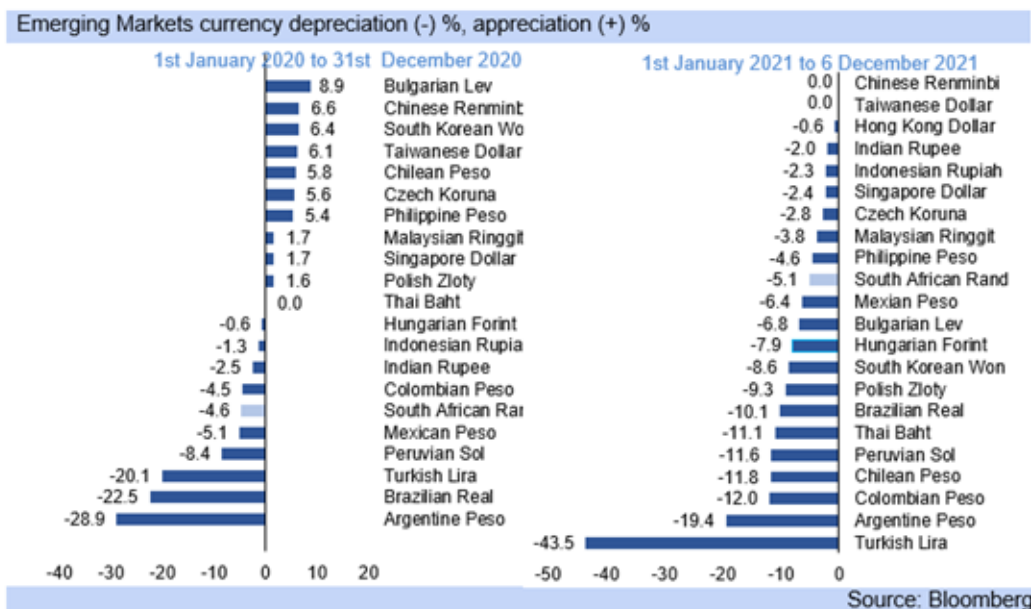


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Monday 6 December 2021

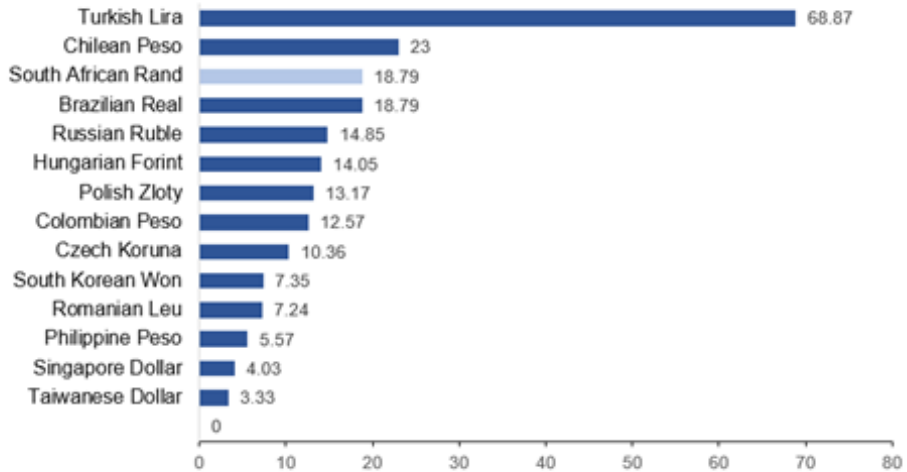
Rand note: the rand has continued to attempt to pull back as US nonfarm payrolls came in particularly weak, and SA sees a marked drop in new daily infections yesterday



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Emerging Markets Implied Volatilities – values 6 December 2021



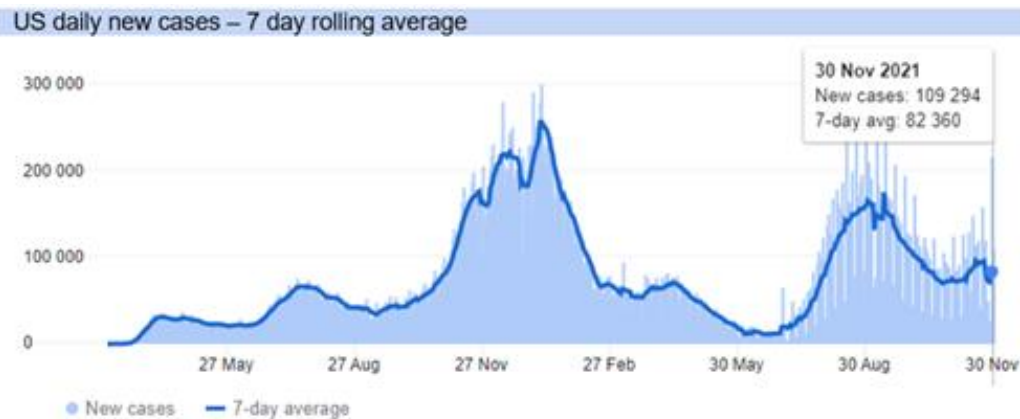
Source: Bloomberg

Global daily new cases – 7 day rolling average

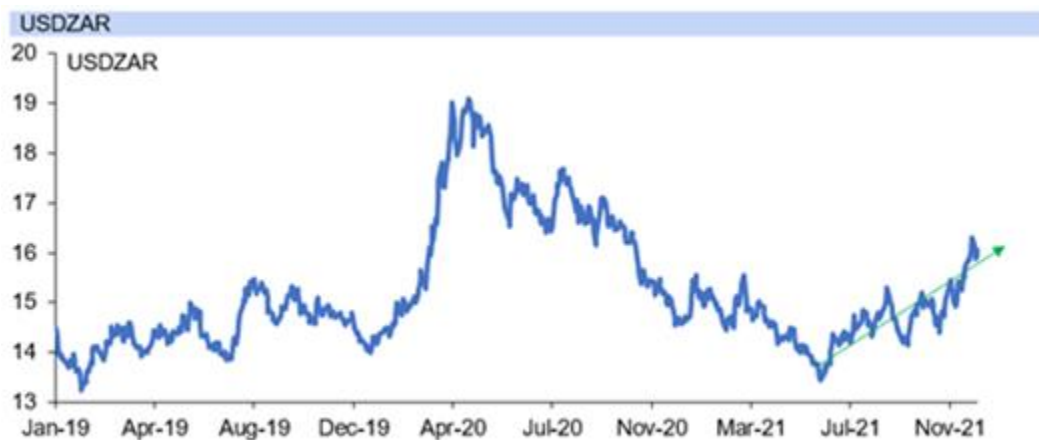


Source: Our World in Data

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Source: The New York Times



Source: Iress

- The rand has strengthened to R15.93/USD so far today, but pierced below R16.00/USD on Friday as the domestic currency remains choppy, pulled in different directions by the very low US nonfarm payrolls numbers but with many still expecting a quickening in US QE tapering.
- Versus the expected 550 thousand expansion in jobs, only 210 thousand new jobs were recorded on the November payroll system, as uncertainty around the impact on the economy of a quicker taper, and so sooner rate hikes, in the US afflicted the hiring figures.
- The weakness represented by these jobs figures was broad-based across a number of sectors, with non-farm payrolls just under half a million jobs below the level before the pandemic. However, individuals continued to gain work, just not as quickly as anticipated.

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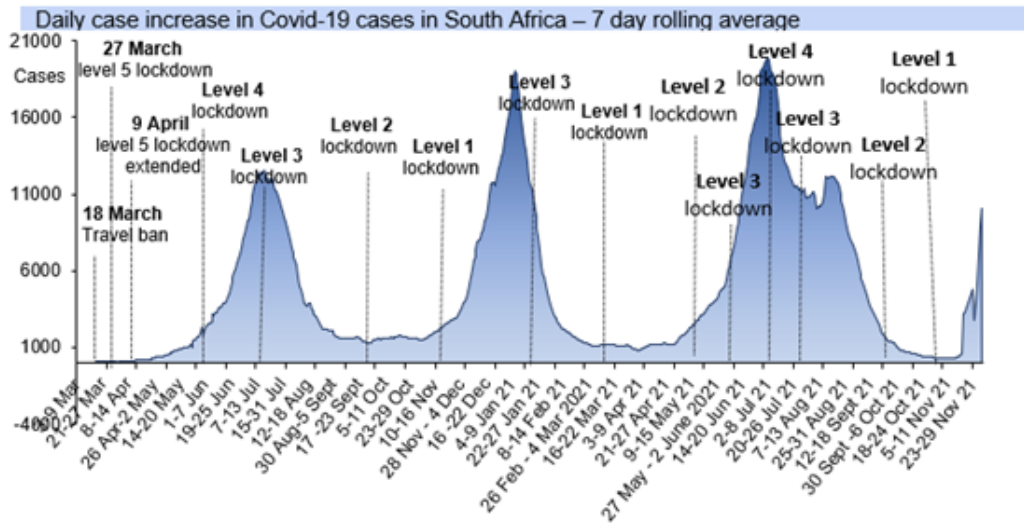
- Household employment, versus company and government above, saw 1.1million jobs gained and unemployment dropped to 4.2%, from 4.6%. Although household employment is volatile, and may slump early next year, markets were cheered by the lower unemployment rate.
- However, there are still 2.4million individuals less in employment overall versus before the pandemic, despite the US labour force increasing by 549 000 individuals in November, going some way to easing labour shortages, but with a still relatively tight market.
- The labour force participation rate is up, as are hourly earnings, the later higher by 0.3% , and this measure of wage inflation is up 4.8% y/y, signifying some upwards pressure from this source for November's US CPI, with US CPI inflation at 6.2% y/y in October.
- The divided data does signify a recovering jobs market (and aggregate labour income is reported 10.4% higher y/y), with the FOMC meeting on 15th December to decide on whether to quicken its tapering of its asset purchase programme.
- The FOMC may well taper further, as both household savings and expenditure are fairly robust, and PCE is expected to remain healthy well into the first half of next year. Markets are still digesting the jobs data leading to further volatility for the 'more risky' risk assets.
- The rand remains vulnerable, as while this time of year typically sees more market calm, the progress the US is making in the normalisation of its monetary policy is heavily disrupting it, although it would have likely been worse in the typically risk-off period for the rand of Q2/Q3.

Please scroll down to the second section below

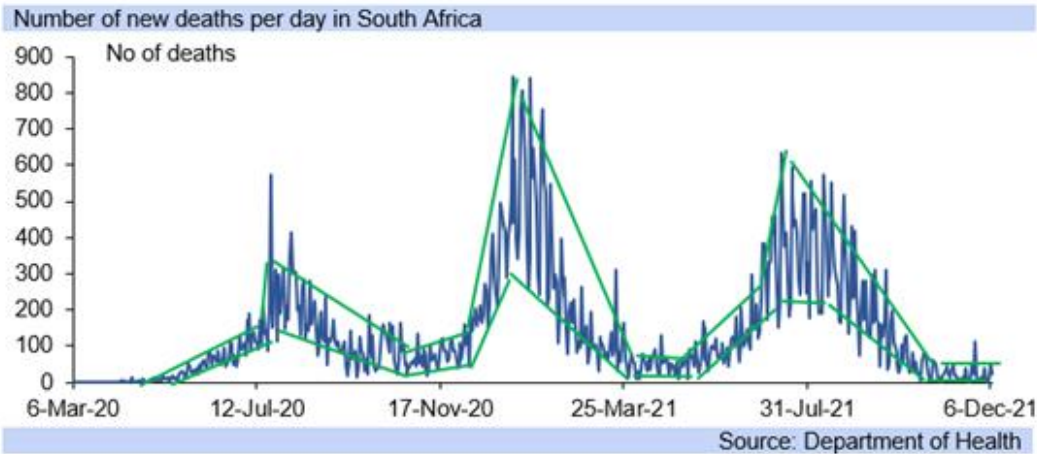
Expected Case: Exchange Rate forecasts												
	2021				2022				2023			
	Q1.21	Q2.21	Q3.21	Q4.21	Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.23
USD/ZAR	14.96	14.13	14.64	15.40	15.25	15.45	15.70	15.50	15.35	15.75	16.15	15.65
GBP/ZAR	20.63	19.75	20.18	20.85	20.89	21.47	22.37	22.71	22.72	22.84	23.09	22.38
EUR/ZAR	18.03	17.03	17.26	17.78	17.54	17.77	18.25	18.41	18.57	19.37	20.19	19.56
ZAR/JPY	7.09	7.75	7.52	7.36	7.61	7.61	7.55	7.71	7.69	7.30	6.81	6.84
CHFZAR	16.52	15.51	15.95	16.67	16.62	16.68	16.98	16.89	16.87	17.31	17.75	17.20
AUDZAR	11.56	10.88	10.76	11.18	11.29	11.59	11.93	11.94	11.97	12.29	12.60	12.21
GBP/USD	1.38	1.40	1.38	1.35	1.37	1.39	1.42	1.47	1.48	1.45	1.43	1.43
EUR/USD	1.21	1.21	1.18	1.15	1.15	1.15	1.16	1.19	1.21	1.23	1.25	1.25
USD/JPY	106	109	110	113	116	118	119	120	118	115	110	107

Note: averages, Source: Investec, Iress

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Source: National Department of Health

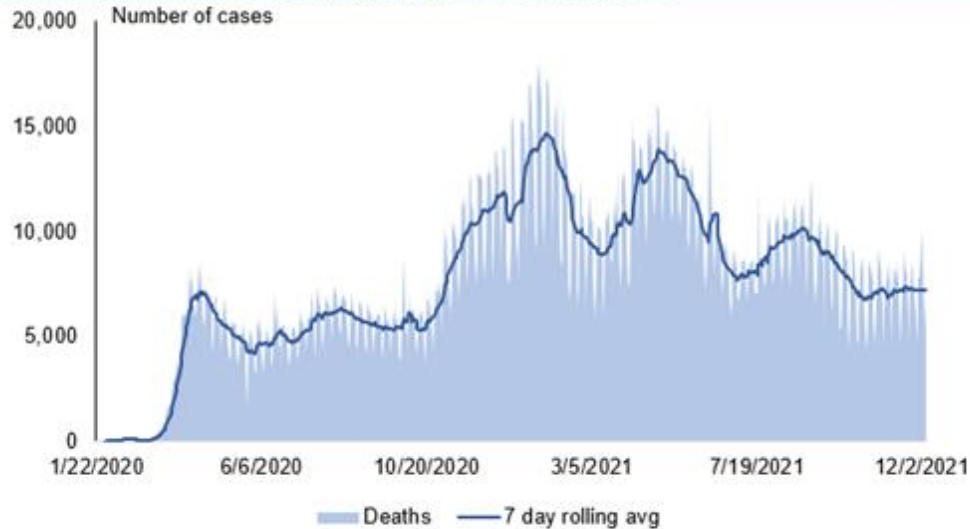


Source: Department of Health

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Global daily deaths with 7 day rolling average – 5 December 2021



Source: Our World in Data

US daily new deaths – 7 day rolling average



Source: The New York Times

- COVID-19 continues to run through the world on the fourth wave, as market fears around Omicron afflict sentiment. In particular, the timing of an inclusion of a large backlog of test figures in SA, along with the advent of Omicron, distorted the perceived path of the disease.
- The latest figures in South Africa show a new daily increase in COVID-19 cases, of 11 125 yesterday, down from 16 366 the day before. While this is about a third lower, although the figures can prove a bit volatile.

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- However, if a downward trend does develop in South Africa, it would be positive for global financial market sentiment, as markets fear that Omicron is extremely contagious and worry it may have very severe symptoms as well, given insufficient conclusive evidence yet.
- However, the sudden inclusion of over 17 thousand amalgamated new positive cases of COVID-19, that were not correctly captured from various days/ weeks before near the start of SA's fourth wave, inaccurately skewed the figures market sentiment towards the variant.
- The rand has weakened on the rapid travel bans slapped on SA, even though the variant has been found in many other places of the world subsequently. The travel bans however will severely impact tourism, and so weaken SA's exports notably, and its foreign income.
- The exchange rate, of the rand versus hard currencies, typically strengthens from November, right up to February of the following year, from foreign tourists rand purchases, while GDP experiences a lift from the hospitality, retail, tourism and other industries.
- Metal prices have been losing their gains, now lower than a year ago on an overall basis, down by -3.5%, and exerting downwards pressure on the rand. The rand is weaker by 5.1% y/y, and is being dragged down by a number of factors.
- It is likely that the domestic currency will struggle to make substantial gains into year end, and today has only limped somewhat stronger, into the R15.90/USD to R16.00/USD range, with the rand substantially weaker than it was midyear, at R13.40/USD.
- The domestic currency is going to battle to return to this level (of around R13.50/USD), likely trading in the R15.00/USD to R16.00/USD over the course of the remainder of this year and next year, but with a strong risk of tending even weaker.

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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	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	3.75
	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.								
Base case 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.								
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	20.99	21.92	23.14	24.08	24.91	25.90	25.52	25.03	24.60
EUR/ZAR	18.03	17.03	17.26	17.89	18.40	19.15	19.65	20.19	21.18	21.65	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	16.78	17.44	17.98	18.28	18.52	19.23	19.34	19.23	18.90
AUDZAR	11.56	10.88	10.76	11.26	11.84	12.49	12.84	13.09	13.65	13.73	13.65	13.42
GBP/USD	1.38	1.40	1.38	1.35	1.37	1.39	1.42	1.47	1.48	1.45	1.43	1.43
EUR/USD	1.21	1.21	1.18	1.15	1.15	1.15	1.16	1.19	1.21	1.23	1.25	1.25
USD/JPY	106	109	110	113	116	118	119	120	118	115	110	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	21.67	23.01	24.32	25.65	27.10	27.68	27.84	27.96	28.17
EUR/ZAR	18.03	17.03	17.26	18.47	19.32	20.13	20.93	21.97	22.63	23.62	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	17.32	18.31	18.90	19.47	20.15	20.55	21.10	21.48	21.65
AUDZAR	11.56	10.88	10.76	11.62	12.43	13.13	13.68	14.25	14.59	14.98	15.25	15.37
GBP/USD	1.38	1.40	1.38	1.35	1.37	1.39	1.42	1.47	1.48	1.45	1.43	1.43
EUR/USD	1.21	1.21	1.18	1.15	1.15	1.15	1.16	1.19	1.21	1.23	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	18.96	18.49	18.63	18.81	19.05	19.24	19.00	18.73	18.88
EUR/ZAR	18.03	17.03	17.26	16.16	15.53	15.41	15.35	15.44	15.73	16.11	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	15.15	14.72	14.47	14.27	14.16	14.29	14.40	14.40	14.51
AUDZAR	11.56	10.88	10.76	10.17	9.99	10.05	10.03	10.01	10.14	10.22	10.22	10.30
GBP/USD	1.38	1.40	1.38	1.35	1.37	1.39	1.42	1.47	1.48	1.45	1.43	1.43
EUR/USD	1.21	1.21	1.18	1.15	1.15	1.15	1.16	1.19	1.21	1.23	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	18.69	18.22	18.07	18.38	18.75	18.80	18.13	17.59	17.37
EUR/ZAR	18.03	17.03	17.26	15.93	15.30	14.95	15.00	15.20	15.37	15.38	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
CHFZAR	16.52	15.51	15.95	14.94	14.50	14.04	13.95	13.94	13.96	13.74	13.52	13.35
AUDZAR	11.56	10.88	10.76	10.02	9.84	9.75	9.80	9.86	9.91	9.75	9.59	9.48
GBP/USD	1.38	1.40	1.38	1.35	1.37	1.39	1.42	1.47	1.48	1.45	1.43	1.43
EUR/USD	1.21	1.21	1.18	1.15	1.15	1.15	1.16	1.19	1.21	1.23	1.25	1.25
USD/JPY	106	109	110	113	116	118	119	120	118	115	110	107

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