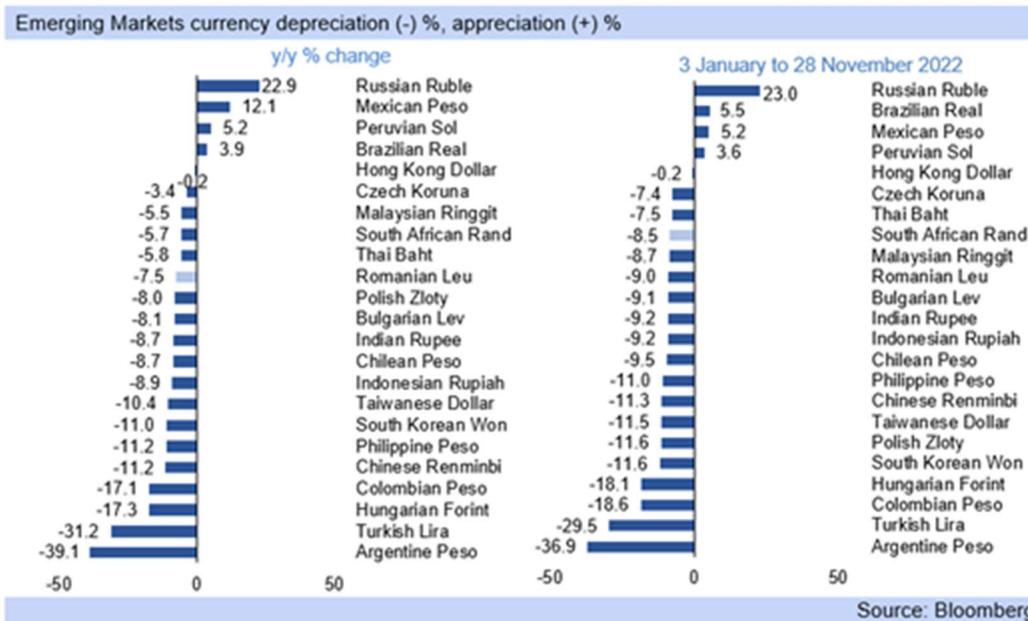




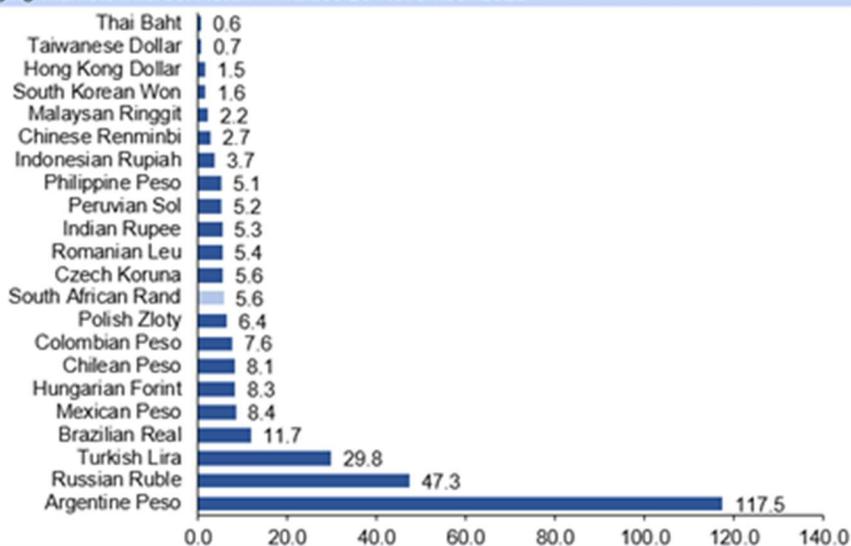
SA Economics

Monday 28 November 2022

Rand note: as expected, Fitch left both SA's credit rating, and outlook, unchanged, at BB- stable

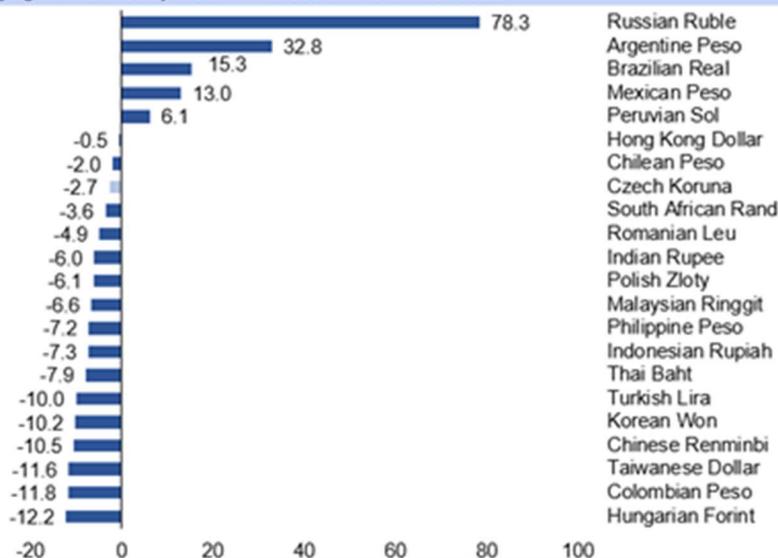


Emerging Markets Interest Return – values 28 November 2022



Source: Bloomberg

Emerging Markets Carry Return – values 28 November 2022



Source: Bloomberg



Expected Case: Exchange Rate forecasts												
	2022				2023				2024			
	Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24
USD/ZAR	15.21	15.59	17.05	17.50	16.80	16.35	16.10	16.30	16.10	16.35	16.70	16.50
GBP/ZAR	20.40	19.59	20.05	19.88	19.49	19.46	19.56	19.89	19.96	20.44	22.04	22.77
EUR/ZAR	17.07	16.60	17.16	17.27	16.72	16.51	16.58	17.03	17.39	18.80	19.71	20.30
ZAR/JPY	7.65	8.33	8.11	8.50	8.87	8.90	8.76	8.40	8.07	7.34	6.89	6.67
CHF/ZAR	16.47	16.16	17.64	17.58	16.97	16.60	16.42	16.46	16.95	17.58	18.35	18.13
AUD/ZAR	11.02	11.14	11.65	11.11	10.92	10.95	11.11	11.57	12.08	12.75	13.03	12.87
GBP/USD	1.34	1.26	1.18	1.14	1.16	1.19	1.22	1.22	1.24	1.25	1.32	1.38
EUR/USD	1.12	1.06	1.01	0.99	1.00	1.01	1.03	1.05	1.08	1.15	1.18	1.23
USD/JPY	116	130	138	149	149	146	141	137	130	120	115	110

Note: averages, Source: Investec, Iress

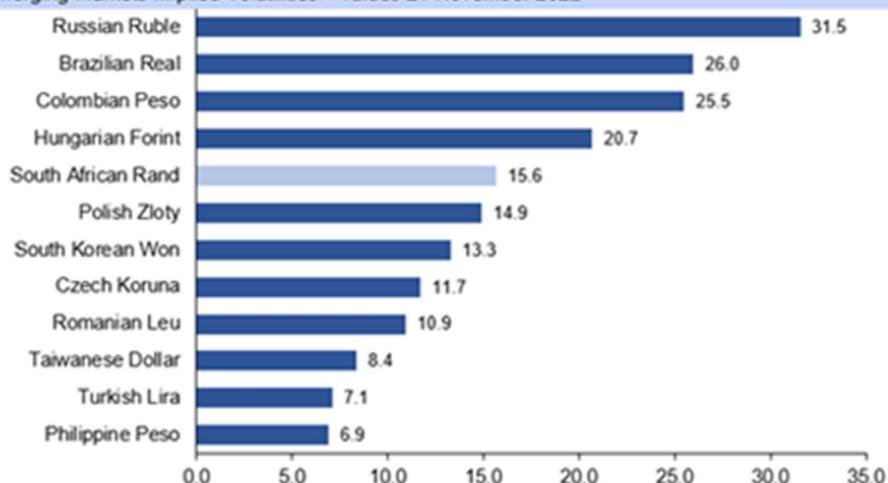
- FitchRating (the credit rating agency), gave South Africa a country review on Friday (25th November) and left the rating unchanged at BB- as widely expected, along with a stable outlook. The rand did not react materially, with the outcome largely priced in.
- Fitch specified “South Africa's 'BB-' IDR is constrained by high and still rising government debt, low trend growth and high inequality that will continue to complicate fiscal consolidation ... at this stage we assume a substantial part of recent higher revenues to be temporary.”
- And that it “see(s) current public sector wage negotiations pointing to increased upward pressure on spending”. The agency warned a “significant increase in government debt/GDP, for example, due to a persistent failure to narrow the fiscal deficit would see a downgrade”.
- Currently however, “(t)he affirmation and Stable Outlook take into account substantial recent over-performance on fiscal revenues and the government's strong efforts to control expenditure, which if successfully continued, could bring about debt stabilisation”.
- The agency also noted“(f)actors that could, individually or collectively, lead to positive rating action/upgrade: (are i)ncreased confidence that government debt will stabilise, for example due to signs of persistent high tax collections combined with successful expenditure control”.

- And on the macroeconomic performance, policies and prospects side Fitch said that if it had “(g)reater confidence in stronger growth prospects, sufficient to support fiscal consolidation and address challenges from high inequality and unemployment” SA could be upgraded.
- A positive for SA is that its “ratings are supported by a favourable debt structure with long maturities and denominated mostly in local currency as well as a credible monetary policy framework.”
- However the agency also warned of a “further weakening of trend growth or a sustained shock that further undermines fiscal consolidation efforts and raises socioeconomic pressures in the face of exceptional inequality” as leading to a credit rating downgrade.
- Overall the credit review was mixed, with insufficient factors to place SA on the path for a definite upgrade yet from Fitch. Instead, the rand weakened today as risk aversion rose in global financial markets, in what is still a volatile and uncertain environment.

Please scroll down to the second section below

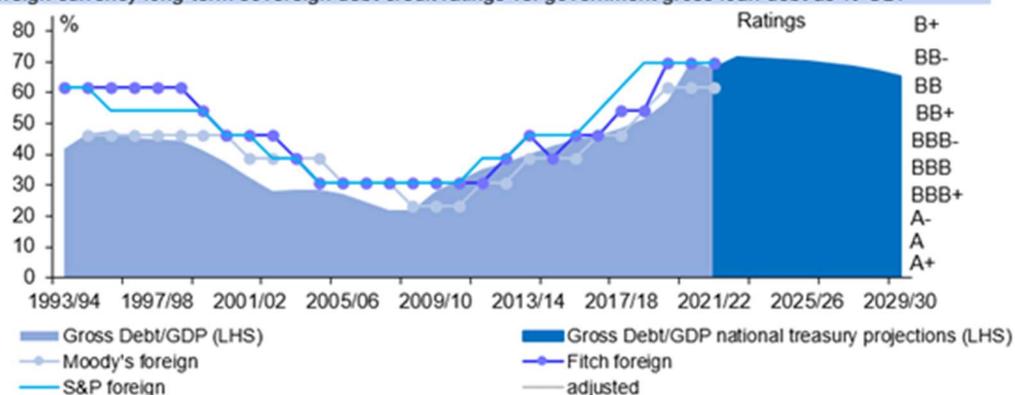


Emerging Markets Implied Volatilities – values 21 November 2022



Source: Bloomberg

Foreign currency long-term sovereign debt credit ratings vs. government gross loan debt as % GDP



Source: Credit rating agencies, National treasury, Bloomberg

SA credit ratings - Long term foreign currency

South Africa – S&P Ratings		South Africa – Fitch Rating		South Africa - Moody's Rating	
03/10/1994	BB	22/09/1994	BB	14/10/2004	Baa2
20/11/1995	Upgraded to BB+	19/05/2000	Upgraded to BB+	11/01/2005	Upgraded to Baa1
25/02/2000	Upgraded to BBB-	27/06/2000	Upgraded to BBB-	16/07/2009	Upgraded to A3
07/05/2003	Upgraded to BBB	05/02/2003	Upgraded to BBB	27/09/2009	Downgraded to Baa1
01/08/2005	Upgraded to BBB+	25/08/2005	Upgraded to BBB+	06/11/2014	Downgraded to Baa2
12/10/2012	Downgraded to BBB	10/01/2013	Downgraded to BBB	09/06/2017	Downgraded to Baa3
13/06/2014	Downgraded to BBB-	04/12/2015	Downgraded to BBB-	27/03/2020	Downgraded to Ba1
03/04/2017	Downgraded to BB+	07/04/2017	Downgraded to BB+	20/11/2020	Downgraded to Ba2
24/11/2017	Downgraded to BB	03/04/2020	Downgraded to BB		
29/04/2020	Downgraded to BB-	20/11/2020	Downgraded to BB-		

Source: Bloomberg

Fitch Ratings analyst defined peers	
	LT LDR
Bangladesh	BB-
Brazil	BB-
Cote d'Ivoire	BB-
Dominican Republic	BB-
Guatemala	BB-
Hashemite Kingdom of Jordan	BB-
Namibia	BB-
Seychelles	BB-
South Africa	BB-
Uzbekistan, Republic of	BB-

Source: Fitch

- Global financial markets have been affected in particular by the protests in China to its extreme lockdown restrictions, with the rand depreciating overnight as it was impacted by weakened Asian bourses.
- Concerns over the global economic growth outlook have increased, ending the recent improvement in the risk appetite of investors, which saw the rand strengthen over last week, as markets were beginning to look beyond the economic slowdown in H1.23.
- That is, the civil unrest in China is worrying investors, while expectations of a sharp recovery from the world's second largest economy on the lessening of COVID restrictions are now being reassessed by markets, which has pushed up risk aversion.
- Volatility has consequently increased, as uncertainty has once again risen sharply on the outlook for next year, and investors have returned to safe haven investments, strengthening the US dollar and weakening the crosses.
- The oil price has fallen further, at US\$81/bbl currently for Brent crude, which is having an effect on fuel price expectations for SA, with only a 48c/liter petrol price hike in December now factored in, and the actual increase is likely to be smaller still on lower oil prices.
- China has done a U-turn on its restrictions which were easing earlier in November, when it reduced COVID test requirements and also lowered isolation periods for those infected which caused some improvement in risk sentiment in markets, and so the rand, over November.
- Concerns now are that President Xi will maintain a hard line against the social unrest, and not allow further easing in lockdown restrictions in the remainder of this year, and even early next year, which has caused investors to begin recalibrating expectations for markets.
- Demonstrators have even called for an end to China's communist rule, with the popularity of the CCP's leader diminishing, while the economy has been damaged by the zero COVID stance and the political instability from China's citizens, damaging the outlook.
- In this environment, with President Xi not expected to back down on his stance currently, the economic outlook has become unclearer, with the rand reaching R17.19/USD today. Persistence of a harsh zero COVID policy in China would negatively affect EMs into 2023.

Economic Scenarios: note updated probabilities

		Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.23
Extreme Up case 1%	USD/Rand (average)	15.21	15.59	17.05	16.40	15.50	14.50	14.00	13.60
	Repo rate (end rate)	4.25	4.75	6.25	5.25	4.25	3.75	3.75	3.50
	SA economic growth very quickly rises to 3–5%, then 5–7%. Good governance, growth-creating reforms (structural constraints eradicated), strong property rights, no nationalisation or expropriation without compensation. High business confidence and fixed investment growth, substantial FDI, fiscal consolidation drives debt to low ratios of 2000s. Very subdued domestic inflation on extreme rand strength, very favourable weather conditions. Strong global growth, risk-on, commodity boom. Rapid upgrades of credit ratings to investment grade. No grey listing. Quick transition to renewable energy from fossil fuels.								
Up case 4%	USD/Rand (average)	15.21	15.59	17.05	17.00	16.40	15.50	15.00	14.70
	Repo rate (end rate)	4.25	4.75	6.25	5.50	4.75	4.25	4.25	4.25
	Economic growth averages 3.3% over five-year period, but lifts towards 5.0% y/y by period end, rising confidence and investment levels, structural constraints eroded, global growth strong, global financial markets risk-on. No nationalisation or expropriation without compensation. Low domestic inflation on favourable weather and global conditions, rand strength, lower state-controlled price inflation on increased privatisation. Credit rating upgrades on fiscal consolidation, markedly lower borrowings. Substantial transition to renewable energy away from fossil fuel usage, comprehensive measures to alleviate climate change impact on economy. No grey listing.								
Base case 48%	USD/Rand (average)	15.21	15.59	17.05	17.50	16.80	16.35	16.10	16.30
	Repo rate (end rate)	4.25	4.75	6.25	7.25	7.25	7.25	6.50	6.50
	Economic growth modest (1.9% average over 5 years) but lifts towards 3.0% y/y by end period on reforms, global financial market risk sentiment is neutral to positive. South Africa follows fiscal consolidation (debt to GDP stabilisation) leading to positive outlooks, then likely credit rating upgrades. The rand stabilises, then strengthens somewhat. Inflation is impacted by the course of weather patterns via food price inflation. A transition to renewable energy and slow move away from fossil fuel usage occurs and measures to alleviate the impact of climate change on the economy are modestly implemented. The Russian/Ukraine conflict eases and does not exacerbate. Little expropriation without compensation. Temporary grey listing.								
Lite Down case 36%	USD/Rand (average)	15.21	15.59	17.05	18.30	18.50	18.00	18.20	17.90
	Repo rate (end rate)	4.25	4.75	6.25	7.50	8.00	8.50	9.00	9.00
	Weak GDP growth (0.9% average over 5-years), swing toward left leaning policies. Business confidence depressed, substantial electricity and water shedding, very weak rail capacity, civil and political unrest, very little investment growth, recession. Increased state borrowings, risk of credit rating downgrades rises, then occurs later in period. Some expropriation of private sector property without compensation with a negative impact on the economy. High inflation on unfavorable weather conditions, marked rand weakness. Little transition to renewable energy or measures to alleviate climate change. Grey listed.								
Severe down case 11%	USD/Rand (average)	15.21	15.59	17.05	18.70	19.30	19.50	19.70	19.90
	Repo rate (end rate)	4.25	4.75	6.25	8.00	9.00	10.00	10.50	10.50
	Lengthy global recession, global financial crisis – insufficient monetary and other support domestically and internationally. ANC coalition with the extreme left in 2024. Widespread, severe services load shedding, severe civil and political unrest. Government borrows from increasingly wider sources, SA rated single B from all three key agencies, then CCC grade, increased risk of default, sinks deeper into a debt trap. Failure to transition to renewable energy and to sufficient measures to alleviate the impact of climate change. Very high inflation on very adverse weather conditions, severe rand weakness. Expropriation of private property without compensation with a marked negative economic impact. Grey listed								

Note: Event risk begins Q4.22. Source: Investec

Lite Down Case: Exchange Rate forecasts

	2022				2023				2024			
	Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24
USD/ZAR	15.21	15.59	17.05	18.30	18.50	18.00	18.20	17.90	18.10	18.20	18.20	18.00
GBP/ZAR	20.40	19.59	20.06	20.79	21.46	21.42	22.11	21.84	22.44	22.75	24.02	24.84
EUR/ZAR	17.07	16.60	17.16	18.06	18.41	18.18	18.75	18.71	19.55	20.93	21.48	22.14
ZAR/JPY	7.65	8.33	8.12	8.13	8.05	8.08	7.75	7.65	7.18	6.59	6.32	6.11
CHF/ZAR	16.47	16.16	17.64	18.39	18.69	18.27	18.56	18.07	19.05	19.57	20.00	19.78
AUD/ZAR	11.02	11.14	11.65	11.62	12.03	12.06	12.56	12.71	13.58	14.20	14.20	14.04
GBP/USD	1.34	1.26	1.18	1.14	1.16	1.19	1.22	1.22	1.24	1.25	1.32	1.38
EUR/USD	1.12	1.06	1.01	0.99	1.00	1.01	1.03	1.05	1.08	1.15	1.18	1.23
USD/JPY	116	130	138	149	149	146	141	137	130	120	115	110

Note: averages, Source: Investec, Iress

Severe Down Case: Exchange Rate forecasts												
	2022				2023				2024			
	Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24
USD/ZAR	15.21	15.59	17.05	18.70	19.30	19.50	19.70	19.90	20.10	20.00	19.80	19.60
GBP/ZAR	20.40	19.59	20.06	21.25	22.39	23.21	23.94	24.28	24.92	25.00	26.14	27.05
EUR/ZAR	17.07	16.60	17.16	18.46	19.20	19.70	20.29	20.80	21.71	23.00	23.36	24.11
ZAR/JPY	7.65	8.33	8.12	7.96	7.72	7.46	7.16	6.88	6.47	6.00	5.81	5.61
CHFZAR	16.47	16.16	17.64	18.79	19.50	19.79	20.09	20.09	21.16	21.51	21.76	21.54
AUDZAR	11.02	11.14	11.65	11.87	12.55	13.07	13.59	14.13	15.08	15.60	15.44	15.29
GBP/USD	1.34	1.26	1.18	1.14	1.16	1.19	1.22	1.22	1.24	1.25	1.32	1.38
EUR/USD	1.12	1.06	1.01	0.99	1.00	1.01	1.03	1.05	1.08	1.15	1.18	1.23
USD/JPY	116	130	138	149	149	146	141	137	130	120	115	110

Note: averages, Source: Investec, Iress

Up Case: Exchange Rate forecasts												
	2022				2023				2024			
	Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24
USD/ZAR	15.21	15.59	17.05	17.00	16.40	15.50	15.00	14.70	14.50	14.90	15.00	14.50
GBP/ZAR	20.40	19.59	20.06	19.32	19.02	18.45	18.23	17.93	17.98	18.63	19.80	20.01
EUR/ZAR	17.07	16.60	17.16	16.78	16.32	15.66	15.45	15.36	15.66	17.14	17.70	17.84
ZAR/JPY	7.65	8.33	8.12	8.75	9.09	9.39	9.40	9.32	8.97	8.05	7.67	7.59
CHFZAR	16.47	16.16	17.64	17.08	16.57	15.73	15.30	14.84	15.26	16.02	16.48	15.93
AUDZAR	11.02	11.14	11.65	10.79	10.66	10.39	10.35	10.44	10.88	11.62	11.70	11.31
GBP/USD	1.34	1.26	1.18	1.14	1.16	1.19	1.22	1.22	1.24	1.25	1.32	1.38
EUR/USD	1.12	1.06	1.01	0.99	1.00	1.01	1.03	1.05	1.08	1.15	1.18	1.23
USD/JPY	116	130	138	149	149	146	141	137	130	120	115	110

Note averages, Source: Investec, Iress

Extreme Up Case: Exchange Rate forecasts												
	2022				2023				2024			
	Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24
USD/ZAR	15.21	15.59	17.05	16.40	15.50	14.50	14.00	13.60	13.30	13.10	13.10	12.90
GBP/ZAR	20.40	19.59	20.06	18.63	17.98	17.26	17.01	16.59	16.49	16.38	17.29	17.80
EUR/ZAR	17.07	16.60	17.16	16.19	15.42	14.65	14.42	14.21	14.36	15.07	15.46	15.87
ZAR/JPY	7.65	8.33	8.12	9.07	9.61	10.03	10.07	10.07	9.77	9.16	8.78	8.53
CHFZAR	16.47	16.16	17.64	16.48	15.66	14.72	14.28	13.73	14.00	14.09	14.40	14.18
AUDZAR	11.02	11.14	11.65	10.41	10.08	9.72	9.66	9.66	9.98	10.22	10.22	10.06
GBP/USD	1.34	1.26	1.18	1.14	1.16	1.19	1.22	1.22	1.24	1.25	1.32	1.38
EUR/USD	1.12	1.06	1.01	0.99	1.00	1.01	1.03	1.05	1.08	1.15	1.18	1.23
USD/JPY	116	130	138	149	149	146	141	137	130	120	115	110

Note: averages, Source: Investec, Iress