

SA Economics



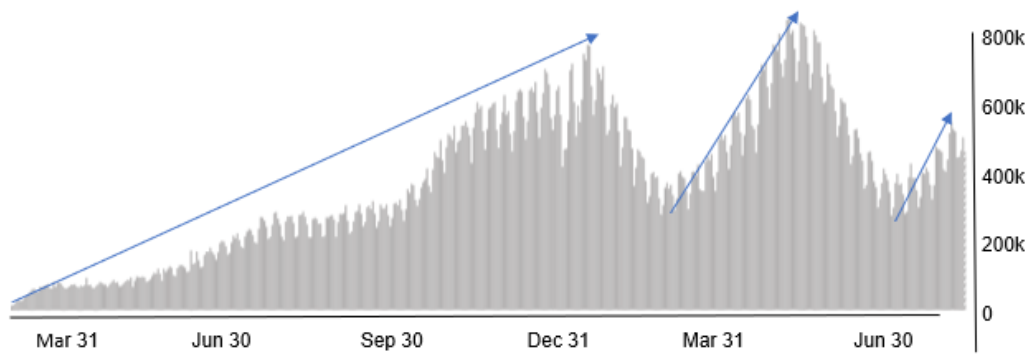
Monday 26 July 2021

Rand note: the rand runs weaker as globally COVID-19 cases continue to climb, underpinning risk off market sentiment, while markets watch for the FOMC meeting on Wednesday evening to allay concerns

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	14.45	14.35	14.45	14.85	15.15	14.75	14.45	14.85	15.25	14.75
GBP/ZAR	20.63	19.75	20.23	20.23	20.37	21.09	21.51	21.09	20.66	21.24	21.81	21.09
EUR/ZAR	18.03	17.03	17.63	17.65	17.92	18.56	19.09	18.59	18.06	18.56	19.06	18.44
ZAR/JPY	7.09	7.75	7.47	7.46	7.40	7.21	7.06	7.25	7.40	7.21	7.02	7.25
CHF/ZAR	16.52	15.51	15.82	15.71	15.82	16.26	16.59	16.15	15.88	16.32	16.76	16.21
AUD/ZAR	11.56	10.88	11.13	11.05	11.27	11.58	11.82	11.51	11.27	11.58	11.90	11.51
GBP/USD	1.38	1.40	1.40	1.41	1.41	1.42	1.42	1.43	1.43	1.43	1.43	1.43
EUR/USD	1.21	1.21	1.22	1.23	1.24	1.25	1.26	1.26	1.25	1.25	1.25	1.25
USD/JPY	106	109	108	107	107	107	107	107	107	107	107	107

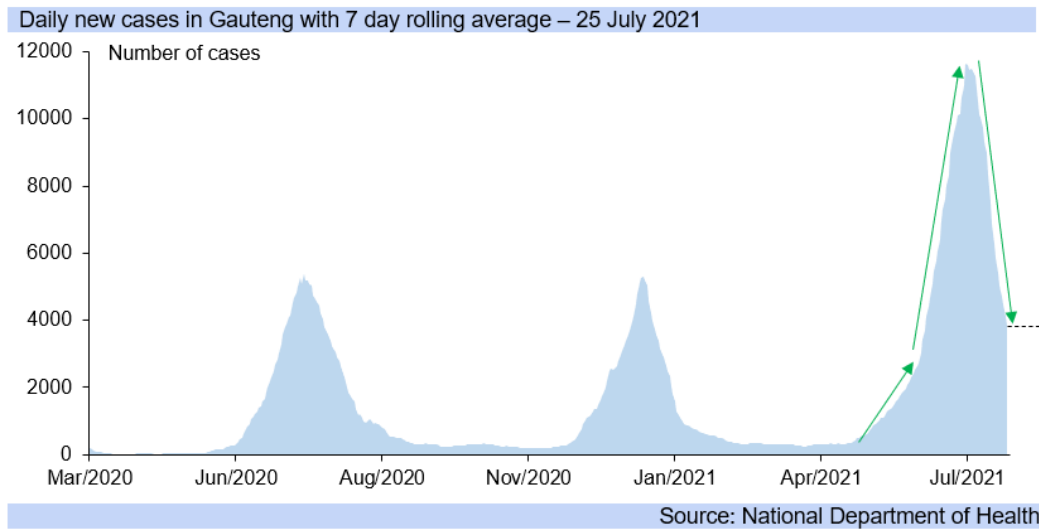
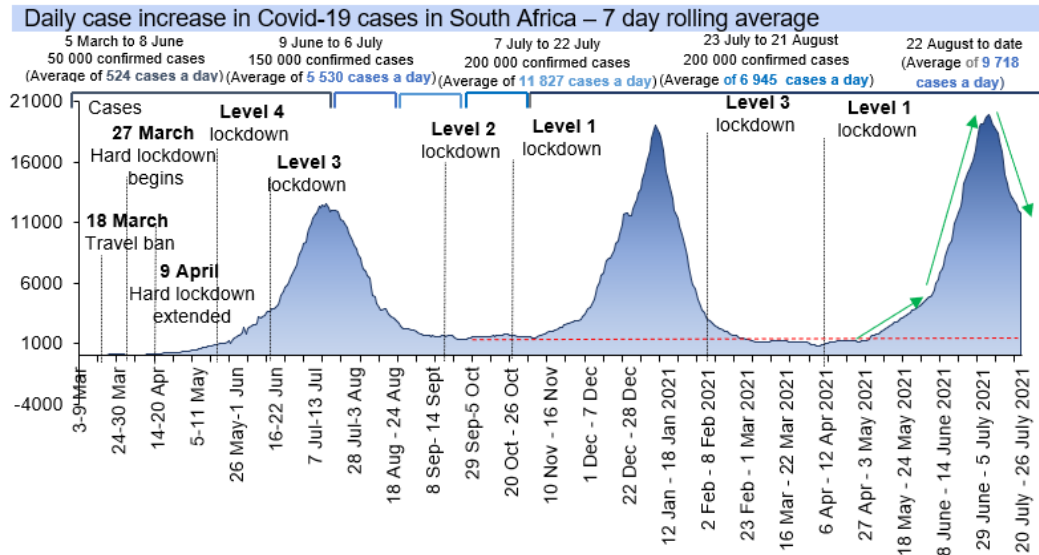
Note: averages, Source: Investec, Iress

Daily new cases globally – 25 July 2021



Source: World Health Organization

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Adjusted Level 3 restrictions – 26 July 2021

- Gatherings may not exceed 50% of venue capacity up to a maximum of 50 people indoors and 100 people outdoors
- Health protocols must be observed at gatherings, including maintaining a distance of at least 1.5 metres between people.
- As with all gatherings, funerals and cremation are restricted to a maximum of 50 people
- There is a two hour limit on funeral services.
- No night vigils or post-funeral gatherings are permitted.
- Curfew is from 10pm to 4am
- Apart from permitted workers, no person may be outside their place of residence during curfew
- Establishments like restaurants need to close by 9pm
- Alcohol sales from retail outlets restricted to Monday-Thursday, 10am to 6pm
- No on-site consumption of alcohol at licensed establishments after 8pm
- No consumption of alcohol in public spaces, including parks and beaches
- All people aged 35+ are eligible to be vaccinated.
- From 1 September, all people aged 18+ will be eligible.
- Restrictions on leisure travel to and from Gauteng are lifted
- Inter-provincial travel is permitted
- It remains mandatory to wear a mask that covers your nose and mouth whenever you are in public.

Source: The Presidency

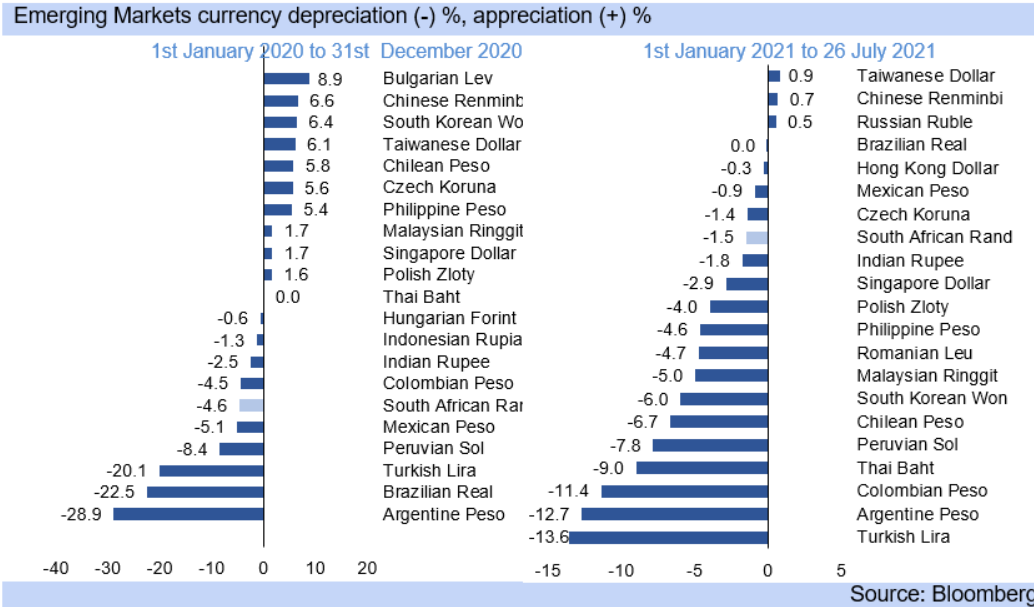
- The rand weakened to R15.00/USD today as the negative bias continues, driven by risk averse global financial market sentiment on the spread of the delta variant globally, with both commodity and EM currencies afflicted by the risk-off mood.
- South Africa is already ahead of the curve with its third wave rapidly subsiding, driven also by the delta variant, and with cases in Gauteng (the most afflicted province) down to below 4 000 a day, while overall the country is now at 9 718 new daily cases, from 11 215 a week ago.
- The Western Cape is seeing notable increases in COVID-19, at 2 516 new cases on a seven-day rolling average from 2 350 a week ago and 1 619 at the start of June. KZN has seen cases rise to 1 375 from 752 a week ago, but the rest of the provinces are below 1 000 a day.
- Also afflicting the rand from a global perspective is the marked upwards pace in interest rates some EMs are following, with Russia recently hiking by 100bp as inflationary pressures rise. South Africa has seen CPI inflation subside, from 5.2% y/y in May, to 4.9% y/y in June.
- SA's CPI is likely to see a further drop in July, as base effects continue to wane, although the large petrol price hike, of likely around 80c/litre currently building on both rand weakness and higher oil prices, will now cause CPI inflation to moderate by less than prior expectations.

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- While CPI inflation was expected to drop to 4.6% y/y in July, close to the 4.5% mark of the midpoint of the inflation target range, it may now come out closer to 4.7 to 4.8% y/y as the rand's recent weakness exerts upwards pressure on July's likely petrol prices.
- After staying on hold at the last MPC meeting, the SARB did ease its interest rate hike forecasts somewhat (by about 25bp for this year), and 9bp for next year (with 2022 negligible at only 1bp), a largely unchanged forecast except for this year.
- While SA has weak growth prospects, and higher rates do not seem appropriate, its stance is accommodative, and the hikes will make it less accommodative, but until they occur will not aid the rand. The FOMC is expected to leave its rates and pace of QE unchanged this week.
- A more dovish tone from the FOMC committee however would help significantly with market concerns over global growth on the global rising third wave, and the Fed may deliver, causing the risk off sentiment in markets currently to wane somewhat after its meeting.

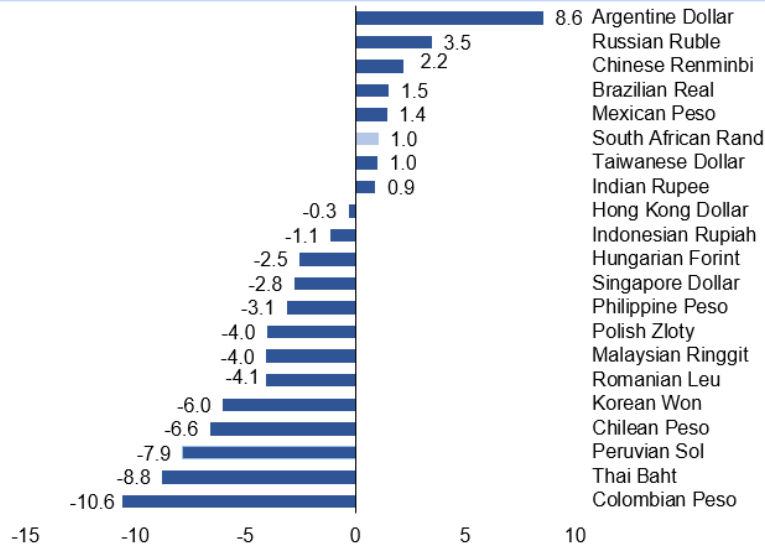
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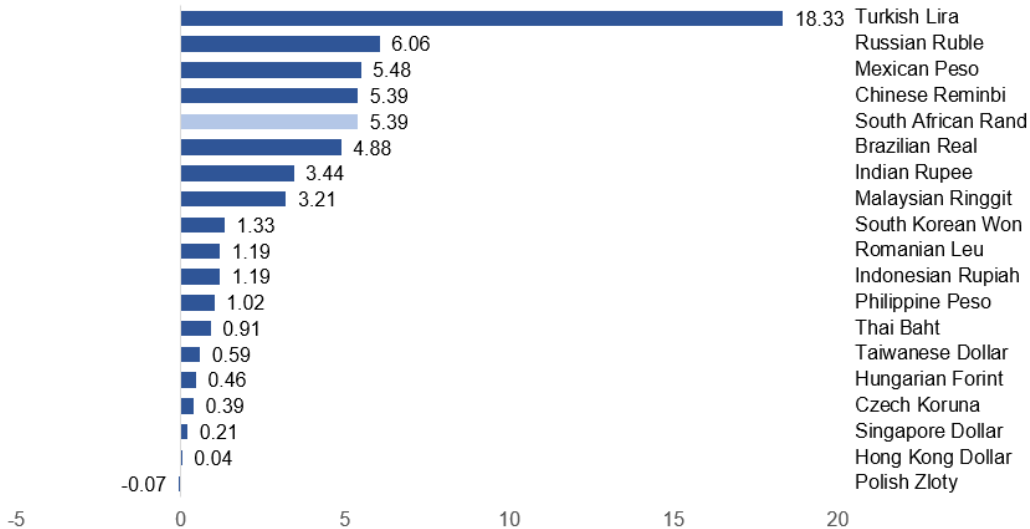


Emerging Markets Carry Return – values as at 26 July 2021



Source: Bloomberg

Emerging Markets Implied Rates – values as at 26 July 2021

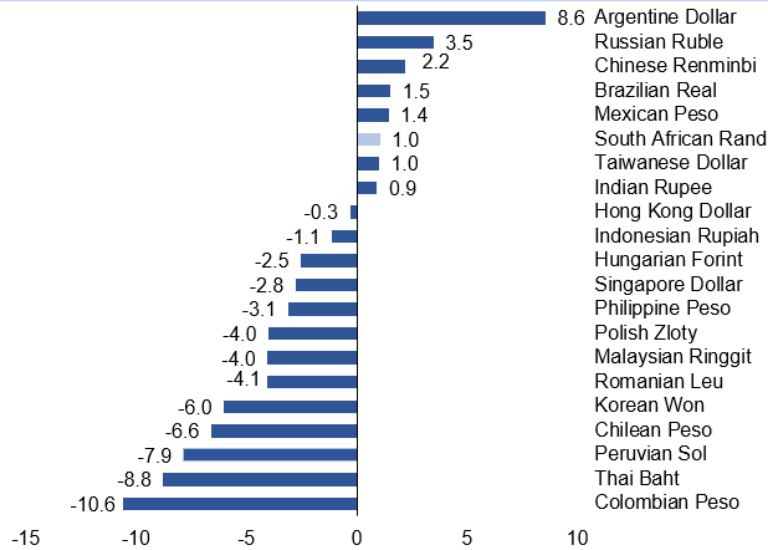


Source: Bloomberg

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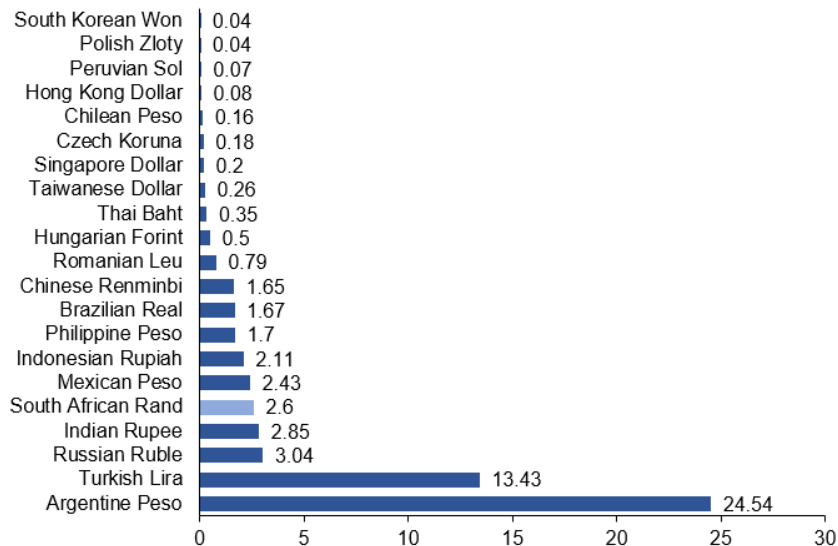


Emerging Markets Carry Return – values as at 26 July 2021



Source: Bloomberg

Emerging Markets Interest Return – values as at 26 July 2021



Source: Bloomberg

- The Fed may also reduce its GDP forecast somewhat, and FOMC members reduce their dot plot enthusiasm for rate hikes in 2023 which previously shook-up markets, although

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without projection materials markets will have to rely on the following press conference for insights.

- US inflation remains elevated and this would balance any undue dovishness, however the Fed is likely to highlight that if it believes risks are increasing significantly to the downside for economic growth it will not hesitate to act.
- In South Africa further relief is being given by extending the “Social Relief of Distress Grant to provide a monthly payment of R350 until the end of March 2022”, aiding also in the face of the impact on livelihoods following the violent riots earlier in the month.
- Furthermore, it is to be extended to “unemployed caregivers who currently receive a Child Support Grant” with “(d)etails on the reinstatement of the grant, including the process for application, will be announced shortly.”
- “In addition to the food relief being provided by the Department of Social Development, government is contributing R400 million to the Humanitarian Crisis Relief Fund established by the Solidarity Fund to assist with the immediate needs of affected communities.”
- With many taking part in the looting to gain groceries and other essential items, the extension of the socio-economic grant, which was brought in in the face of the impact of the lockdown restrictions last year on livelihoods of the poor will aid in the face of socio-economic stress.
- Furthermore, the “state-owned insurance company, SASRIA, which provides cover against incidents of public violence, strikes, riots and unrest” will “expedite the payment of all valid claims, and is working together with private insurers to ensure that assessments are completed without delay.”
- "Government will ensure that SASRIA is able to honour all of its obligations and will provide whatever support is necessary in this regard." Government will also dedicate funds to support “those businesses that were victims of the violence that were not insured”.
- Government will reprioritise “funding for SMMEs affected by the pandemic through a once-off business survival funding mechanism”. However, the rand has ignored these positive developments, along with the easing to level 3 restrictions and instead continues to be impacted by global financial market sentiment, on global growth and risk prospects.

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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 3%	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 49%	USD/Rand (average)	14.96	14.13	14.45	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 41%	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	4.00	4.00	4.25	4.25	4.50
	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	4.25	4.50	4.50	4.75	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	21.21	21.86	22.56	23.64	24.00	24.31	25.03	25.17	25.03	24.60
EUR/ZAR	18.03	17.03	18.48	19.07	19.84	20.81	21.29	21.42	21.88	22.00	21.88	21.50
ZAR/JPY	7.09	7.75	7.13	6.90	6.69	6.43	6.33	6.29	6.11	6.08	6.11	6.22
CHFZAR	16.52	15.51	16.59	16.97	17.52	18.23	18.51	18.62	19.23	19.34	19.23	18.90
AUDZAR	11.56	10.88	11.67	11.94	12.48	12.99	13.18	13.26	13.65	13.73	13.65	13.42
GBP/USD	1.38	1.37	1.37	1.39	1.42	1.43	1.45	1.43	1.42	1.41	1.40	1.40
EUR/USD	1.21	1.20	1.21	1.24	1.26	1.26	1.27	1.26	1.25	1.25	1.25	1.25
USD/JPY	106	105	105	105	104	104	105	105	106	106	106	106

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	13.20	13.60	13.10
GBP/ZAR	20.63	19.75	19.18	19.04	18.75	19.03	18.74	18.59	18.30	18.88	19.45	18.73
EUR/ZAR	18.03	17.03	16.71	16.61	16.49	16.75	16.63	16.38	16.00	16.50	17.00	16.38
ZAR/JPY	7.09	7.75	7.88	7.93	8.05	7.99	8.11	8.23	8.36	8.11	7.87	8.17
CHFZAR	16.52	15.51	15.00	14.78	14.56	14.67	14.45	14.24	14.07	14.51	14.95	14.40
AUDZAR	11.56	10.88	10.55	10.40	10.37	10.45	10.30	10.14	9.98	10.30	10.61	10.22
GBP/USD	1.38	1.37	1.37	1.39	1.42	1.43	1.45	1.43	1.42	1.41	1.40	1.40
EUR/USD	1.21	1.20	1.21	1.24	1.26	1.26	1.27	1.26	1.25	1.25	1.25	1.25
USD/JPY	106	105	105	105	104	104	105	105	106	106	106	106

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	19.00	19.50	19.90	20.00
GBP/ZAR	20.63	19.75	21.91	23.12	23.97	24.85	25.56	26.46	27.17	27.89	28.46	28.60
EUR/ZAR	18.03	17.03	19.09	20.17	21.08	21.88	22.68	23.31	23.75	24.38	24.88	25.00
ZAR/JPY	7.09	7.75	6.90	6.52	6.29	6.11	5.94	5.78	5.63	5.49	5.38	5.35
CHFZAR	16.52	15.51	17.14	17.96	18.62	19.16	19.71	20.26	20.88	21.43	21.87	21.98
AUDZAR	11.56	10.88	12.05	12.63	13.26	13.65	14.04	14.43	14.82	15.21	15.52	15.60
GBP/USD	1.38	1.37	1.37	1.39	1.42	1.43	1.45	1.43	1.42	1.41	1.40	1.40
EUR/USD	1.21	1.20	1.21	1.24	1.26	1.26	1.27	1.26	1.25	1.25	1.25	1.25
USD/JPY	106	105	105	105	104	104	105	105	106	106	106	106

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	13.50	13.20	13.00	12.90	12.80	12.70	12.50	12.60	12.70	12.50
GBP/ZAR	20.63	19.75	18.90	18.61	18.33	18.32	18.18	18.16	17.88	18.02	18.16	17.88
EUR/ZAR	18.03	17.03	16.47	16.24	16.12	16.13	16.13	16.00	15.63	15.75	15.88	15.63
ZAR/JPY	7.09	7.75	8.00	8.11	8.23	8.29	8.36	8.43	8.56	8.49	8.43	8.56
CHFZAR	16.52	15.51	14.78	14.45	14.24	14.13	14.02	13.91	13.74	13.85	13.96	13.74
AUDZAR	11.56	10.88	10.40	10.16	10.14	10.06	9.98	9.91	9.75	9.83	9.91	9.75
GBP/USD	1.38	1.37	1.37	1.39	1.42	1.43	1.45	1.43	1.42	1.41	1.40	1.40
EUR/USD	1.21	1.20	1.21	1.24	1.26	1.26	1.27	1.26	1.25	1.25	1.25	1.25
USD/JPY	106	105	105	105	104	104	105	105	106	106	106	106

Note: averages, Source: Investec, Iress