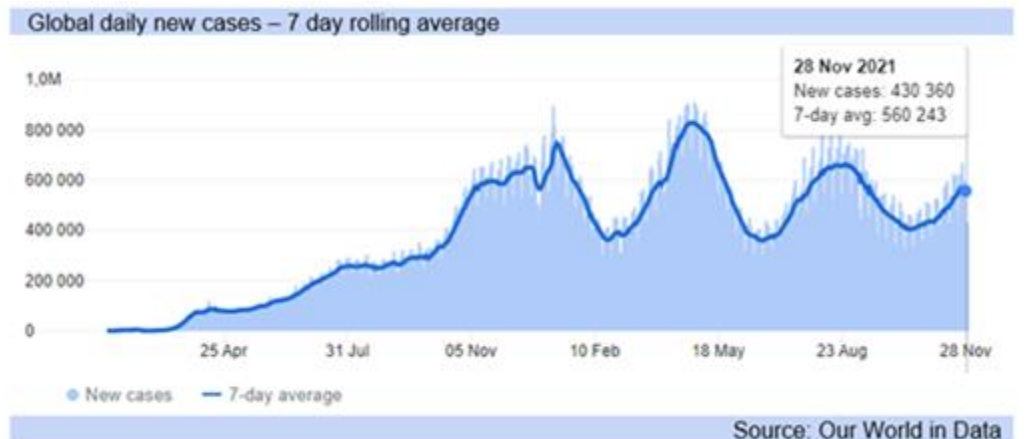
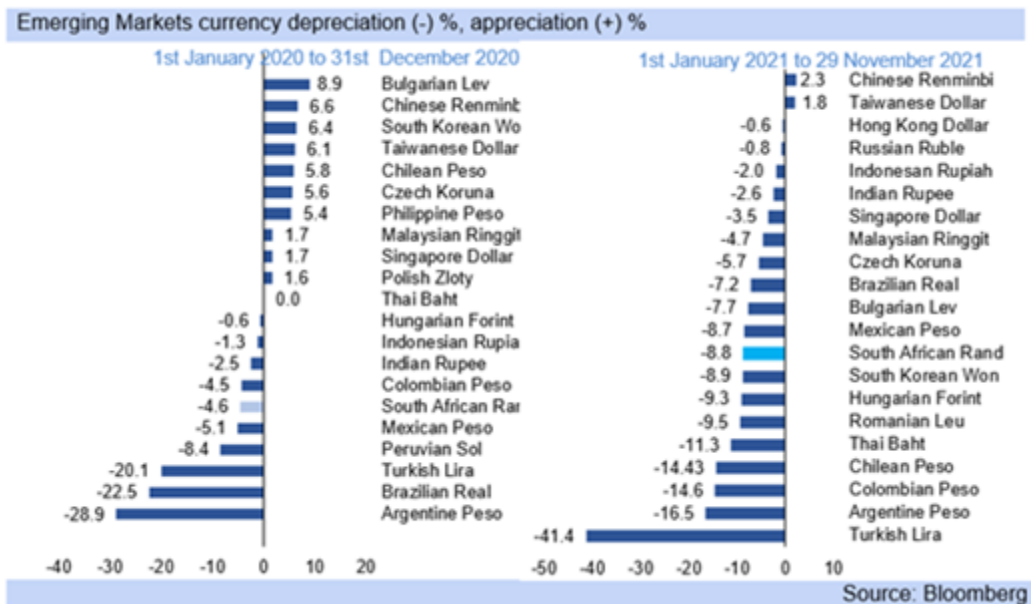


# SA Economics



Monday 29 November 2021

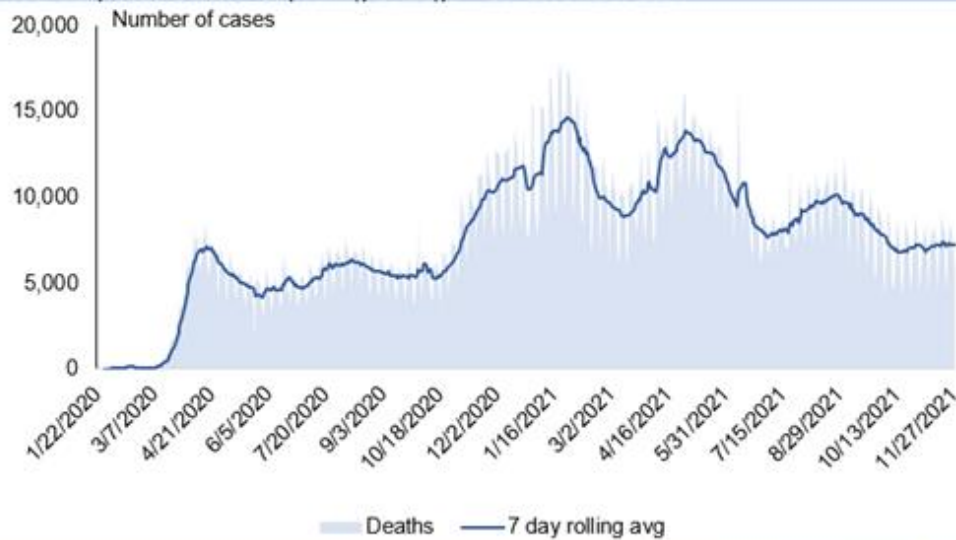
Rand note: rand pulls back from weaker levels on President Ramaphosa's speech and the possibility that the Omicron variant may cause less severe symptoms than the delta variant



# SA Economics

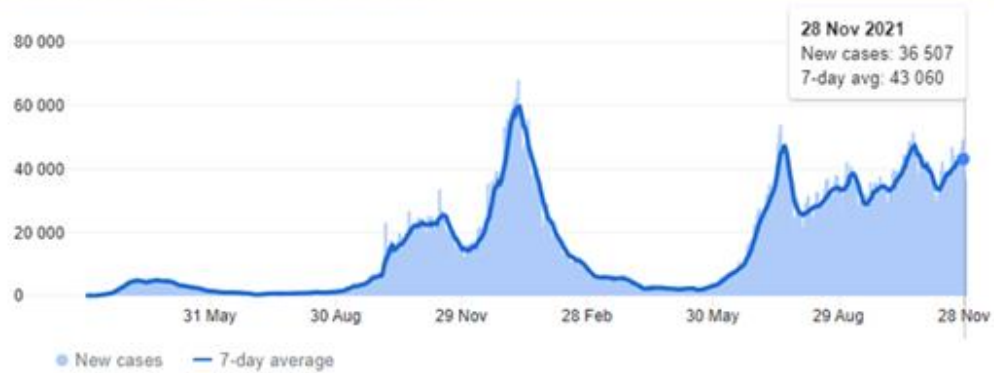


Global daily deaths with 7 day rolling average – 28 November 2021



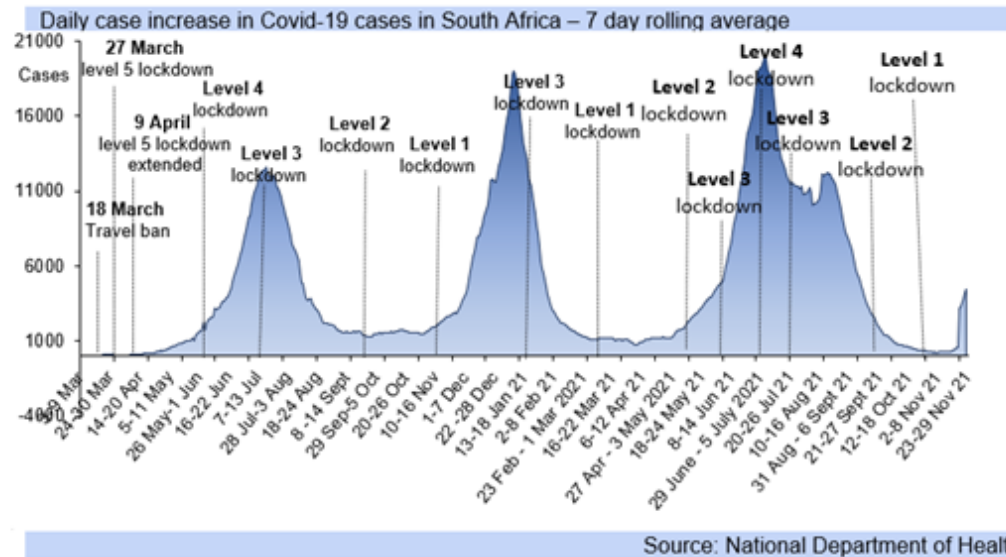
Source: Our World in Data

UK daily new cases – 7 day rolling average



Source: JHU CSSE

# SA Economics



- The rand strengthened to R16.07/USD today, from R16.37/USD on Friday as news of the Omicron variant broke widely and travel bans were instituted against SA from many advanced economies on concern over the potential high contagion of the new variant Omicron.
- However, Dr. Coetzee, chair of South African Medical Association and a member of the Ministerial Advisory Committee on Vaccine, is reported to have noted very mild symptoms so far with the new variant "which did not fit in the clinical picture" of the delta variant.
- "The most predominant clinical complaint is severe fatigue for one or two days. With them, the headache and the body aches and pain." The Omicron variant is currently seen as potentially much milder than the delta variant, with patients able to be treated at home.
- However, with Omicron (first identified in Southern Africa) declared a variant of concern on Friday by the World Health Organisation (WHO), financial markets reacted negatively to the news, although today the knee jerk reaction has subsided somewhat.
- In last night's address to the nation President Ramaphosa confirmed that "(i)f cases continue to climb, we can expect to enter a fourth wave of infections within the next few weeks, if not sooner." Overall he took a sensible approach, without any increase in lockdown levels.
- The rand gained some cheer from the speech, with the President emphasizing that "we already have the tools that we need to protect ourselves against it (the new Omicron variant of COVID-19)".
- Furthermore, "we are still not sure exactly how it will behave going forward", "(w)e know enough about the variant to know what we need to do to reduce transmission and to protect ourselves against severe disease and death."

# SA Economics



- However, the rand was already at close to R15.90/USD before the news broke widely on Omicron, and had indeed breached R15.00/USD ahead of the FOMC meeting in early November on QE tapering expectations.
- The rand is still at risk however and will remain highly volatile. Non-farm payrolls data out on Friday and a strong number will boost market expectations of quicker QE tapering, although the global increase in COVID-19 infections, particularly in the US, will be of FOMC concern.

Please scroll down to the second section below

# SA Economics



## Economic Scenarios: note interest rate hikes pushed out in expected case

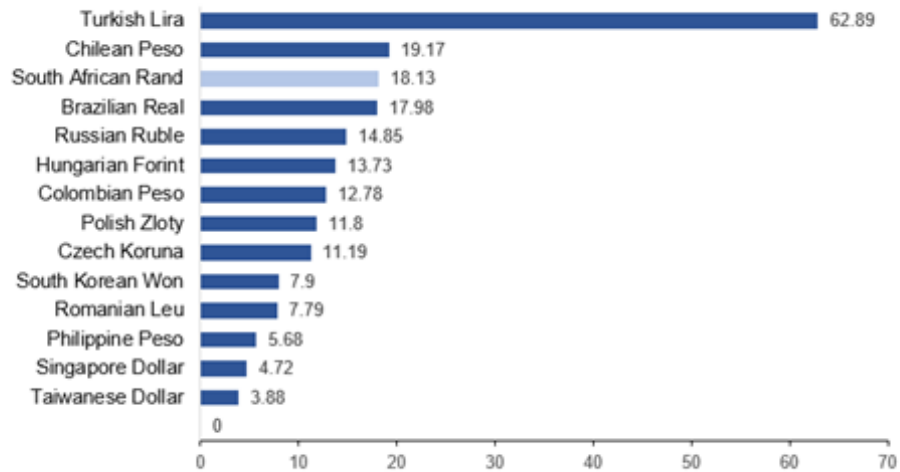
		Q1.21	Q2.21	Q3.21	Q4.21	Q1.22	Q2.22	Q3.22	Q4.22
<b>Extreme Up case</b> 1%	USD/Rand (average)	14.96	14.13	14.64	13.80	13.30	13.00	12.90	12.80
	Repo rate (end rate)	3.50	3.50	3.50	3.25	3.25	3.25	3.25	3.25
	Impact of Covid-19 pandemic very rapidly resolved - economic growth of 3–5%, then 5-7% for SA. Good 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.								
<b>Up case</b> 2%	USD/Rand (average)	14.96	14.13	14.64	14.00	13.50	13.40	13.20	13.00
	Repo rate (end rate)	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.75
	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.								
<b>Base case</b> 48%	USD/Rand (average)	14.96	14.13	14.64	15.40	15.25	15.45	15.70	15.50
	Repo rate (end rate)	3.50	3.50	3.50	3.75	4.00	4.00	4.25	4.50
	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.								
<b>Lite (domestic) Down case</b> 43%	USD/Rand (average)	14.96	14.13	14.64	15.50	16.00	16.65	16.90	17.00
	Repo rate (end rate)	3.50	3.50	3.50	3.75	4.00	4.25	4.50	4.75
	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...								
<b>Severe down case</b> 6%	USD/Rand (average)	14.96	14.13	14.64	16.00	16.80	17.50	18.00	18.50
	Repo rate (end rate)	3.50	3.50	3.50	4.00	4.50	4.75	5.00	5.25
	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 Q4.21. Source: Investec

# SA Economics

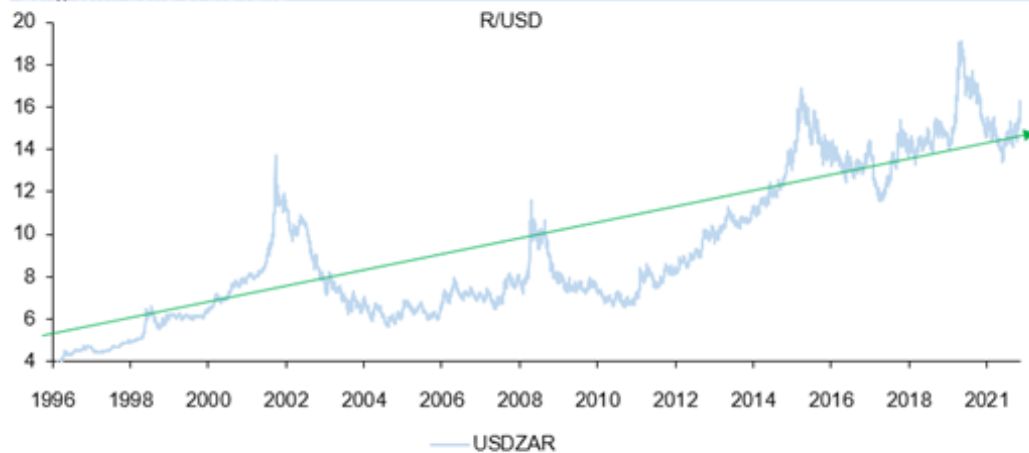


Emerging Markets Implied Volatilities – values 29 November 2021



Source: Bloomberg

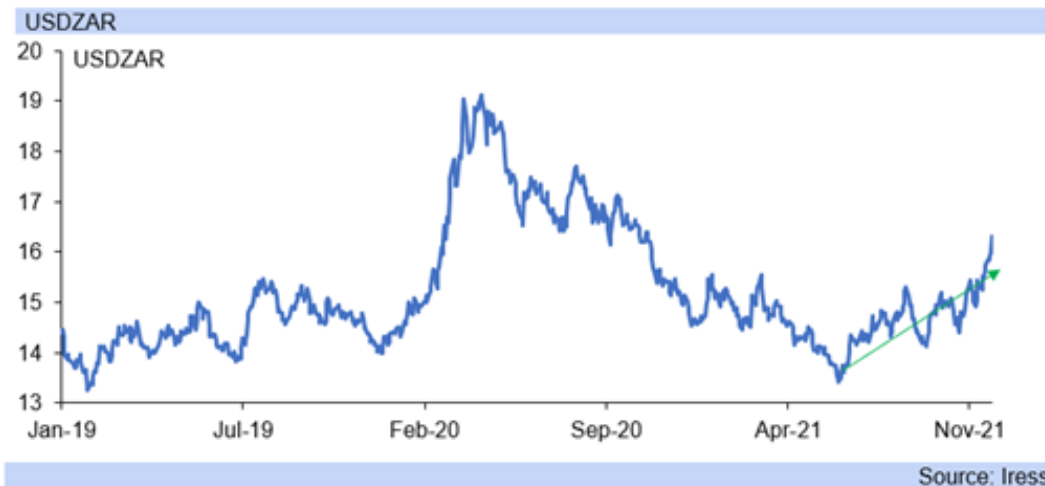
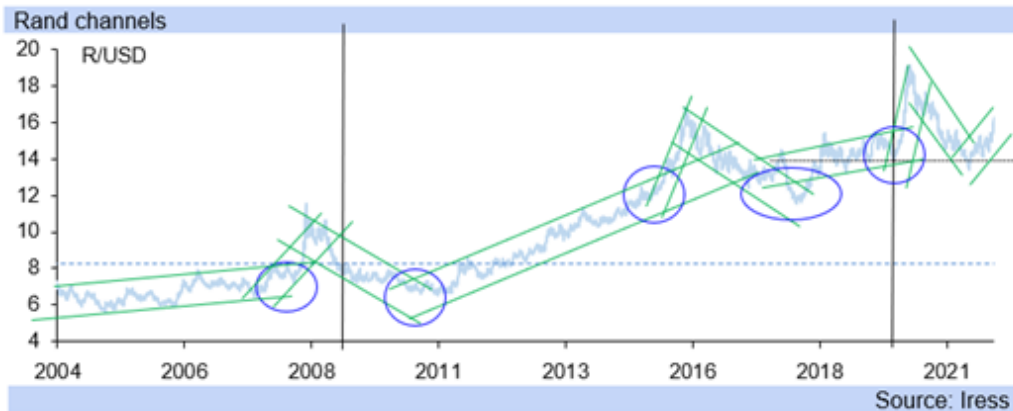
Long-term trend of the rand



Source: Iress



# SA Economics



- However, with the next FOMC meeting statement on 15<sup>th</sup> December, the rand could weaken over the coming weekend and into next week if the US posts robust jobs data. The US dollar has seen marked strength, and this would be set to persist on a quicker US QE taper.
- While the rand typically sees substantial strength over the turn of the year, this is being impeded this year by the first phase of the normalisation of US monetary policy, and so the domestic currency will be vulnerable to weakness over next year as well.
- While early indications appear to show that the omicron variant has less severe symptoms than the delta variant, there is still uncertainty. Nevertheless, substantially more people are vaccinated compared to the third wave driven by the delta variant.

# SA Economics



- In South Africa, the President's speech last night confirmed that "(f)orty-one percent of the adult population have received at least one vaccine dose, and 35.6 per cent of adult South Africans are fully vaccinated against COVID-19."
- "57 per cent of people 60 years old and above ..., and 53 per cent of people aged between 50 and 60 are fully vaccinated. Government has set up a task team that will undertake broad consultations on making vaccination mandatory for specific activities and locations."
- "We also know that the coronavirus will be with us for the long term. We must therefore find ways of managing the pandemic while limiting disruptions to the economy and ensuring continuity."
- "However, this approach will not be sustainable if we do not increase the vaccination rate, if we do not wear masks, or if we fail to adhere to basic health precautions." "Until everyone is vaccinated, we should expect that more variants will emerge."
- "These variants may well be more transmissible, may cause more severe disease, and may be more resistant to the current vaccines." However, many viruses have been shown to weaken over the years as they become entrenched globally, often proving seasonal.
- The rand has strengthened by the largest margin since Friday out of the Bloomberg basket of emerging market currencies, despite some US dollar recovery today as well. However, risk aversion remains elevated and as a result EM currencies are still vulnerable.

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	14.64	16.00	16.80	17.50	18.00	18.50	18.70	19.20	19.55	19.70
GBP/ZAR	20.63	19.75	20.18	22.14	24.11	25.64	26.82	28.02	27.68	27.84	27.96	28.17
EUR/ZAR	18.03	17.03	17.26	18.87	20.24	21.35	22.32	23.13	23.38	24.00	24.44	24.63
ZAR/JPY	7.09	7.75	7.52	7.08	6.90	6.71	6.58	6.46	6.31	5.99	5.63	5.43
CHFZAR	16.52	15.51	15.95	17.45	18.66	19.50	20.20	20.74	20.55	21.10	21.48	21.65
AUDZAR	11.56	10.88	10.76	11.78	12.60	13.13	13.68	14.25	14.59	14.98	15.25	15.37
GBP/USD	1.38	1.40	1.38	1.38	1.43	1.46	1.49	1.51	1.48	1.45	1.43	1.43
EUR/USD	1.21	1.21	1.18	1.18	1.21	1.22	1.24	1.25	1.25	1.25	1.25	1.25
USD/JPY	106	109	110	113	116	118	119	120	118	115	110	107

Note: averages, Source: Investec, Iress



# SA Economics



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	14.64	15.50	16.00	16.65	16.90	17.00	17.50	17.60	17.50	17.20
GBP/ZAR	20.63	19.75	20.18	21.45	22.96	24.39	25.18	25.75	25.90	25.52	25.03	24.60
EUR/ZAR	18.03	17.03	17.26	18.28	19.28	20.31	20.96	21.25	21.88	22.00	21.88	21.50
ZAR/JPY	7.09	7.75	7.52	7.31	7.25	7.06	7.01	7.03	6.74	6.53	6.29	6.22
CHFZAR	16.52	15.51	15.95	16.90	17.77	18.55	18.96	19.06	19.23	19.34	19.23	18.90
AUDZAR	11.56	10.88	10.76	11.41	12.00	12.49	12.84	13.09	13.65	13.73	13.65	13.42
GBP/USD	1.38	1.40	1.38	1.38	1.43	1.46	1.49	1.51	1.48	1.45	1.43	1.43
EUR/USD	1.21	1.21	1.18	1.18	1.21	1.22	1.24	1.25	1.25	1.25	1.25	1.25
USD/JPY	106	109	110	113	116	118	119	120	118	115	110	107

Note: averages, Source: Investec, Iress

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	14.64	15.40	15.25	15.45	15.70	15.50	15.35	15.75	16.15	15.65
GBP/ZAR	20.63	19.75	20.18	21.38	21.88	22.63	23.39	23.48	22.72	22.84	23.09	22.38
EUR/ZAR	18.03	17.03	17.26	18.23	18.38	18.85	19.47	19.38	19.19	19.69	20.19	19.56
ZAR/JPY	7.09	7.75	7.52	7.13	7.02	6.80	6.62	6.71	6.84	6.79	6.63	6.84
CHFZAR	16.52	15.51	15.95	16.55	16.41	16.68	17.08	16.85	16.87	17.31	17.75	17.20
AUDZAR	11.56	10.88	10.76	11.35	11.44	11.59	11.93	11.94	11.97	12.29	12.60	12.21
GBP/USD	1.38	1.40	1.38	1.38	1.43	1.46	1.49	1.51	1.48	1.45	1.43	1.43
EUR/USD	1.21	1.21	1.18	1.18	1.21	1.22	1.24	1.25	1.25	1.25	1.25	1.25
USD/JPY	106	109	110	113	116	118	119	120	118	115	110	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	14.64	14.00	13.50	13.40	13.20	13.00	13.00	13.10	13.10	13.20
GBP/ZAR	20.63	19.75	20.18	19.37	19.37	19.63	19.67	19.69	19.24	19.00	18.73	18.88
EUR/ZAR	18.03	17.03	17.26	16.51	16.27	16.35	16.37	16.25	16.25	16.38	16.38	16.50
ZAR/JPY	7.09	7.75	7.52	8.09	8.59	8.77	8.98	9.19	9.08	8.78	8.40	8.11
CHFZAR	16.52	15.51	15.95	15.27	14.99	14.93	14.81	14.57	14.29	14.40	14.40	14.51
AUDZAR	11.56	10.88	10.76	10.31	10.13	10.05	10.03	10.01	10.14	10.22	10.22	10.30
GBP/USD	1.38	1.40	1.38	1.38	1.43	1.46	1.49	1.51	1.48	1.45	1.43	1.43
EUR/USD	1.21	1.21	1.18	1.18	1.21	1.22	1.24	1.25	1.25	1.25	1.25	1.25
USD/JPY	106	109	110	113	116	118	119	120	118	115	110	107

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	14.64	13.80	13.30	13.00	12.90	12.80	12.70	12.50	12.30	12.15
GBP/ZAR	20.63	19.75	20.18	19.10	19.08	19.04	19.22	19.39	18.80	18.13	17.59	17.37
EUR/ZAR	18.03	17.03	17.26	16.28	16.03	15.86	16.00	16.00	15.88	15.63	15.38	15.19
ZAR/JPY	7.09	7.75	7.52	8.21	8.72	9.04	9.19	9.34	9.29	9.20	8.94	8.81
CHF/ZAR	16.52	15.51	15.95	15.05	14.77	14.48	14.48	14.35	13.96	13.74	13.52	13.35
AUD/ZAR	11.56	10.88	10.76	10.16	9.98	9.75	9.80	9.86	9.91	9.75	9.59	9.48
GBP/USD	1.38	1.40	1.38	1.38	1.43	1.46	1.49	1.51	1.48	1.45	1.43	1.43
EUR/USD	1.21	1.21	1.18	1.18	1.21	1.22	1.24	1.25	1.25	1.25	1.25	1.25
USD/JPY	106	109	110	113	116	118	119	120	118	115	110	107

Note: averages, Source: Investec, Iress