

SA Economics



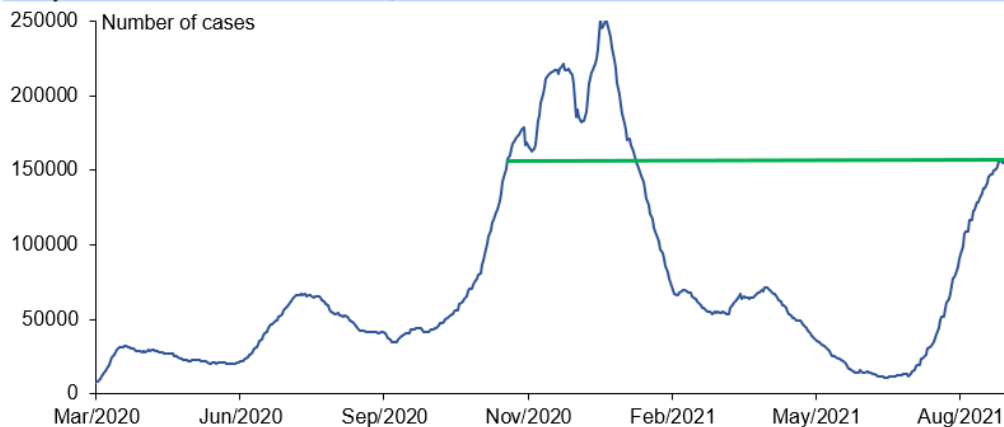
Monday 30 August 2021

Rand note: rand strengthens on the more dovish tilt to US monetary policy than the markets expected, with tapering seen to be slower and cognisant of the severity of the US's rising third wave, with the rand tracking towards R14.55/USD

| 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 |
| CHFZAR | 16.52 | 15.51 | 15.79 | 15.75 | 15.80 | 16.16 | 16.55 | 16.16 | 15.99 | 16.43 | 16.87 | 16.32 |
| AUDZAR | 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

Daily new confirmed COVID-19 cases, US

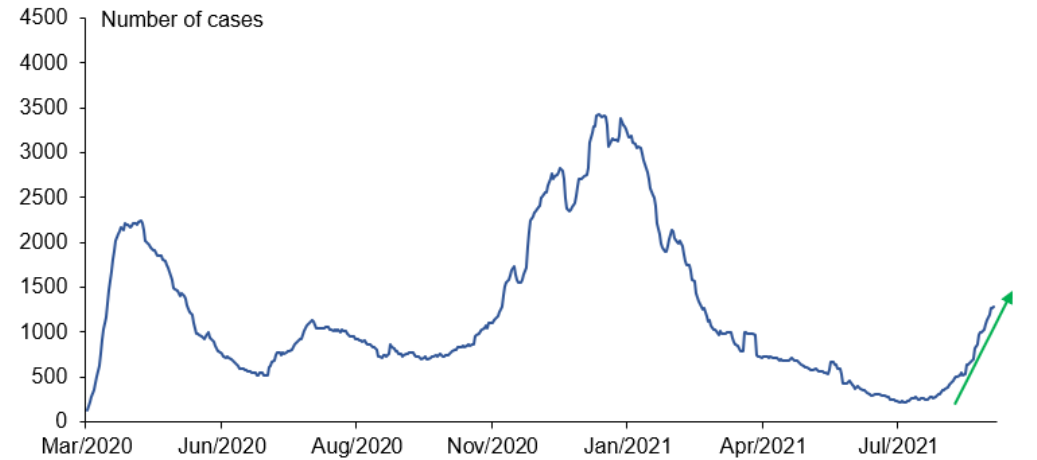


Source: Our World in Data

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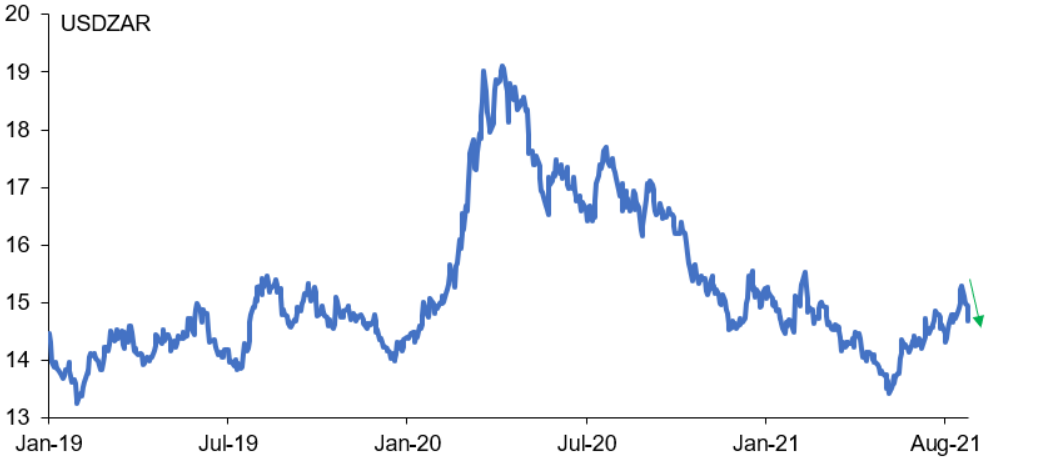


United States daily confirmed COVID-19 deaths, seven day rolling average



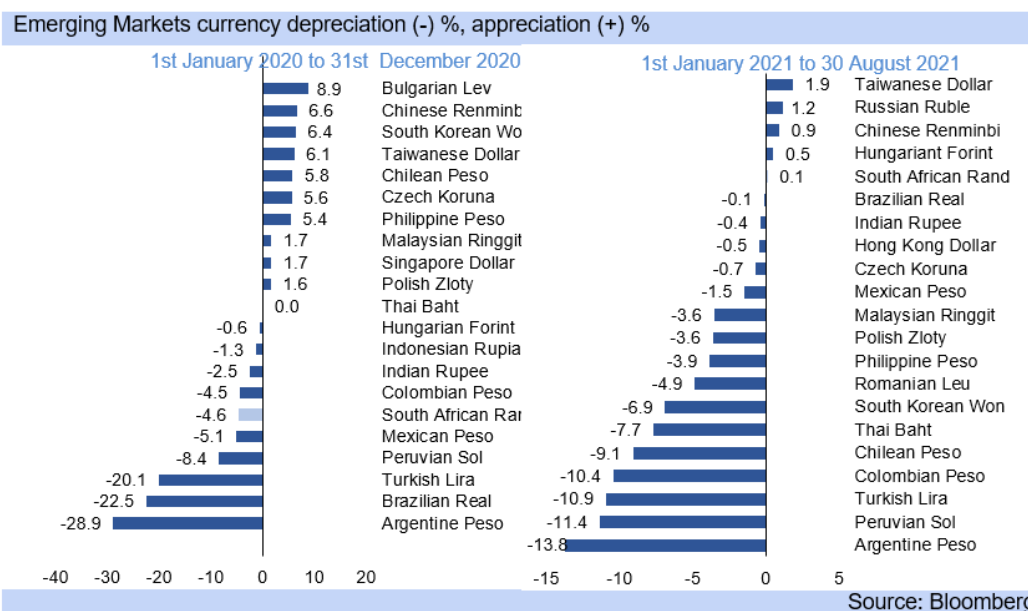
Source: Our World in Data

USDZAR



Source: Iress

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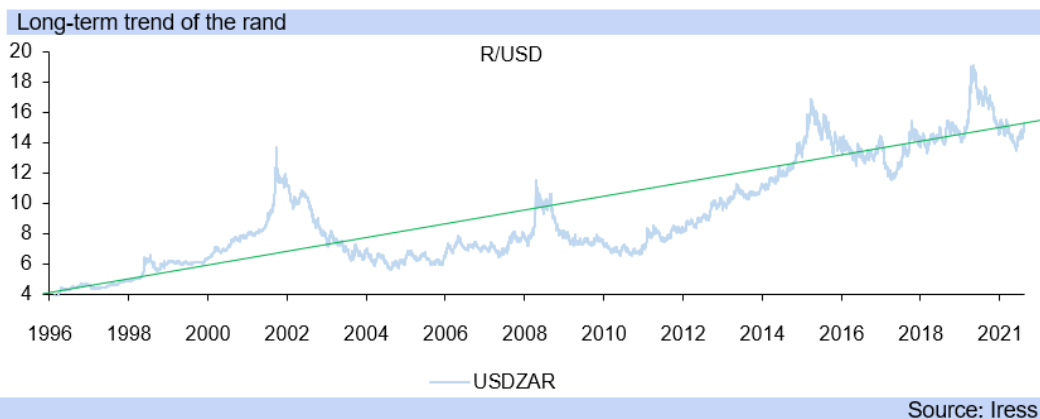
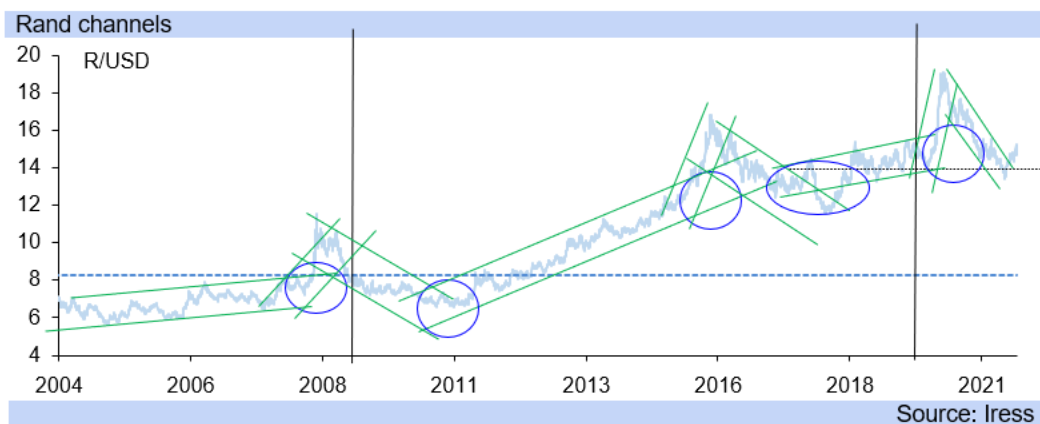
- A more cautious sounding approach on US monetary policy from Friday's Jackson Hole Symposium transpired versus market expectations, particularly on the implications for asset purchases (for weaker, i.e. more dovish, tapering) and this assisted the rand.
- A number of the most recent US data readings have proved significantly weaker than expected, notably retail sales, business confidence reading from the Philadelphia Fed, Empire state and ISM manufacturing conditions readings and nonfarm productivity.
- With the US third wave not yet having peaked, and new US COVID-19 deaths are over triple since its start, and accelerating, the Jackson Hole Symposium did show concern on the rapid rise in COVID-19 underway and related recent softening in some areas of the economy.
- Indeed, the rapid acceleration of infections has worried many, with just over half the US fully vaccinated and worries abound on the effect of tightening restrictions up again given the strong anti-lockdown sentiment in some quarters which may risk riots.
- This affected August's U Michigan sentiment reading on consumer attitudes and expectations towards personal finances, general business conditions and market conditions or prices, yielding a reading that was the lowest since 2011, at 70.2 versus 81.2 the month before.
- As such, the reading was lower than any level during the pandemic last year and evidences the disappointment and frustration many now feel towards the third wave, when most had thought the pandemic was past.

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- Friday's Jackson Hole symposium showed a more cautious sounding approach on US monetary policy, and implications for asset purchases, assisting the rand, which is amongst the top performing EM currencies since both the start of the year and Friday.
- Risk-on has improved reflective of some increased investor appetite for yield, and for so riskier asset classes, and the rand will likely track back to R14.55/USD this quarter, and indeed strengthen beyond that, although market sentiment will be key.
- While US monetary policy has indicated its tolerance of higher inflation and inflation expectations, markets worry over the jobs market and this week's nonfarm payrolls figure's outcome will have the potential to cause marked rand volatility.

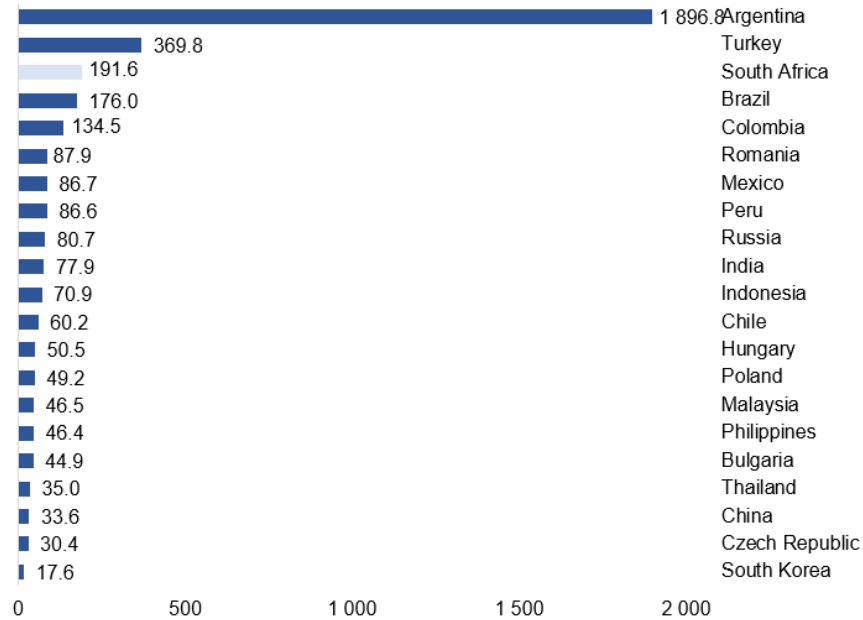
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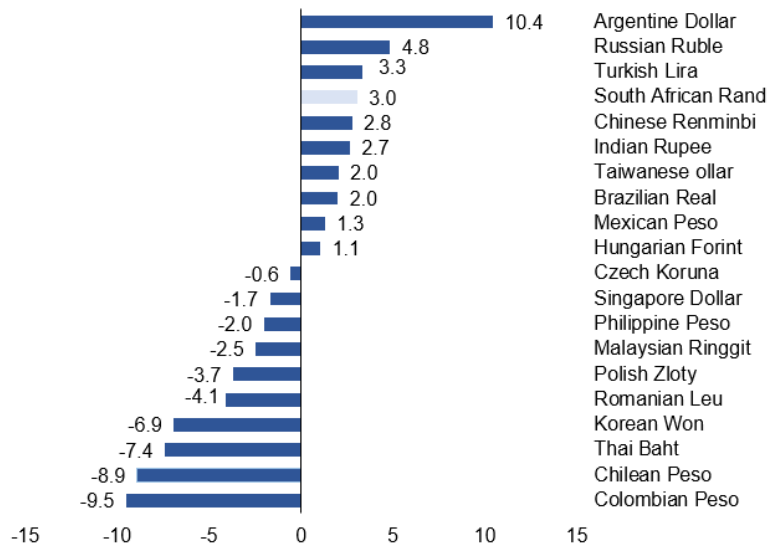


Emerging Markets CDS Spreads – values as at 30 August 2021



Source: Bloomberg

Emerging Markets Carry Return – values as at 30 August 2021

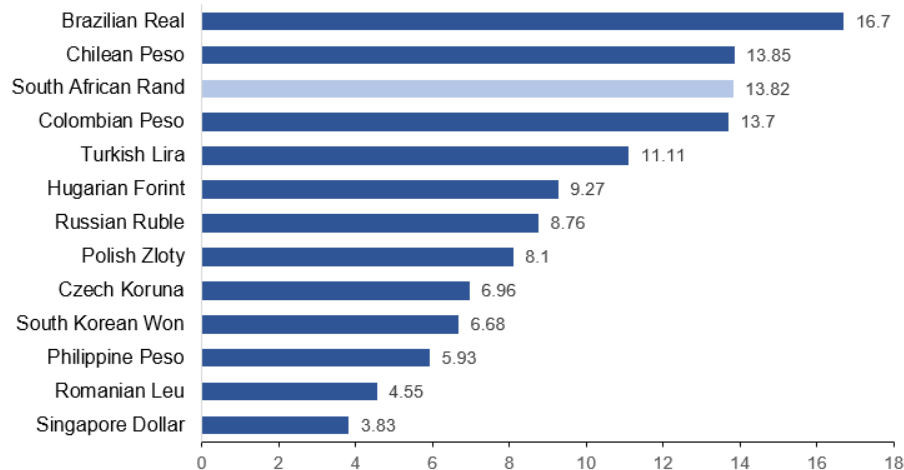


Source: Bloomberg

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Emerging Markets Implied Volatilities – values as at 30 August 2021



Source: Bloomberg

- The domestic currency will remain volatile, particularly in the August/September period, which is traditionally a risk-off period. The rand is likely to remain volatile both for the rest of this year (and in the future), with US labour stats this year key for market sentiment.
- The Northern Hemisphere winter typically results in risk-off behaviour as the majority of market players take the summer vacation month off, or at least a significant part of it, while September typically sees churn (volatility) as market players return.
- The rand saw some consolidation closer to midday today, likely as key levels were reached and orders to sell were triggered, but the rand has then seen some further strength this afternoon, and this could persist, as market players adjust to the switch in direction to strength.
- US data is likely to be mixed, but markets are expected to continue to focus heavily on the labour market data, as this is perceived to be the key area where a reduction in the FOMC's dovish tone could come from, although we see other indicators of economic activity key too.
- Consequently, US consumer and business sentiment is going to provide meaningful information on the strength of future economic activity, with the FOMC likely to maintain a holistic eye on data for the overall performance of the economy.
- A recovery to full employment is the objective, but the Fed has many times indicated that it is wider than simply the unemployment rate. The rand also remains vulnerable to risk-off, particularly a worsening US third wave which would significantly impact US GDP growth.
- For South Africa, the revision to its GDP statistics, with the economy now 11% larger than in June (periodic GDP revisions are normal for economies around the world) sees last

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year's debt to GDP ratio around 71% instead of 80%, and a lower trajectory as a ratio of GDP.

- This has doubtless benefitted the rand as well, although actual planned debt levels have not moderated, and as such this has not seen a stabilisation of debt which is what the rating agencies are after. SA's CDS spread has narrowed by 7bps however since the GDP revision.
- The long-term trend of the rand is one of weakness in SA, although the SARB continues to communicate that it plans to lower the inflation target, which would support the currency. Interest rate hikes are likely from next year as more EMs hike, although not as soon as the MPC previously indicated (see scenario table).

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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 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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| 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 | 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 |
| CHFZAR | 16.52 | 15.51 | 16.45 | 16.90 | 17.50 | 18.12 | 18.46 | 18.63 | 19.23 | 19.34 | 19.23 | 18.90 |
| AUDZAR | 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 |
| CHFZAR | 16.52 | 15.51 | 14.87 | 14.72 | 14.55 | 14.59 | 14.42 | 14.24 | 14.07 | 13.85 | 13.79 | 13.52 |
| AUDZAR | 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 |
| CHFZAR | 16.52 | 15.51 | 14.65 | 14.39 | 14.22 | 14.04 | 13.98 | 13.91 | 13.74 | 13.52 | 13.35 | 13.19 |
| AUDZAR | 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 |
| CHF/ZAR | 16.52 | 15.51 | 16.99 | 17.88 | 18.59 | 19.05 | 19.66 | 20.27 | 20.55 | 21.10 | 21.48 | 21.65 |
| AUD/ZAR | 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 |
| 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