

SA Economics



Monday 5 July 2021

Rand note: SA's developing twin woes of spiking COVID-19 cases, ongoing political tensions as key figures attempt to escape prosecution for corruption support the rand above R14.00/USD, while globally market sentiment is strong on recovery

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	14.35	14.25	14.35	14.75	15.05	14.65	14.45	14.85	15.25	14.75
GBP/ZAR	20.63	19.75	20.09	20.09	20.23	20.95	21.37	20.95	20.66	21.24	21.81	21.09
EUR/ZAR	18.03	17.03	17.51	17.53	17.79	18.44	18.96	18.46	18.06	18.56	19.06	18.44
ZAR/JPY	7.09	7.75	7.53	7.51	7.46	7.25	7.11	7.30	7.40	7.21	7.02	7.25
CHF/ZAR	16.52	15.51	15.71	15.60	15.71	16.15	16.48	16.04	15.88	16.32	16.76	16.21
AUD/ZAR	11.56	10.88	11.05	10.97	11.19	11.51	11.74	11.43	11.27	11.58	11.90	11.51
GBP/USD	1.38	1.40	1.40	1.41	1.41	1.42	1.42	1.43	1.43	1.43	1.43	1.43
EUR/USD	1.21	1.21	1.22	1.23	1.24	1.25	1.26	1.26	1.25	1.25	1.25	1.25
USD/JPY	106	109	108	107	107	107	107	107	107	107	107	107

Note: averages, Source: Investec, Iress

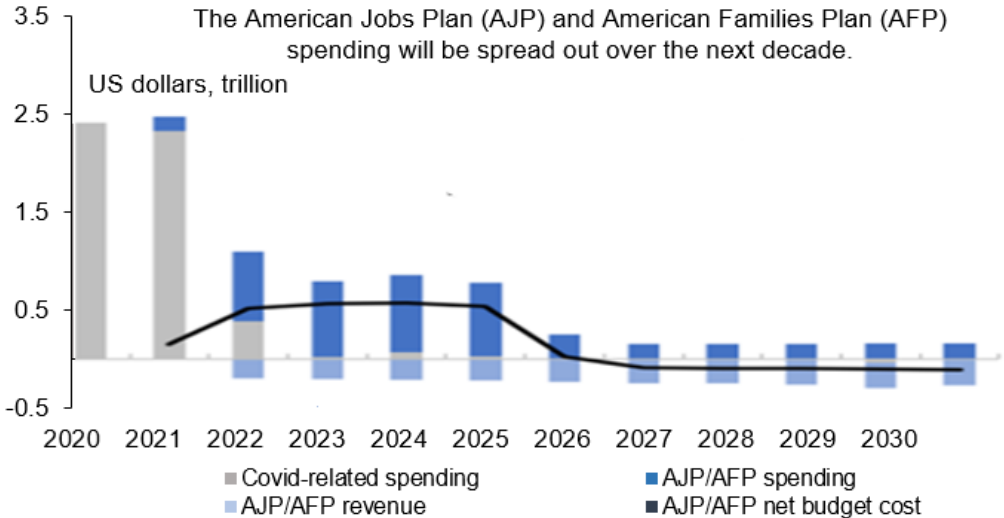
United States: Selected Economic Indicators								
	2019	2020	2021	2022	2023	2024	2025	2026
Real GDP (annual growth)	2.2	-3.5	7.0	4.9	1.9	1.7	1.7	1.7
Real GDP (Q4/Q4)	2.3	-2.4	8.0	2.8	1.8	1.7	1.7	1.7
Unemployment rate (Q4 average)	3.6	6.8	4.4	3.1	3.0	3.0	3.2	3.4
Current account balance (% of GDP)	-2.2	-3.1	-3.8	-3.6	-3.4	-3.0	-2.7	-2.5
Fed funds rate (end of period)	1.6	0.1	0.1	0.4	0.9	1.6	2.1	2.3
Ten-year government bond rate (Q4 average)	1.8	0.9	1.9	2.4	2.7	2.8	2.8	2.7
PCE Inflation (Q4/Q4)	1.5	1.2	4.3	2.4	2.4	2.3	2.2	2.0
Core PCE Inflation (Q4/Q4)	1.6	1.4	3.7	2.4	2.6	2.5	2.3	2.1
Federal fiscal balance (% of GDP)	-4.6	-14.9	-15.1	-8.0	-5.7	-4.8	-4.6	-4.5
Federal debt held by the public (% of GDP)	79.2	100.1	104.9	103.6	104.9	105.8	106.6	107.3

Source: IMF staff forecasts

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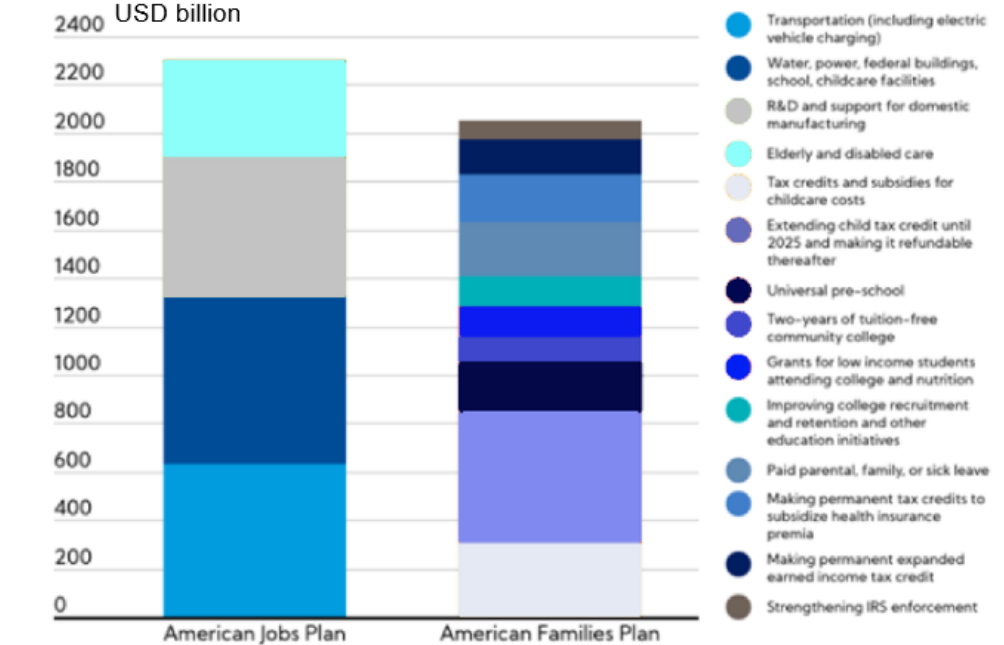


Gradual rollout



Source: IMF

A remaking of the economy



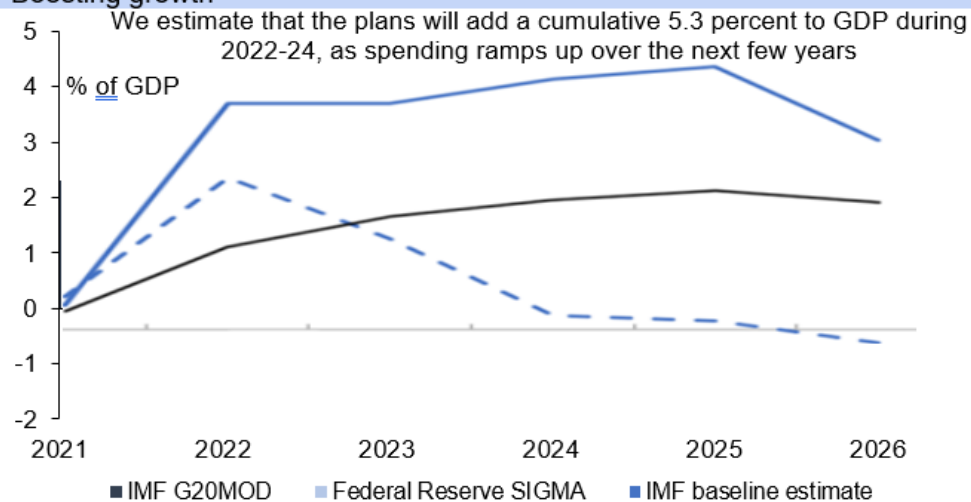
Source: IMF

If passed into law as proposed, the combined 4.3 trillion US dollars would be largely spent on infrastructure, education, childcare, the elderly and the poor

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Boosting growth



Source: IMF

- The rand has started Q3.21 at R14.42/USD, but currently is trading at R14.25/USD, R16.91/EUR and R19.74/GBP, with an average of R14.35/USD likely this quarter although SA remains at risk of its poor vaccination rollout seeing the country fall behind global recovery.
- Key economies such as the US have covered 50%+ of their populations with effective vaccination against COVID-19, bolstering global financial market sentiment of a persistent economic recovery, with the US of 7% this year, after last year's -3.5% y/y (IMF).
- Indeed, 2022 economic growth in the US is now also expected by the IMF at 4.9% y/y for 2022, on the back of fiscal stimulus aimed at infrastructure investment, boosting the productivity of the labour market, education, research and development and childcare.
- The broad gamut of US planned expenditure includes the American Jobs Plan (AJP) and American Families Plan (AFP). State expenditure is expected to increase by around US\$4.3trillion over the next ten years, although there is uncertainty about the timing.
- The IMF however expects that the plans will add 5.3% cumulatively to US GDP over the 2022 to 2024 period, and predicts a strong productivity boost, which will both create more jobs with better wages, and so reduce inequality and increase inclusive growth.
- In particular, the US infrastructure drive focuses on its electricity, telecommunications, water and transport sectors to reduce capacity constraints and improve productivity in its economy, which SA is aiming for too as its productivity is very constrained by insufficient state services.
- South Africa saw 26 485 new cases of COVID-19 on Saturday, spiking the seven-day rolling average up to 19 143. This exceeds SA's second wave where new daily cases

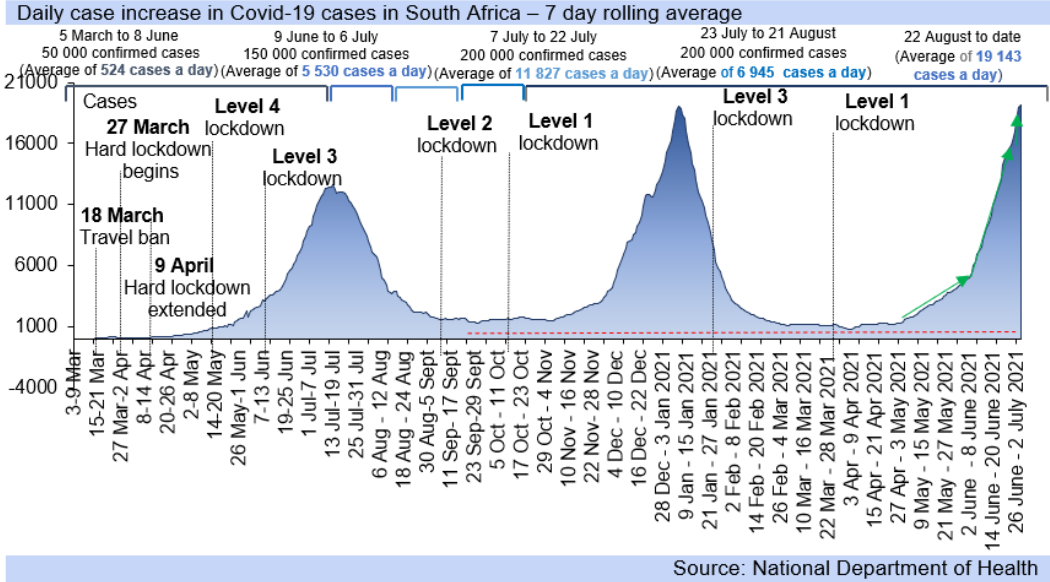
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reached 21 980 at its peak, and a seven-day rolling average peak of 19 042, higher than the first wave.

- Gauteng has seen its third wave already exceed the peak of the second and first, and this is leading the lift in the other provinces still, with new COVID-19 cases accelerating noticeably in the Western Cape, and in KwaZulu Natal, the North West and Limpopo provinces following.
- The rand has gained today, with sentiment boosted by the US fiscal plan. However, for EMs COVID concerns are a key detriment, as is the cumbersome process of the eradication of corruption in SA, and now increasing water shortages in key areas such as Johannesburg.

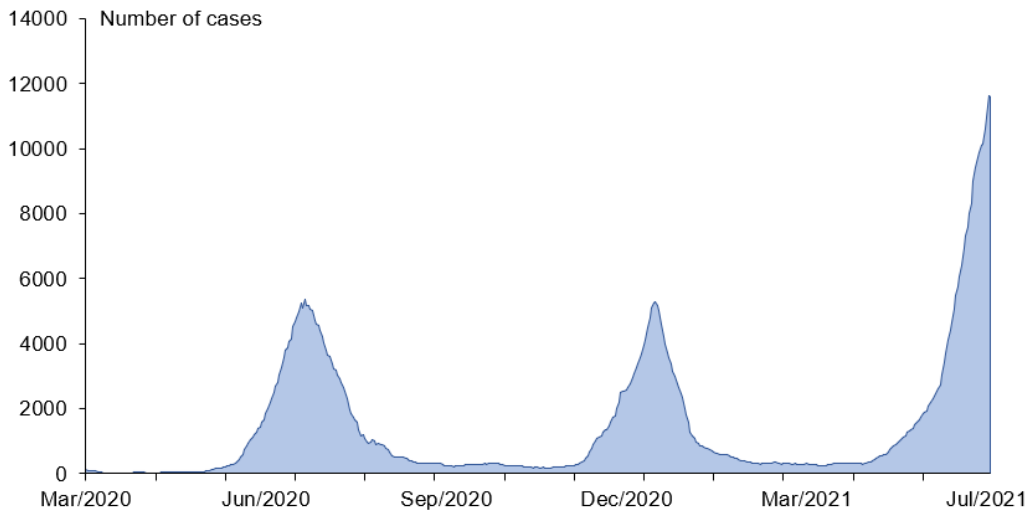
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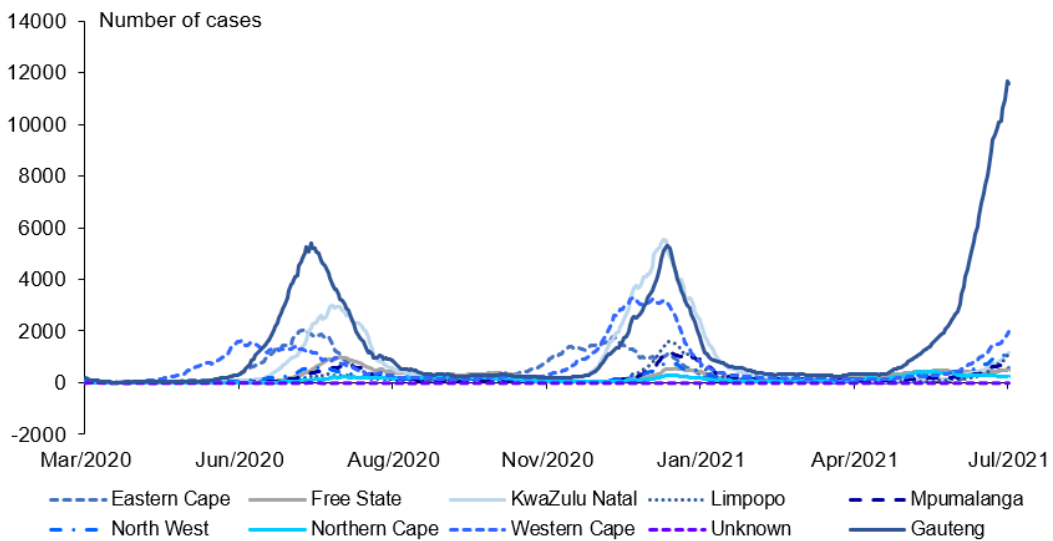


Daily new cases in Gauteng - 7 day rolling average – 4 July 2021



Source: National Department of Health

Regional daily case increase in Covid-19 cases – 7 day rolling average

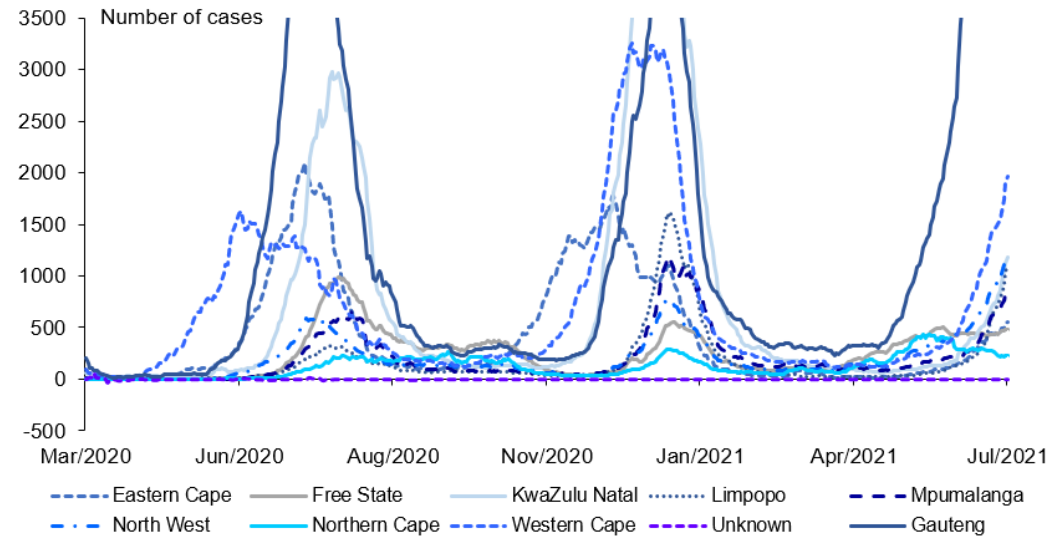


Source: National Department of Health

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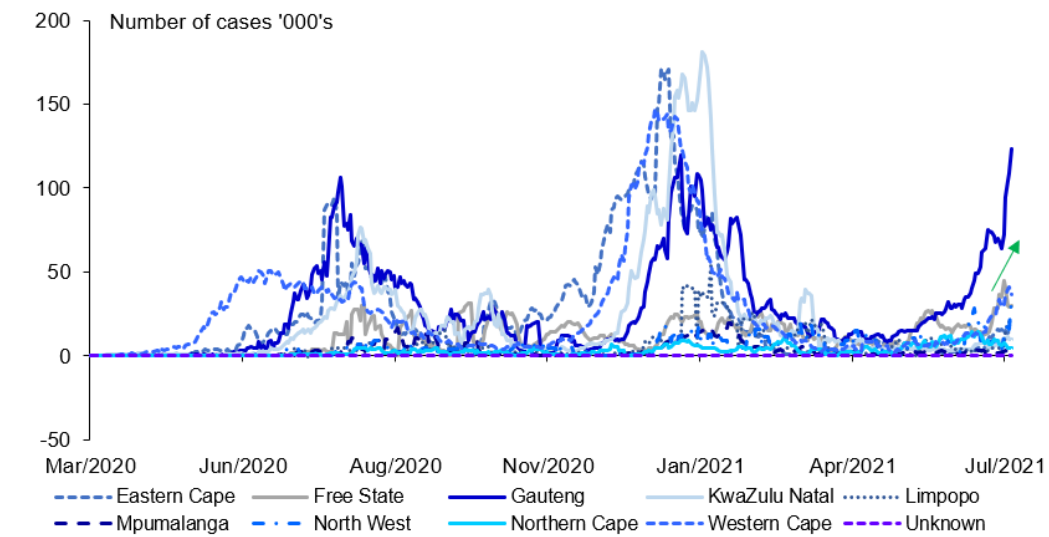


Regional daily case increase in Covid-19 cases – 7 day rolling average – first 3 500



Source: National Department of Health

Regional daily case increase in Covid-19 deaths – 7 day rolling average



Source: National Department of Health

- While SA currently reports that 3 314 278 individuals have been vaccinated, many have not received their second Pfizer dose, while the US reports that 52% of its population is fully vaccinated against COVID-19 and the UK is at 59%, and Chile is at 61%.

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- The European Union has finished vaccinating 43% of its population, Israel 61%, Canada 51%, Mongolia 56%, Germany and China 46%, The Czech Republic 40%, Turkey 30%, Cuba 29%, Brazil 25%, global total 21%, Russia 13%, Zimbabwe 4%, Botswana and SA 3.2%.
- So far 3.2bn vaccinations have been administered across 180 countries (Bloomberg), in a global population of close to 8 billion, at about 40mn doses a day and it is expected to take about seven months to reach a high level of immunity globally (75% - Bloomberg).
- Advanced economies are expected to get there quicker. Mauritius and Canada estimate one month, along with Portugal, Spain, China and Singapore and two months for the EU, Japan and Turkey three months, Brazil and the US five months, and Israel six months.
- In the EMs not mentioned, Hong Kong, Poland, and Argentina are estimated at four months, Hungary and the Czech Republic at three months, Chile two months, Columbia and Malaysia are at six months, Mexico nine months, Thailand, Peru and India thirteen months.
- Taiwan and Indonesia are estimated at fourteen months, South Korea eighteen months, Bulgaria and South Africa two and a half years and Romania two years and nine months. The divergence amongst EMs will impact their economic recoveries and investor sentiment.
- Differentiated recoveries, inflation, growth and interest rates will be key environmental factors for EMs and foreign investors, with the rand likely to benefit from higher interest arrest as the SARB begins “normalising” its monetary policy, although this would be growth negative.
- COVID-19, and vaccinations, are a key differentiator too, with many EMs hard hit by the COVID-19 delta variant currently, while some have already started hiking interest rates, benefiting their currencies but causing others like the rand to have lost out.
- The rand is likely to remain at risk, with investor appetite into EM portfolio investments already differentiated, but with SA’s up case probability fractionally growing as the country inches forward with some reforms and pro-growth changes, albeit with major risks outstanding.

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Economic Scenarios: note currency and probability updates

		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 3%	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 50%	USD/Rand (average)	14.96	14.13	14.35	14.25	14.35	14.75	15.05	14.65
	Repo rate (end rate)	3.50	3.50	3.50	3.50	3.75	3.75	4.00	4.00
	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 41%	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	4.00	4.00	4.25	4.25	4.50
	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 5%	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	4.25	4.50	4.50	4.75	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	21.21	21.86	22.56	23.64	24.00	24.31	25.03	25.17	25.03	24.60
EUR/ZAR	18.03	17.03	18.48	19.07	19.84	20.81	21.29	21.42	21.88	22.00	21.88	21.50
ZAR/JPY	7.09	7.75	7.13	6.90	6.69	6.43	6.33	6.29	6.11	6.08	6.11	6.22
CHFZAR	16.52	15.51	16.59	16.97	17.52	18.23	18.51	18.62	19.23	19.34	19.23	18.90
AUDZAR	11.56	10.88	11.67	11.94	12.48	12.99	13.18	13.26	13.65	13.73	13.65	13.42
GBP/USD	1.38	1.37	1.37	1.39	1.42	1.43	1.45	1.43	1.42	1.41	1.40	1.40
EUR/USD	1.21	1.20	1.21	1.24	1.26	1.26	1.27	1.26	1.25	1.25	1.25	1.25
USD/JPY	106	105	105	105	104	104	105	105	106	106	106	106

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	13.20	13.60	13.10
GBP/ZAR	20.63	19.75	19.18	19.04	18.75	19.03	18.74	18.59	18.30	18.88	19.45	18.73
EUR/ZAR	18.03	17.03	16.71	16.61	16.49	16.75	16.63	16.38	16.00	16.50	17.00	16.38
ZAR/JPY	7.09	7.75	7.88	7.93	8.05	7.99	8.11	8.23	8.36	8.11	7.87	8.17
CHFZAR	16.52	15.51	15.00	14.78	14.56	14.67	14.45	14.24	14.07	14.51	14.95	14.40
AUDZAR	11.56	10.88	10.55	10.40	10.37	10.45	10.30	10.14	9.98	10.30	10.61	10.22
GBP/USD	1.38	1.37	1.37	1.39	1.42	1.43	1.45	1.43	1.42	1.41	1.40	1.40
EUR/USD	1.21	1.20	1.21	1.24	1.26	1.26	1.27	1.26	1.25	1.25	1.25	1.25
USD/JPY	106	105	105	105	104	104	105	105	106	106	106	106

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	15.65	16.40	17.00	17.50	18.00	18.50	19.00	19.50	19.90	20.00
GBP/ZAR	20.63	19.75	21.91	23.12	23.97	24.85	25.56	26.46	27.17	27.89	28.46	28.60
EUR/ZAR	18.03	17.03	19.09	20.17	21.08	21.88	22.68	23.31	23.75	24.38	24.88	25.00
ZAR/JPY	7.09	7.75	6.90	6.52	6.29	6.11	5.94	5.78	5.63	5.49	5.38	5.35
CHFZAR	16.52	15.51	17.14	17.96	18.62	19.16	19.71	20.26	20.88	21.43	21.87	21.98
AUDZAR	11.56	10.88	12.05	12.63	13.26	13.65	14.04	14.43	14.82	15.21	15.52	15.60
GBP/USD	1.38	1.37	1.37	1.39	1.42	1.43	1.45	1.43	1.42	1.41	1.40	1.40
EUR/USD	1.21	1.20	1.21	1.24	1.26	1.26	1.27	1.26	1.25	1.25	1.25	1.25
USD/JPY	106	105	105	105	104	104	105	105	106	106	106	106

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	13.50	13.20	13.00	12.90	12.80	12.70	12.50	12.60	12.70	12.50
GBP/ZAR	20.63	19.75	18.90	18.61	18.33	18.32	18.18	18.16	17.88	18.02	18.16	17.88
EUR/ZAR	18.03	17.03	16.47	16.24	16.12	16.13	16.13	16.00	15.63	15.75	15.88	15.63
ZAR/JPY	7.09	7.75	8.00	8.11	8.23	8.29	8.36	8.43	8.56	8.49	8.43	8.56
CHFZAR	16.52	15.51	14.78	14.45	14.24	14.13	14.02	13.91	13.74	13.85	13.96	13.74
AUDZAR	11.56	10.88	10.40	10.16	10.14	10.06	9.98	9.91	9.75	9.83	9.91	9.75
GBP/USD	1.38	1.37	1.37	1.39	1.42	1.43	1.45	1.43	1.42	1.41	1.40	1.40
EUR/USD	1.21	1.20	1.21	1.24	1.26	1.26	1.27	1.26	1.25	1.25	1.25	1.25
USD/JPY	106	105	105	105	104	104	105	105	106	106	106	106

Note: averages, Source: Investec, Iress