	13.73	13.65	13.42	13.26	13.10	13.26
GBP/USD	1.37	1.39	1.42	1.47	1.48	1.45	1.43	1.43	1.43	1.43	1.43	1.43
EUR/USD	1.15	1.15	1.16	1.19	1.21	1.23	1.25	1.25	1.25	1.25	1.25	1.25
USD/JPY	116	118	119	120	118	115	110	107	107	107	107	107

Note: averages, Source: Investec, Iress

Up Case: Exchange Rate forecasts												
	2022				2023				2024			
	Q1.22	Q2.22	Q3.22	Q4.22	Q1.22	Q2.22	Q1.22	Q4.22	Q1.24	Q2.24	Q3.24	Q4.24
USD/ZAR	15.20	15.10	15.00	14.90	14.90	14.70	14.60	14.50	14.50	14.40	14.40	14.30
GBP/ZAR	20.82	20.99	21.37	21.83	22.05	21.32	20.88	20.74	20.74	20.59	20.59	20.45
EUR/ZAR	17.48	17.37	17.44	17.69	18.03	18.08	18.25	18.13	18.13	18.00	18.00	17.88
ZAR/JPY	7.63	7.78	7.90	8.02	7.92	7.82	7.53	7.38	7.38	7.43	7.43	7.48
CHFZAR	16.57	16.31	16.22	16.23	16.37	16.15	16.04	15.93	15.93	15.82	15.82	15.71
AUDZAR	11.25	11.33	11.40	11.47	11.62	11.47	11.39	11.31	11.31	11.23	11.23	11.15
GBP/USD	1.37	1.39	1.42	1.47	1.48	1.45	1.43	1.43	1.43	1.43	1.43	1.43
EUR/USD	1.15	1.15	1.16	1.19	1.21	1.23	1.25	1.25	1.25	1.25	1.25	1.25
USD/JPY	116	118	119	120	118	115	110	107	107	107	107	107

Note averages, Source: Investec, Iress

Severe Down Case: Exchange Rate forecasts												
	2022				2023				2024			
	Q1.22	Q2.22	Q3.22	Q4.22	Q1.22	Q2.22	Q1.22	Q4.22	Q1.24	Q2.24	Q3.24	Q4.24
USD/ZAR	16.00	16.80	17.50	18.00	18.50	18.70	19.20	19.55	19.70	19.75	19.85	19.80
GBP/ZAR	21.92	23.35	24.93	26.37	27.38	27.12	27.46	27.96	28.17	28.24	28.39	28.31
EUR/ZAR	18.40	19.32	20.34	21.38	22.39	23.00	24.00	24.44	24.63	24.69	24.81	24.75
ZAR/JPY	7.25	6.99	6.77	6.64	6.38	6.15	5.73	5.47	5.43	5.42	5.39	5.40
CHFZAR	17.44	18.14	18.92	19.61	20.33	20.55	21.10	21.48	21.65	21.70	21.81	21.76
AUDZAR	11.84	12.60	13.30	13.86	14.43	14.59	14.98	15.25	15.37	15.41	15.48	15.44
GBP/USD	1.37	1.39	1.42	1.47	1.48	1.45	1.43	1.43	1.43	1.43	1.43	1.43
EUR/USD	1.15	1.15	1.16	1.19	1.21	1.23	1.25	1.25	1.25	1.25	1.25	1.25
USD/JPY	116	118	119	120	118	115	110	107	107	107	107	107

Note: averages, Source: Investec, Iress

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Extreme Up Case: Exchange Rate forecasts												
	2022				2023				2024			
	Q1.22	Q2.22	Q1.22	Q2.22	Q1.22	Q2.22	Q1.22	Q2.22	Q1.24	Q2.24	Q3.24	Q4.24
USD/ZAR	14.50	14.00	13.80	13.70	13.60	13.40	13.30	13.10	12.90	12.80	12.60	12.30
GBP/ZAR	19.86	19.46	19.66	20.07	20.13	19.43	19.02	18.73	18.45	18.30	18.02	17.59
EUR/ZAR	16.68	16.10	16.04	16.27	16.46	16.48	16.63	16.38	16.13	16.00	15.75	15.38
ZAR/JPY	8.00	8.39	8.59	8.72	8.68	8.58	8.27	8.17	8.29	8.36	8.49	8.70
CHF/ZAR	15.81	15.12	14.92	14.93	14.95	14.73	14.62	14.40	14.18	14.07	13.85	13.52
AUD/ZAR	10.73	10.50	10.49	10.55	10.61	10.45	10.37	10.22	10.06	9.98	9.83	9.59
GBP/USD	1.37	1.39	1.42	1.47	1.48	1.45	1.43	1.43	1.43	1.43	1.43	1.43
EUR/USD	1.15	1.15	1.16	1.19	1.21	1.23	1.25	1.25	1.25	1.25	1.25	1.25
USD/JPY	116	118	119	120	118	115	110	107	107	107	107	107

Note: averages, Source: Investec, Iress