

SA Economics



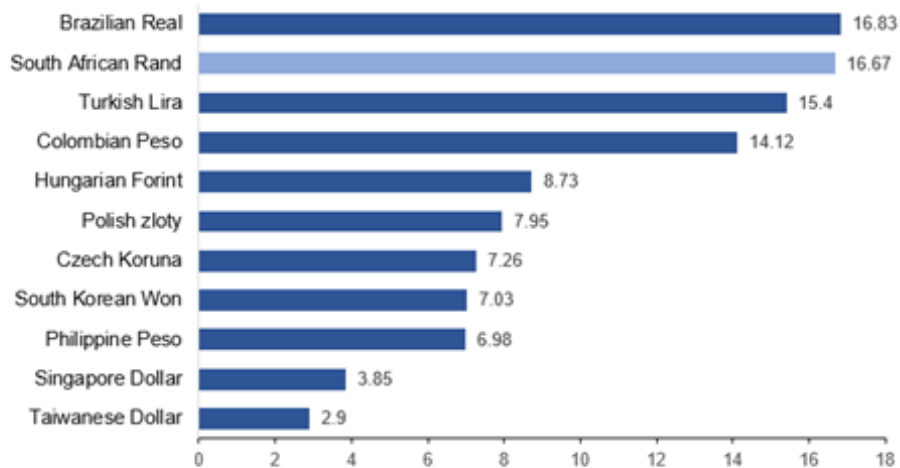
Monday 27 September 2021

Rand note: the volatile domestic currency tracks above R15.00/USD, its weakest level in a month, as global financial market risk aversion rises from a number of sources

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												

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Emerging Markets Implied Volatilities – values 27 September 2021

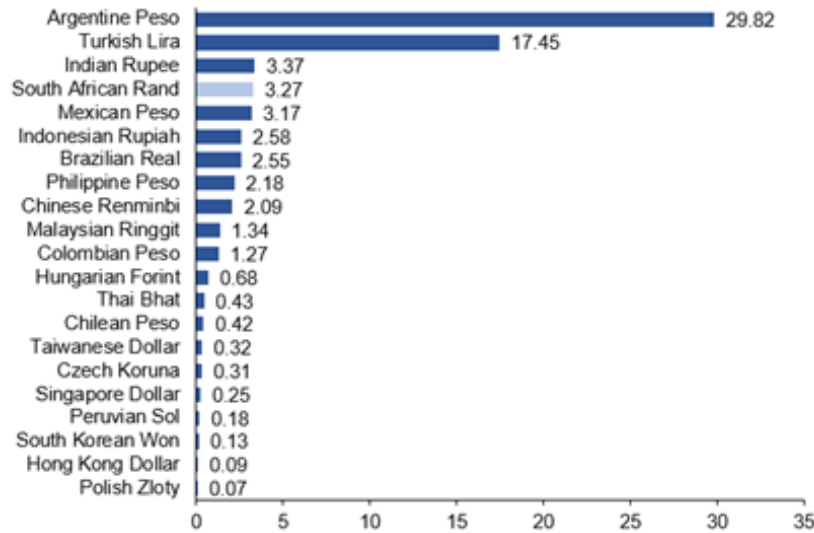


Source: Bloomberg

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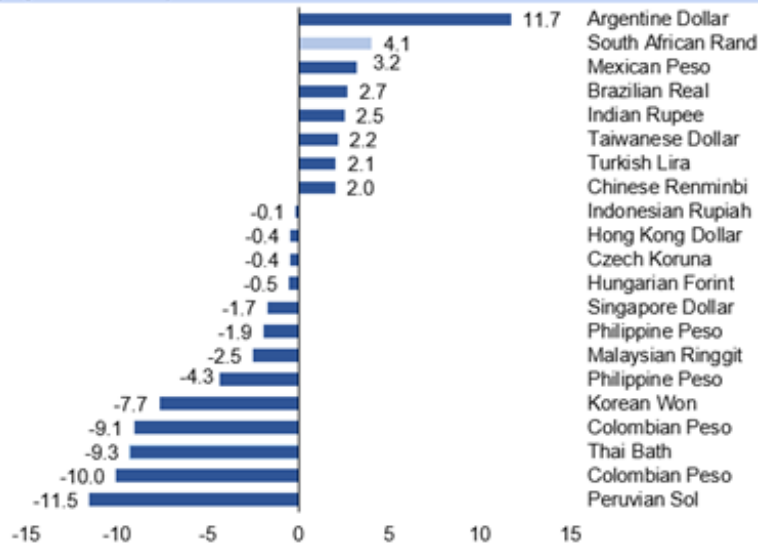


Emerging Markets Interest Return – values 27 September 2021



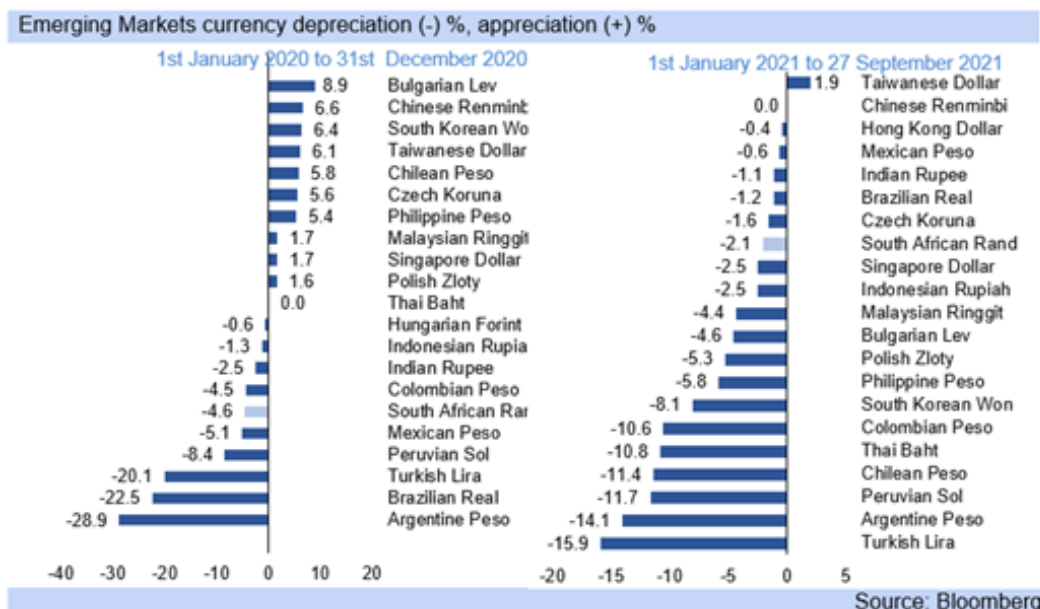
Source: Bloomberg

Emerging Markets Carry Return – values 27 September 2021



Source: Bloomberg

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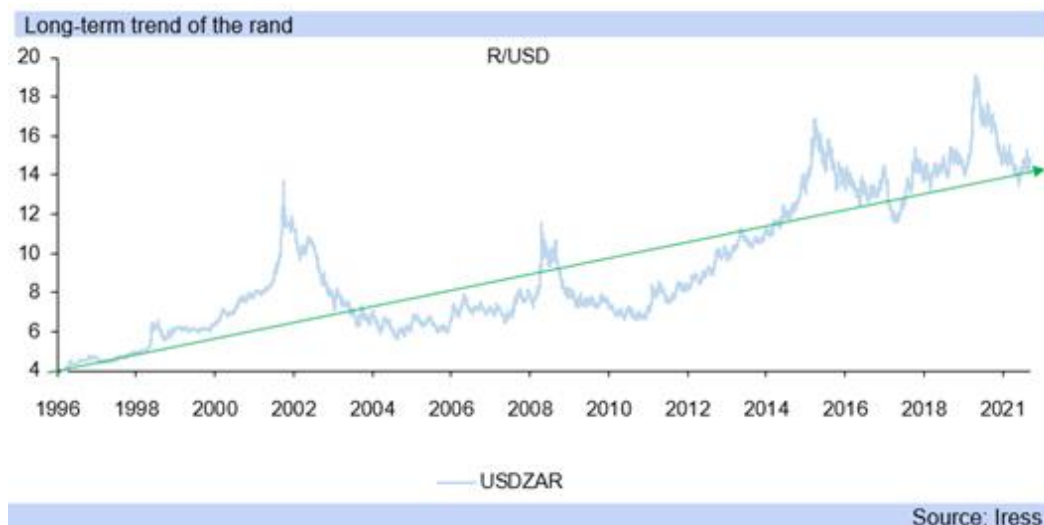
- Markets have continued to digest last week's FOMC's statement, which was initially perceived as balanced, with some dovish concerns, but worries have since been rising over the timing of forthcoming tapering, with US treasuries' yield lifting.
- Markets have also fretted over the elevation in FOMC member expectations for the target rate in 2023, with worries that this could show an increasingly hawkish bent, and so potentially tapering as early as the November meeting.
- Markets are risk-off, also still concerned about reductions in democracy in China and Hong Kong, as China increases state authoritarianism, heightening regulatory restrictions on consumer and tech businesses and so worrying foreign financial investors into these areas.
- The rand has reached R15.08/USD today, although subsequently pulled back to R15.02/USD, with the domestic currency on course to average around R14.60/USD for his quarter, although Q4.21 at risk.
- South Africa has also seen its election season kick off with the release of parties' manifestos over this weekend and into this week (the ANC is still to release its guiding document), also adding to the risky environment the rand is currently facing.
- China has also brought through a clampdown on crypto currencies, causing these to weaken, and the regulatory tightening in the tech sector has been very severe in general this year, negatively affecting corporate giants in the industry, and investors exposures to them.

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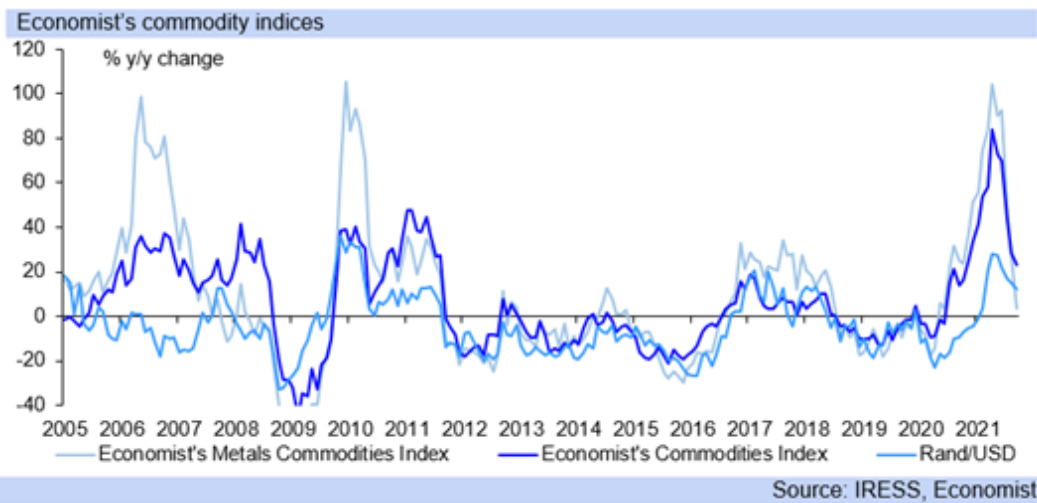
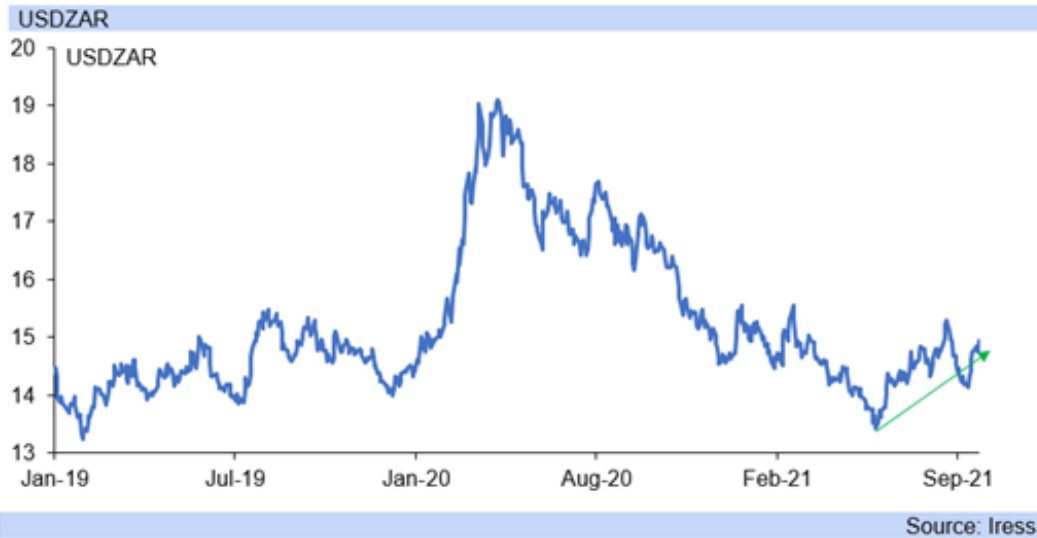


- Credit stress is now seen as an increasing risk, with China cracking down on debt (in particular speculation funded with debt) and its overheating housing market adding to stresses, with the communist state also seeking to gain some control over house prices.
- Indeed, Chinese property firm, the over leveraged Evergrande, is being seen as having the negative potential of Lehman brothers collapse, although expectations are growing that the Chinese government could bail it out.
- Nevertheless, a slew of factors are creating rising risk aversion in financial markets, currently, and the rand is likely to remain volatile, with some dependence on the direction China may take on a potential Evergrande bailout to avoid its default on upcoming debt.

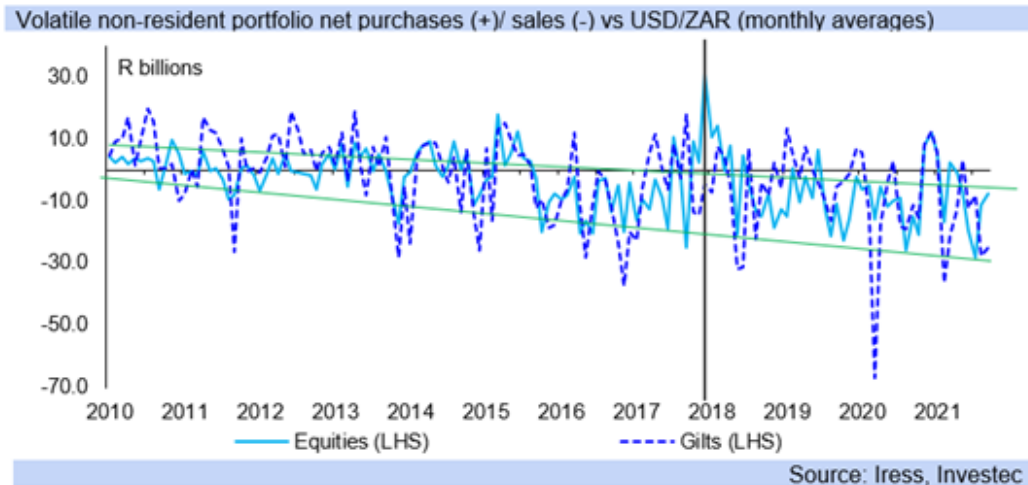
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- September and October have often seen rand volatility, and markets are still experiencing some lingering seasonal risk aversion which typically arises over the northern hemisphere summer period as market players reduce risk asset holdings ahead of vacations.
- On returning to the markets, risk and reward is reassessed, and investments can be delayed as risk expectations are recalibrated, particularly with new incoming information, such as the now perceived more hawkish leaning of the FOMC that markets have decided on.
- While the potential collapse of the Chinese property giant will have a negative effect on China's domestic markets, it is not expected to see a systemic risk through global financial markets currently, and so there is room for some subsidence of risk aversion.

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- However, it is not yet clear that there will be minimal impact, and this week could see further volatility in risk assets, with the rand having the potential to subside back towards the R14.80/USD, but no certainty.
- Also in the risk sphere is the re-occurrence of US fiscal cliff concerns, and this is adding to the overall negativity. Republicans in particular are proving resistant to Biden's stimulus package, particularly components lowering childcare and education costs.
- In Europe's largest economy, a divided election saw Germany's two main parties at odds with forming its new government, although the poor showing of the countries extreme left party caused relief, given its aim of tightening regulations, tax hikes and freezes on rent increases.
- Oil prices have also lifted as well, negative for global inflation and so also seen as encouraging earlier tapering in the US, and the moderation in the US's COVID-19 third wave of new infections is seen as positive for growth and so oil demand.
- Globally, the third wave continues to track up, but the largest economies seem to be moving past their delta infections peak, and the northern hemisphere winter will have a supportive effect on global oil prices. Overall though, commodities' prices have weakened.
- Q4.21 could see the rand tending closer to R15.00/USD versus R14.45/USD, although a lot of uncertainty, and so volatility, is still in the system, and September to October are historically the months for this, along with May, and at worse times, the three months in between.

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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
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	3.50	3.50	3.75	3.75
	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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Life 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
CHF/ZAR	16.52	15.51	16.45	16.90	17.50	18.12	18.46	18.63	19.23	19.34	19.23	18.90
AUD/ZAR	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
CHF/ZAR	16.52	15.51	14.87	14.72	14.55	14.59	14.42	14.24	14.07	13.85	13.79	13.52
AUD/ZAR	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

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	12.30	12.15	12.00
GBP/ZAR	20.63	19.75	18.43	18.27	18.59	18.70	18.94	19.24	18.50	17.84	17.37	17.16
EUR/ZAR	18.03	17.03	16.11	15.97	15.93	15.87	15.94	16.00	15.63	15.38	15.19	15.00
ZAR/JPY	7.09	7.75	8.11	8.11	8.08	8.06	8.13	8.19	8.40	8.70	8.81	8.92
CHF/ZAR	16.52	15.51	14.65	14.39	14.22	14.04	13.98	13.91	13.74	13.52	13.35	13.19
AUD/ZAR	11.56	10.88	10.27	10.36	10.40	10.32	10.24	10.16	9.75	9.59	9.48	9.36
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

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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
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USD/JPY	106	109	109	107	105	104	104	104	106	107	107	107
Note: averages. Source: Investec, Iress												