

SA Economics



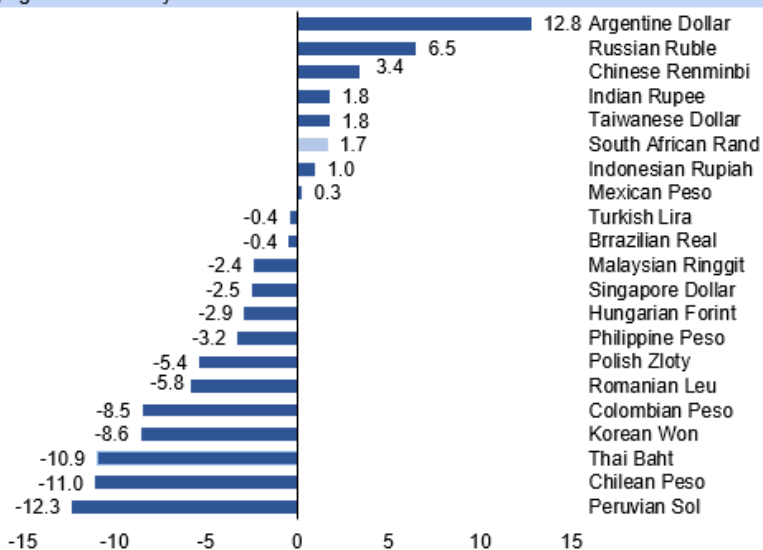
Monday 4 October 2021

Rand note: the rand moves back below R15.00/USD, with markets highly risk sensitive, although the rand could strengthen into November and December unless the Fed tapers earlier than expected

| 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 | 14.70 | 14.55 | 14.75 | 15.00 | 14.80 | 14.65 | 15.05 | 15.45 | 14.95 |
| GBP/ZAR | 20.63 | 19.75 | 20.18 | 20.41 | 20.88 | 21.61 | 22.35 | 22.42 | 21.68 | 21.82 | 22.09 | 21.38 |
| EUR/ZAR | 18.03 | 17.03 | 17.26 | 17.40 | 17.53 | 18.00 | 18.60 | 18.50 | 18.31 | 18.81 | 19.31 | 18.69 |
| ZAR/JPY | 7.09 | 7.75 | 7.52 | 7.47 | 7.35 | 7.12 | 6.93 | 7.03 | 7.17 | 7.11 | 6.93 | 7.16 |
| CHF/ZAR | 16.52 | 15.51 | 15.95 | 15.79 | 15.65 | 15.92 | 16.32 | 16.09 | 16.10 | 16.54 | 16.98 | 16.43 |
| AUD/ZAR | 11.56 | 10.88 | 10.76 | 10.84 | 10.91 | 11.06 | 11.40 | 11.40 | 11.43 | 11.74 | 12.05 | 11.66 |
| GBP/USD | 1.38 | 1.40 | 1.38 | 1.39 | 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 | 110 | 107 | 105 | 104 | 104 | 105 | 107 | 107 | 107 |

Note: averages, Source: Investec, Iress

Emerging Markets Carry Return – values 4 October 2021

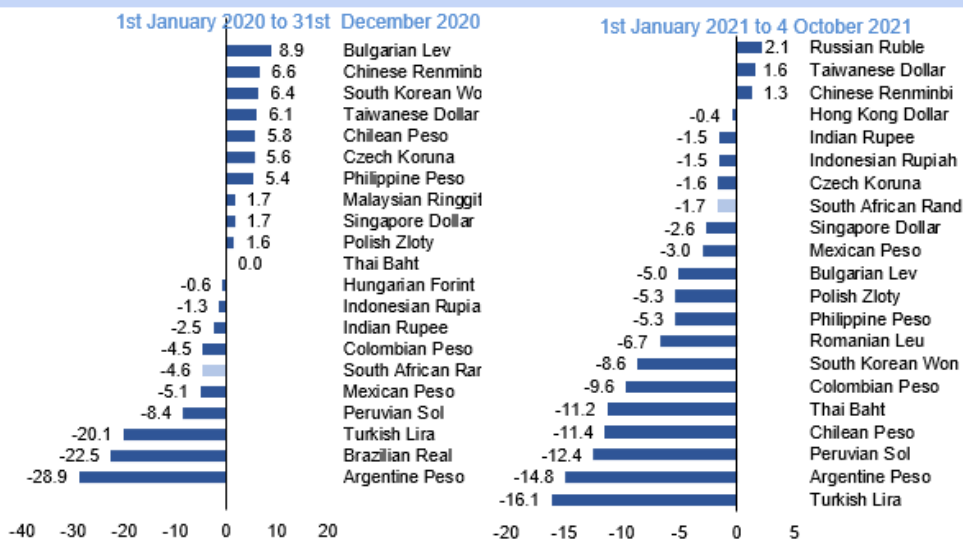


Source: Bloomberg

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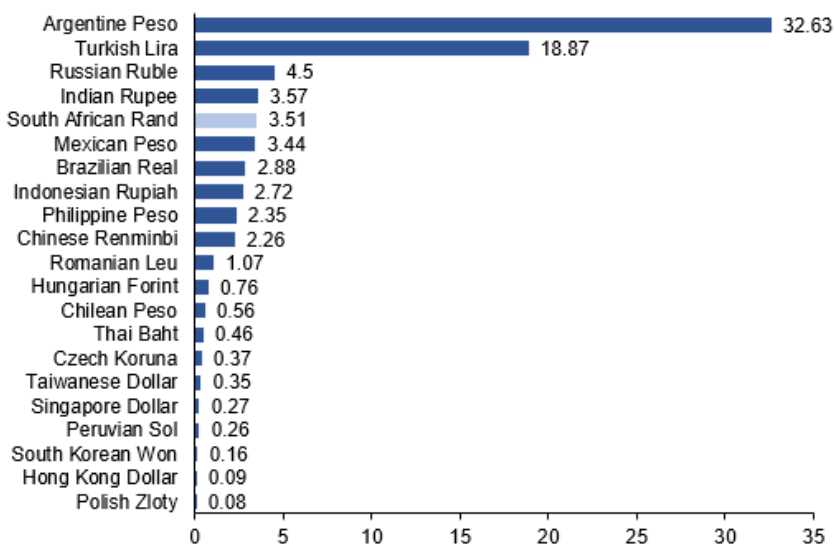


Emerging Markets currency depreciation (-) %, appreciation (+) %



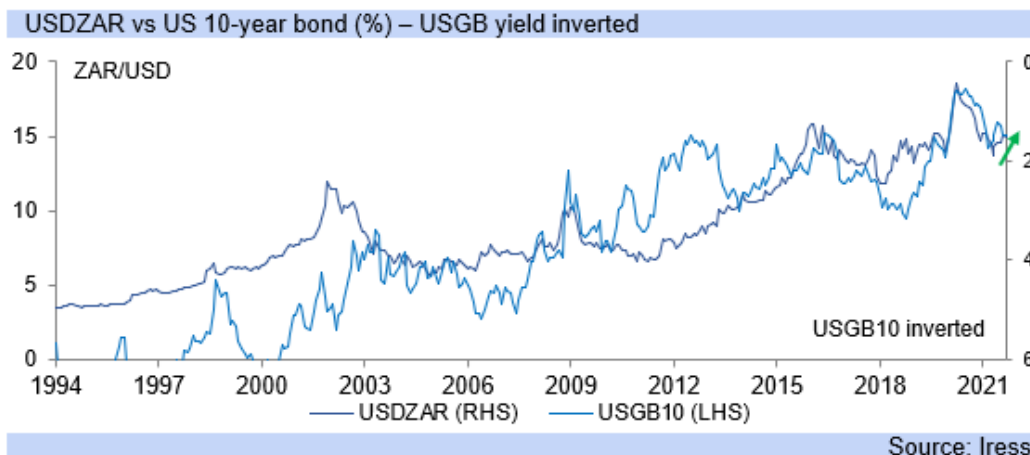
Source: Bloomberg

Emerging Markets Interest Return – values 4 October 2021



Source: Bloomberg

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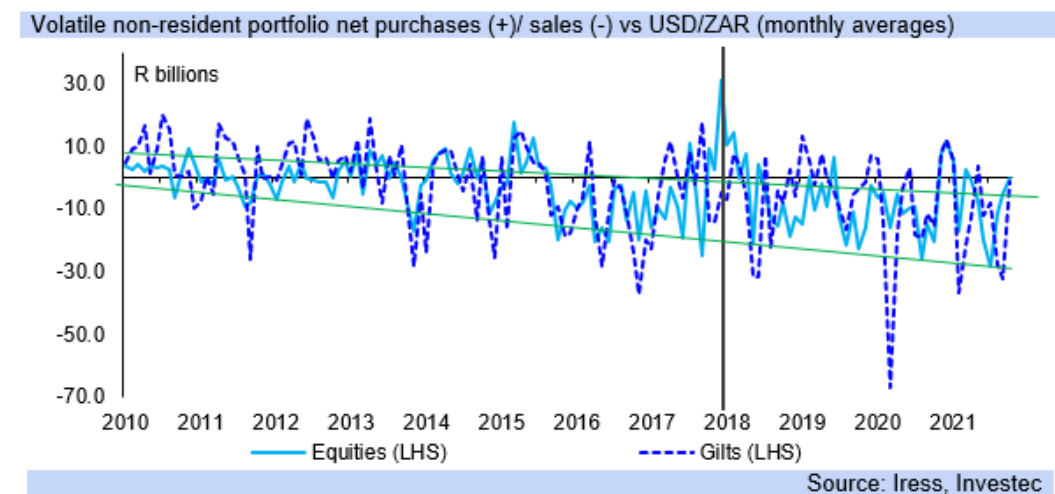
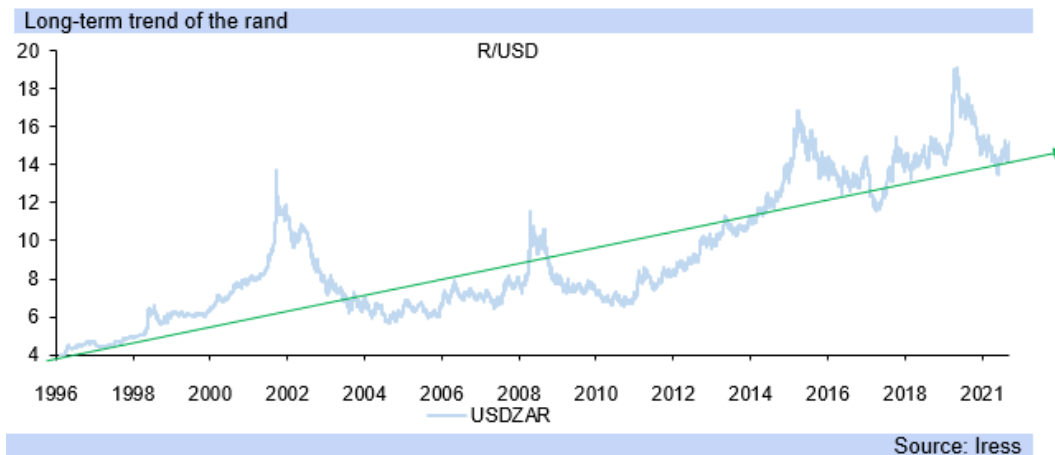
- The rand currently averages R14.58/USD, R17.43/EUR and R20.18/GBP this year, last year R16.46/USD, R18.77/EUR and R21.09/GBP, and is likely to remain much stronger this year than last, not experiencing the same length and depth of risk off.
- While the reoccurrence of a looming US fiscal cliff has not helped the risk-off environment in global financial markets, it is particularly worsened by the marked rise in US treasury yields, with the ten year reaching 1.54% at the end of last month, in anticipation of tapering.
- The Institute of International Finance (which is the global association of the financial services industry) shows that South Africa saw substantial foreign sales of its debt over the past three months, totalling -US\$3.6bn, or at an exchange rate of R15.00/USD by -R54bn.
- The IIF further shows that foreigners sold -US\$4.6bn, or at an exchange rate of R15.00/USD -R68bn worth of South African equities in the past three months (July to September), adding to the drag on the rand, which weakened from R13.40/USD in June, to above R15.00/USD.
- Foreigners have also been substantial sellers of Mexican portfolio assets, at -US\$5.4bn in the months of July and August alone, while Taiwan has seen a -US\$3.2bn sell off for those two months, and Malaysia is close to -US\$1.0bn, but China had a US\$14.5bn net inflow.
- As tapering is seen to approach, US treasury yields have elevated, and in particular markets have worried over a November taper, which has seen more movement in treasury yields recently, and has seen the rand weaken.
- A December taper would only provide some brief respite to risk assets, with the rand often a key gauge of market sentiment. A full taper tantrum (severe negative impact on risk assets) is not expected when tapering begins, but tapering will place a drag on the domestic currency.

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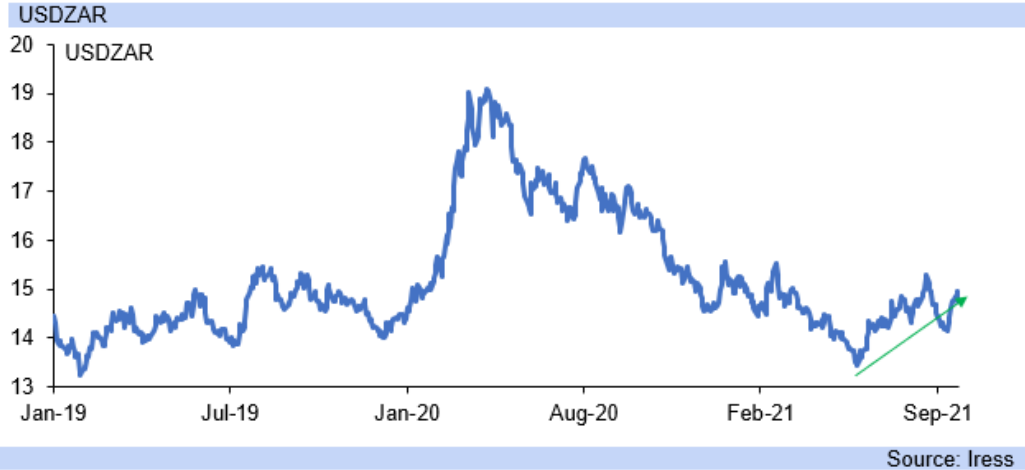
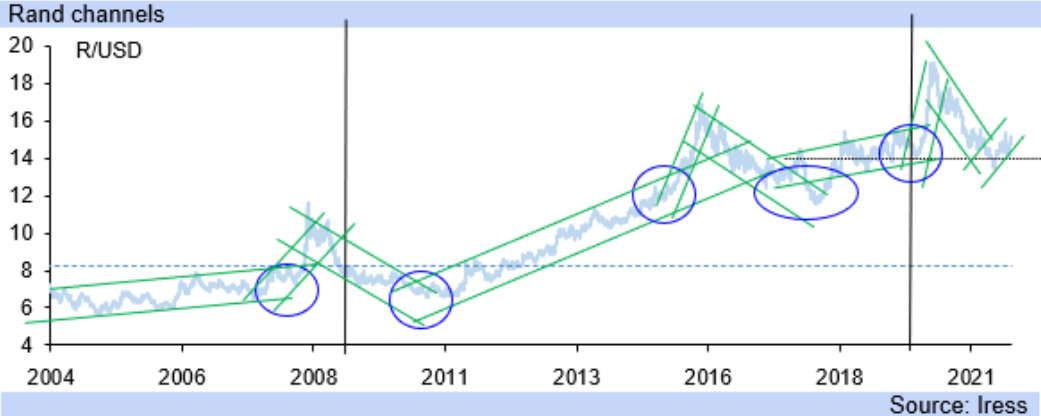


- While the rand typically sees a stronger period in Q4 and Q1 each year, this will likely not be the case for Q4.21, although the domestic currency certainly is likely to be highly volatile and continue to see periods of marked strength and weakness indefinitely.
- That is, so long as the fundamentals of the currency do not deteriorate markedly (or conversely improve markedly), the rand will likely remain on a long-term depreciation trend, although cheerily the chance of November credit rating downgrades has now reduced.

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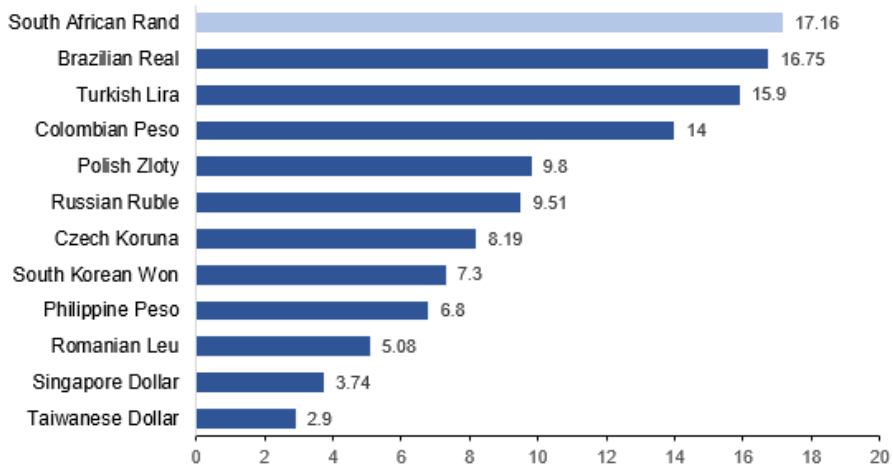
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Emerging Markets Implied Volatilities – values 4 October 2021



Source: Bloomberg

- That is, a larger economy, more able to afford current debt and projected borrowings, and the downwards revisions of debt ratios also as a consequence of the upwards revision of the size of SA's economy, will have relieved some downwards rating pressure.
- However, this year's MTBPS (Medium-Term Budget Policy Statement) will be released on 4th November and will be key for the credit rating agencies. A reduced borrowing trajectory (in rand terms) will be the best outcome for SA to avoid any credit rating downgrades.
- While revenues will have overshoot the February Budget projections, there is likely to be increased expenditure pressure from the extension of the social distress relief grants, as well as well as from fiscal aid in the face of the high level of damage caused by the riots.
- However, we continue to expect to see a marked reduction in the debt ratios to GDP projections compared to those made in February, and this adds to debt sustainability, as will the faster than previously expected GDP growth outcome for 2021.
- However, this does not mean there is likely to be substantial upwards revisions to the next few years of GDP growth projections from the rating agencies, with insufficient structural reform so far to engender these changes.
- The rating agencies will worry over SA's insufficient economic growth trajectory compared to the population growth and high levels of poverty and unemployment, which have been severely exacerbated by the reset to the economy from lockdown restrictions.
- Looking forward , the rand forecast could be too strong for the expected case if risk-off persists into Q4.21 and Q1.22, which, while unusual from a seasonal perspective for the first and last quarters of a year, is not impossible either.

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- The US jobs market is expected to need to see further improvement however before QE tapering begins, and the month of October could prove particularly volatile on US data releases, with the November FOMC meeting on 2nd and 3rd November.
- Also in early November (on the 1st) is SA's municipal elections, with political parties likely to ramp up campaigning this month. Global financial market developments will likely by and large impact the path of the domestic currency.

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 | 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. | | | | | | | | |
| Up case 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 | 3.50 |
| | 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 | 14.64 | 14.70 | 14.55 | 14.75 | 15.00 | 14.80 |
| | Repo rate (end rate) | 3.50 | 3.50 | 3.50 | 3.50 | 3.75 | 4.00 | 4.00 | 4.25 |
| | 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 | 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. | | | | | | | | |
| Severe down case 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

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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 | 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 | 21.52 | 22.96 | 24.39 | 25.18 | 25.75 | 25.90 | 25.52 | 25.03 | 24.60 |
| EUR/ZAR | 18.03 | 17.03 | 17.26 | 18.35 | 19.28 | 20.31 | 20.96 | 21.25 | 21.88 | 22.00 | 21.88 | 21.50 |
| ZAR/JPY | 7.09 | 7.75 | 7.52 | 7.08 | 6.69 | 6.31 | 6.15 | 6.12 | 6.00 | 6.08 | 6.11 | 6.22 |
| CHFZAR | 16.52 | 15.51 | 15.95 | 16.65 | 17.21 | 17.98 | 18.38 | 18.48 | 19.23 | 19.34 | 19.23 | 18.90 |
| AUDZAR | 11.56 | 10.88 | 10.76 | 11.43 | 12.00 | 12.49 | 12.84 | 13.09 | 13.65 | 13.73 | 13.65 | 13.42 |
| GBP/USD | 1.38 | 1.40 | 1.38 | 1.39 | 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 | 110 | 107 | 105 | 104 | 104 | 105 | 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 | 14.64 | 14.00 | 13.50 | 13.40 | 13.20 | 13.00 | 12.80 | 12.60 | 12.55 | 12.30 |
| GBP/ZAR | 20.63 | 19.75 | 20.18 | 19.44 | 19.37 | 19.63 | 19.67 | 19.69 | 18.94 | 18.27 | 17.95 | 17.59 |
| EUR/ZAR | 18.03 | 17.03 | 17.26 | 16.58 | 16.27 | 16.35 | 16.37 | 16.25 | 16.00 | 15.75 | 15.69 | 15.38 |
| ZAR/JPY | 7.09 | 7.75 | 7.52 | 7.84 | 7.93 | 7.84 | 7.88 | 8.00 | 8.20 | 8.49 | 8.53 | 8.70 |
| CHFZAR | 16.52 | 15.51 | 15.95 | 15.04 | 14.52 | 14.47 | 14.36 | 14.13 | 14.07 | 13.85 | 13.79 | 13.52 |
| AUDZAR | 11.56 | 10.88 | 10.76 | 10.32 | 10.13 | 10.05 | 10.03 | 10.01 | 9.98 | 9.83 | 9.79 | 9.59 |
| GBP/USD | 1.38 | 1.40 | 1.38 | 1.39 | 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 | 110 | 107 | 105 | 104 | 104 | 105 | 107 | 107 | 107 |

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 | 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 | 22.21 | 24.11 | 25.64 | 26.82 | 28.02 | 27.68 | 27.84 | 27.96 | 28.17 |
| EUR/ZAR | 18.03 | 17.03 | 17.26 | 18.94 | 20.24 | 21.35 | 22.32 | 23.13 | 23.38 | 24.00 | 24.44 | 24.63 |
| ZAR/JPY | 7.09 | 7.75 | 7.52 | 6.86 | 6.37 | 6.00 | 5.78 | 5.62 | 5.61 | 5.57 | 5.47 | 5.43 |
| CHFZAR | 16.52 | 15.51 | 15.95 | 17.19 | 18.08 | 18.89 | 19.58 | 20.11 | 20.55 | 21.10 | 21.48 | 21.65 |
| AUDZAR | 11.56 | 10.88 | 10.76 | 11.79 | 12.60 | 13.13 | 13.68 | 14.25 | 14.59 | 14.98 | 15.25 | 15.37 |
| GBP/USD | 1.38 | 1.40 | 1.38 | 1.39 | 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 | 110 | 107 | 105 | 104 | 104 | 105 | 107 | 107 | 107 |

Note: averages, Source: Investec, Iress

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| 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 | 19.16 | 19.08 | 19.04 | 19.22 | 19.39 | 18.80 | 18.13 | 17.59 | 17.37 |
| EUR/ZAR | 18.03 | 17.03 | 17.26 | 16.34 | 16.03 | 15.86 | 16.00 | 16.00 | 15.88 | 15.63 | 15.38 | 15.19 |
| ZAR/JPY | 7.09 | 7.75 | 7.52 | 7.95 | 8.05 | 8.08 | 8.06 | 8.13 | 8.27 | 8.56 | 8.70 | 8.81 |
| CHFZAR | 16.52 | 15.51 | 15.95 | 14.83 | 14.31 | 14.04 | 14.03 | 13.91 | 13.96 | 13.74 | 13.52 | 13.35 |
| AUDZAR | 11.56 | 10.88 | 10.76 | 10.17 | 9.98 | 9.75 | 9.80 | 9.86 | 9.91 | 9.75 | 9.59 | 9.48 |
| GBP/USD | 1.38 | 1.40 | 1.38 | 1.39 | 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 | 110 | 107 | 105 | 104 | 104 | 105 | 107 | 107 | 107 |

Note: averages, Source: Investec, Iress