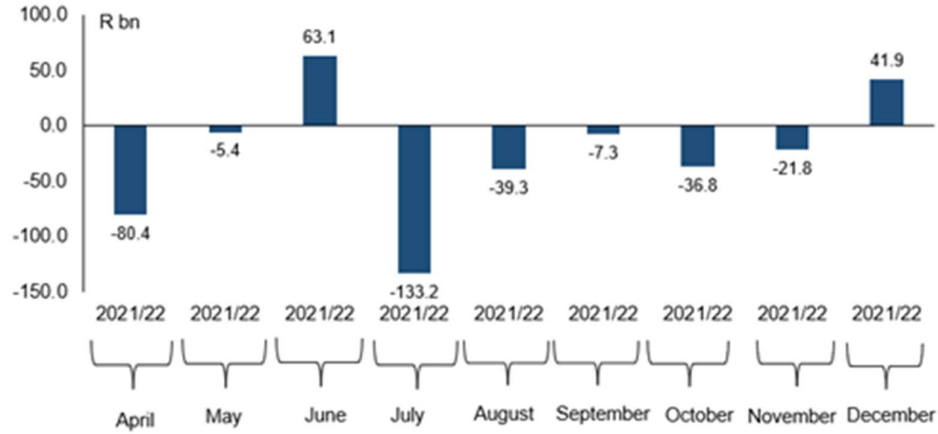


Monday 7 February 2022

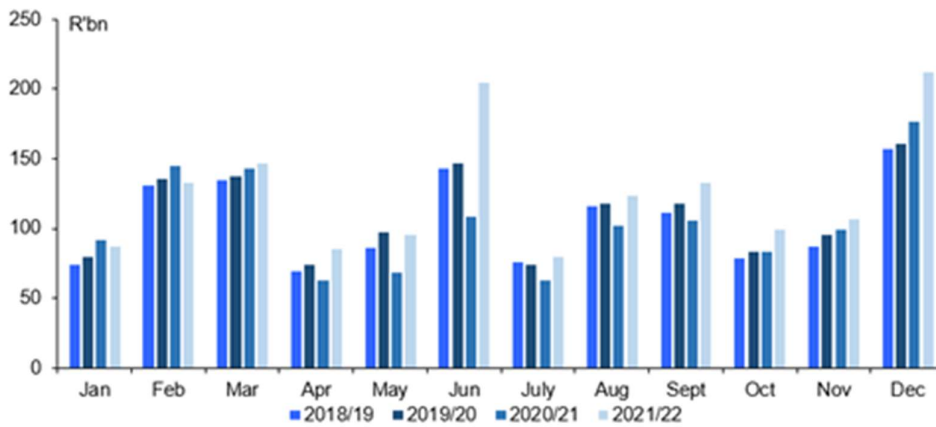
Rand note: the rand is trading water around R15.50/USD ahead of SA's Budget, still supported by commodity prices and so recent twin trade and budget surpluses

South Africa: main fiscal deficit/surplus for 2021/22 so far



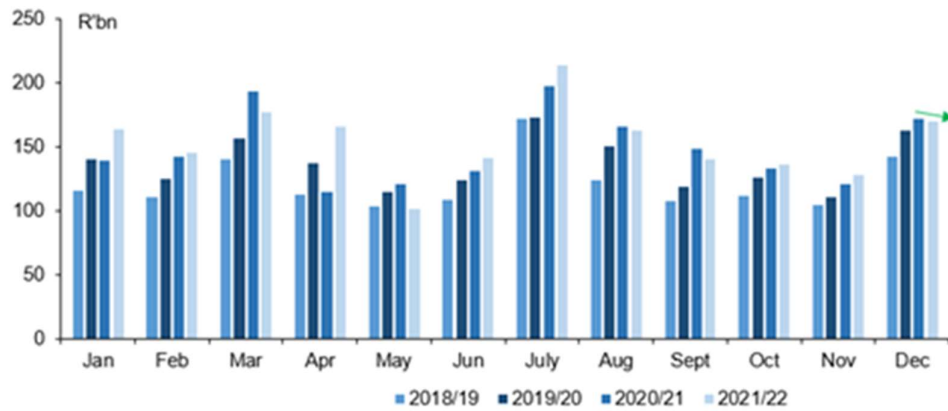
Source: National Treasury

South Africa: government main budget revenue



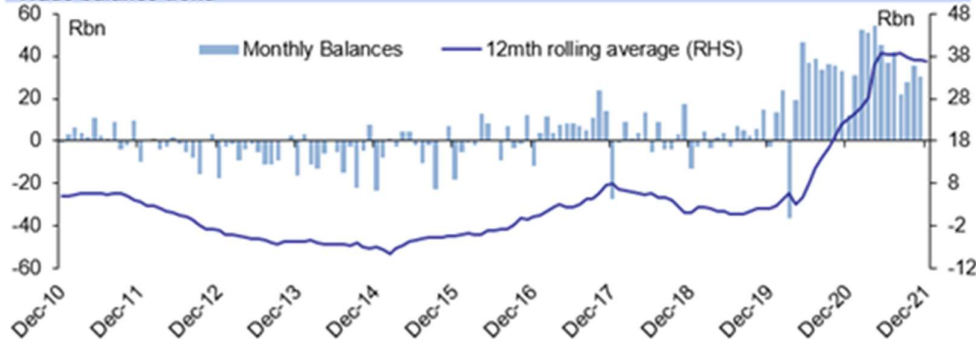
Source: National Treasury

South Africa: government main budget expenditure



Source: National Treasury

Trade balance trend



Source: SARS, Investec

Expected Case: Exchange Rate forecasts

	2022				2023				2024			
	Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.22	Q1.24	Q2.24	Q3.24	Q4.24
USD/ZAR	15.50	15.60	15.85	15.65	15.50	15.90	16.30	15.80	15.60	16.10	16.60	16.10
GBP/ZAR	21.24	21.84	22.82	23.01	22.94	23.69	24.78	24.17	23.71	24.31	24.90	23.99
EUR/ZAR	17.67	17.94	18.39	18.62	18.76	19.56	20.38	19.75	19.50	20.13	20.75	20.13
ZAR/JPY	7.48	7.56	7.51	7.67	7.74	7.55	7.36	7.59	7.56	7.14	6.63	6.65
CHF/ZAR	17.03	16.96	17.23	17.20	17.22	17.67	18.11	17.56	17.14	17.69	18.24	17.69
AUD/ZAR	11.32	11.54	12.05	12.05	11.94	12.24	12.55	12.17	12.17	12.56	12.95	12.56
GBP/USD	1.37	1.40	1.44	1.47	1.48	1.49	1.52	1.53	1.52	1.51	1.50	1.49
EUR/USD	1.14	1.15	1.16	1.19	1.21	1.23	1.25	1.25	1.25	1.25	1.25	1.25
USD/JPY	116	118	119	120	120	120	120	120	118	115	110	107

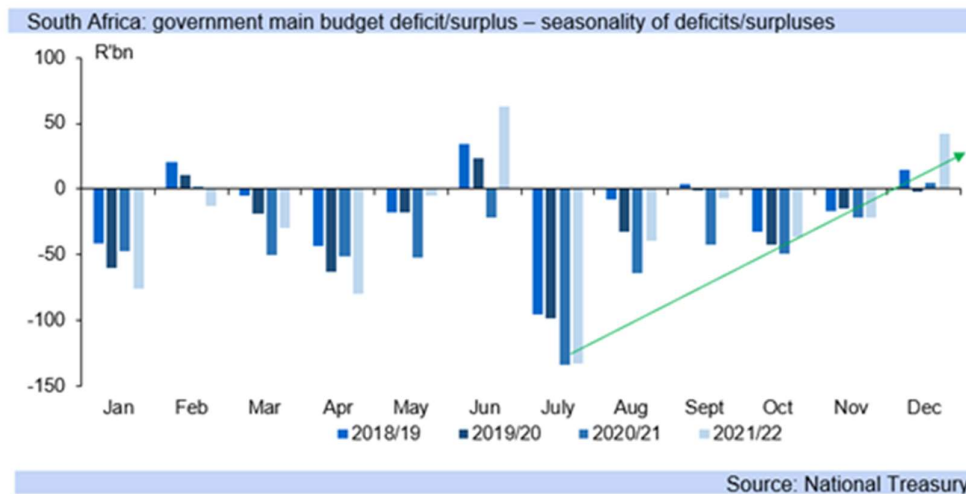
Note: averages, Source: Investec, Iress

- The rand so far this quarter averages R15.46/USD as it approaches the mid-point, supported by strengthening terms of trade over Q4.21 and into 2022 as commodity prices strengthened, also boosting the main budget surplus, with SA recording twin surpluses in December.
- Both the trade and budget balances however are subject to some seasonality too, depending on the festive period and vacation days for the trade account, and timing for tax payments. Commodity price strength has also boosted corporate tax revenues and exports recently.
- South Africa is a key commodity exporter, particularly of metals such as iron and other ores, platinum, gold and also of ferro alloys and coal and agricultural prices have also

seen substantial increases, and so SA's exports have been boosted by these price rises.

- Global economic data continues to show improving demand, albeit at a slower pace than last year's heady acceleration, as the world's economic recovery is seen to remain on track to reach its levels achieved before the pandemic already by this year.
- South Africa continued to see trade surpluses last year far exceeding those of 2020, with the trade balance for the year as a whole at R441bn in 2021, versus R272bn in 2020, and South Africa's terms of trade positive through the whole of 2021.
- SA's trade surplus improved from June 2020 when the harsh lockdown restrictions earlier in the quarter eased, with exports increasing in the main, stabilising the rand around R17.00/USD from May to over Q3.20, and then around the R16.00/USD over Q4.20.
- By the end of 2020, the rand had reached R14.69/USD, with the trade balance recording some very hefty surpluses, of R30bn to R40bn a month over H2.20, as commodity prices staged a strong recovery from Q2.20's lows, and the trade war.
- 2021 saw trade surpluses average close to R40bn a month, versus close to R20bn in 2020 (and R5bn since 2010). By Q1.21 the rand averaged R15.00/USD and Q2.21 closer to R14.00/USD, although H2.21's rand weakened and so did SA's terms of trade.
- The recent gain in commodity prices has provided some support for the domestic currency but global PMIs have softened in SA's key trading partners' while supply chain disruptions and shortages persist, with the rand expected to be limited for substantial strength in H1.22.

Please scroll down to the second section below



Top ten exports for December 2021

Description	Rand (Rbn)
Gold (including gold plated with Platinum)	R10.0
Coal: Briquettes, Ovoids and similar solid fuels manufactured from coal	R9.9
Platinum, unwrought or in semi-manufactured or powder form – Rhodium	R9.2
Iron Ores and Concentrates, including roasted iron pyrites – agglomerated	R7.4
Ores – Manganese ores and concentrates	R4.7
Platinum, unwrought or in semi-manufactured or powder form – Platinum	R4.5
Ferro-Alloys – Ferro-Chromium – containing by mass more than 4% of carbon	R4.4
Platinum, unwrought or in semi-manufactured or powder form – Palladium – unwrought	R4.3
Vehicles and accessories – motor vehicles for the transports of goods	R3.6
Iron Ores and Concentrates, including roasted iron pyrites – non-agglomerated	R3.2
Total	R61.1

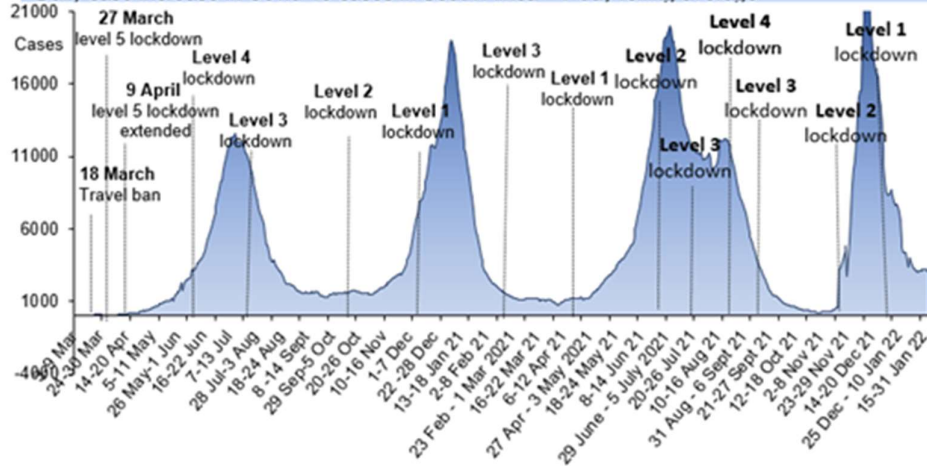
Source: SARS Customs & Excise

Top ten imports for December 2021

Description	Rand (Rbn)
Crude, Coal, Petroleum and Electricity	R10.2
Petroleum oils and oils obtained from Bituminous Minerals, excl Crude	R7.0
Petroleum oils and oils obtained from Bituminous Minerals, excl Crude – Petrol	R3.8
Original equipment components – for motor vehicles for the transport of goods	R3.3
Telephone sets, including telephones for cellular networks	R2.5
Automatic Data Processing Machines and Units	R2.1
Vehicles and accessories – motor cars and other motor vehicles designed for the transport of persons	R1.8
Original Equipment component – for motor cars	R1.8
Pharmaceutical products – Medicaments, for retail sale – other	R1.8
Unused postage, revenue or similar stamps of current or new issue in the country	R1.6
Total	R35.9Bn

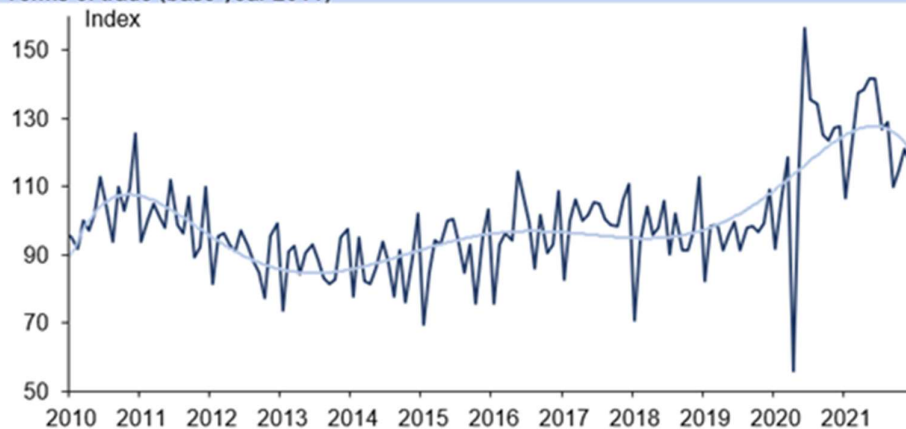
Source: SARS Customs & Excise

Daily case increase in Covid-19 cases in South Africa – 7 day rolling average



Source: National Department of Health

Terms of trade (base year 2011)



Source: SARB

- South Africa's budget surplus for December was also around R40bn, at R41.9bn. State revenues swelled to R212bn, with R93.7bn from corporate tax, R47.8bn from personal income tax and R46.8bn from taxes on goods and services (including VAT's R32.9bn).
- The largest revenue category, corporate tax is up 74% year to date for the 2021/22 fiscal year (over the low base of 2020/21 (April to December) established by the very harsh lockdown restrictions, but still up, by 55.6% on the same period for 2019/20.
- For the fiscal year to date personal income tax collections are 14.9% higher on the same period in 2020/21 but only up 4.5% versus the same period of 2019/20, as the recovery is still modest for consumers in SA with many households not having recovered financially.
- That is, the Transunion Consumer Pulse survey showed 55% of consumers' incomes in Q4.21 were still negatively impacted by COVID-19 (versus Q1.21 62%). With inflation up 8.1% over the period this is unsurprising.
- The fiscal deficit at R219.1bn for the first three quarters of 2021/22 (SA has only seen two months in fiscal surplus so far for 2021/22), with the main budget deficit estimated at -R410bn this year, the actual outcome is likely to be less, closer to -5.0% of GDP than -6.6%.
- The Budget on 23rd February is however not expected to result in any upgrades in SA's credit ratings, coming in neutral overall as revenue overruns are eaten up by higher expenditure, particularly further social support, and so is likely to be fairly rand neutral.
- The SONA due this week Thursday 7pm is expected to show little difference in content to prior years, and there have been little new implementation of reforms sufficient to likely drive economic growth beyond 2.0% y/y this year, particularly on reducing the regulatory burden.
- Moody's this month warned that it is likely that South Africa's "(m)acro-economic conditions will remain difficult, with sluggish economic growth, rising government debt and limited progress on economic reforms due to social and political obstacles."
- Adding that it "expect(s) real GDP growth of just 1.8% in 2022 as political tensions and reform inertia have brought about exceptionally low business confidence. Labour-intensive sectors will continue to be hit hardest, with employment levels remaining weak."

Economic Scenarios: note tighter rate interest rate hike cycle for SA, increased inflation focus

		Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.23
Extreme Up case 1%	USD/Rand (average)	14.50	14.00	13.80	13.70	13.60	13.40	13.30	13.10
	Repo rate (end rate)	4.00	4.00	4.00	3.75	3.75	3.75	3.50	3.50
	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, strong fiscal consolidation (government debt falls back to low ratios of 2000s). Very subdued domestic inflation on extreme rand strength, rapid capacity expansion and very favourable weather conditions. Strong global growth, commodity boom. Stabilisation of credit ratings, then upgrades.								
Up case 2%	USD/Rand (average)	15.00	15.10	15.00	14.90	14.90	14.70	14.60	14.50
	Repo rate (end rate)	4.00	4.00	4.00	4.00	4.00	4.00	4.25	4.25
	Quick rebound from Covid-19 pandemic, rising confidence and investment levels - structural problems eroded. No further credit rating downgrades, rating outlooks stabilise and then become positive on fiscal consolidation (debt projections fall substantially). Global risk-on, global demand quickly returns to trend growth. Very limited impact of expropriation without compensation) to abandoned, labour tenants' and government land (individuals are new owners and receive title deeds) does not have a negative effect on economy - no nationalisation. Low domestic inflation on favourable weather conditions, rand strength reduction in state controlled price inflation on increased private provision of <u> </u> .								
Base case 49%	USD/Rand (average)	15.50	15.60	15.85	15.65	15.50	15.90	16.30	15.80
	Repo rate (end rate)	4.00	4.25	4.25	4.50	4.75	4.75	5.00	5.25
	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 neutral t positive. 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. Civil and political unrest wanes. Inflation impacted by normal course of weather patterns via food price inflation and rand, with modest transition to renewable energy and slow move away from fossil fuel usage, measures to alleviate impact of climate change on economy are modestly implemented.								
Lite (domestic) Down case 42%	USD/Rand (average)	15.70	16.00	16.65	16.90	17.00	17.50	17.60	17.50
	Repo rate (end rate)	4.25	4.50	4.75	5.00	5.25	5.50	5.75	6.00
	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, severe rand weakness and higher inflation (also adverse weather), 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)	16.00	16.80	17.50	18.00	18.50	18.70	19.20	19.55
	Repo rate (end rate)	4.50	4.75	5.00	5.25	5.75	6.00	6.50	7.00
	Lengthy global recession, global financial crisis - insufficient monetary and other policy supports to growth domestically and internationally. Depression in SA, unprecedented rand weakness, very high inflation (very adverse weather). Nationalisation of private sector property (individuals do not receive title deeds). 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 civil unrest, services strike action and strike action.								

Note: Event risk begins Q1.22. Source: Investec

Lite Down Case: Exchange Rate forecasts

	2022			2023				2024				
	Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.22	Q1.24	Q2.24	Q3.24	Q4.24
USD/ZAR	15.70	16.00	16.65	16.90	17.00	17.50	17.60	17.50	17.20	17.00	16.80	17.00
GBP/ZAR	21.51	22.40	23.98	24.84	25.16	26.08	26.75	26.78	26.14	25.67	25.20	25.33
EUR/ZAR	17.90	18.40	19.31	20.11	20.57	21.53	22.00	21.88	21.50	21.25	21.00	21.25
ZAR/JPY	7.39	7.38	7.15	7.10	7.06	6.86	6.82	6.86	6.86	6.76	6.55	6.29
CHF/ZAR	17.25	17.39	18.10	18.57	18.89	19.44	19.56	19.44	18.90	18.68	18.46	18.68
AUD/ZAR	11.46	11.84	12.65	13.01	13.09	13.48	13.55	13.48	13.42	13.26	13.10	13.26
GBP/USD	1.37	1.40	1.44	1.47	1.48	1.49	1.52	1.53	1.52	1.51	1.50	1.49
EUR/USD	1.14	1.15	1.16	1.19	1.21	1.23	1.25	1.25	1.25	1.25	1.25	1.25
USD/JPY	116	118	119	120	120	120	120	120	118	115	110	107

Note: averages, Source: Investec, Iress

Severe Down Case: Exchange Rate forecasts												
	2022				2023				2024			
	Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.22	Q1.24	Q2.24	Q3.24	Q4.24
USD/ZAR	16.00	16.80	17.50	18.00	18.50	18.70	19.20	19.55	19.70	19.75	19.85	19.80
GBP/ZAR	21.92	23.52	25.20	26.46	27.38	27.86	29.18	29.91	29.94	29.82	29.78	29.50
EUR/ZAR	18.24	19.32	20.30	21.42	22.39	23.00	24.00	24.44	24.63	24.69	24.81	24.75
ZAR/JPY	7.25	7.02	6.80	6.67	6.49	6.42	6.25	6.14	5.99	5.82	5.54	5.40
CHFZAR	17.58	18.26	19.02	19.78	20.56	20.78	21.33	21.72	21.65	21.70	21.81	21.76
AUDZAR	11.68	12.43	13.30	13.86	14.25	14.40	14.78	15.05	15.37	15.41	15.48	15.44
GBP/USD	1.37	1.40	1.44	1.47	1.48	1.49	1.52	1.53	1.52	1.51	1.50	1.49
EUR/USD	1.14	1.15	1.16	1.19	1.21	1.23	1.25	1.25	1.25	1.25	1.25	1.25
USD/JPY	116	118	119	120	120	120	120	120	118	115	110	107

Note: averages, Source: Investec, Iress

Up Case: Exchange Rate forecasts												
	2022				2023				2024			
	Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.22	Q1.24	Q2.24	Q3.24	Q4.24
USD/ZAR	15.00	15.10	15.00	14.90	14.90	14.70	14.60	14.50	14.50	14.40	14.40	14.30
GBP/ZAR	20.55	21.14	21.60	21.90	22.05	21.90	22.19	22.19	22.04	21.74	21.60	21.31
EUR/ZAR	17.25	17.37	17.40	17.73	18.03	18.08	18.25	18.13	18.13	18.00	18.00	17.88
ZAR/JPY	7.73	7.81	7.93	8.05	8.05	8.16	8.22	8.28	8.14	7.99	7.64	7.48
CHFZAR	16.35	16.41	16.30	16.37	16.56	16.33	16.22	16.11	15.93	15.82	15.82	15.71
AUDZAR	11.10	11.17	11.40	11.47	11.47	11.32	11.24	11.17	11.31	11.23	11.23	11.15
GBP/USD	1.37	1.40	1.44	1.47	1.48	1.49	1.52	1.53	1.52	1.51	1.50	1.49
EUR/USD	1.14	1.15	1.16	1.19	1.21	1.23	1.25	1.25	1.25	1.25	1.25	1.25
USD/JPY	116	118	119	120	120	120	120	120	118	115	110	107

Note averages, Source: Investec, Iress

Extreme Up Case: Exchange Rate forecasts												
	2022				2023				2024			
	Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.22	Q1.24	Q2.24	Q3.24	Q4.24
USD/ZAR	14.50	14.00	13.80	13.70	13.60	13.40	13.30	13.10	12.90	12.80	12.60	12.30
GBP/ZAR	19.87	19.60	19.87	20.14	20.13	19.97	20.22	20.04	19.61	19.33	18.90	18.33
EUR/ZAR	16.53	16.10	16.01	16.30	16.46	16.48	16.63	16.38	16.13	16.00	15.75	15.38
ZAR/JPY	8.00	8.43	8.62	8.76	8.82	8.96	9.02	9.16	9.15	8.98	8.73	8.70
CHFZAR	15.93	15.22	15.00	15.05	15.11	14.89	14.78	14.56	14.18	14.07	13.85	13.52
AUDZAR	10.59	10.36	10.49	10.55	10.47	10.32	10.24	10.09	10.06	9.98	9.83	9.59
GBP/USD	1.37	1.40	1.44	1.47	1.48	1.49	1.52	1.53	1.52	1.51	1.50	1.49
EUR/USD	1.14	1.15	1.16	1.19	1.21	1.23	1.25	1.25	1.25	1.25	1.25	1.25
USD/JPY	116	118	119	120	120	120	120	120	118	115	110	107

Note: averages, Source: Investec, Iress