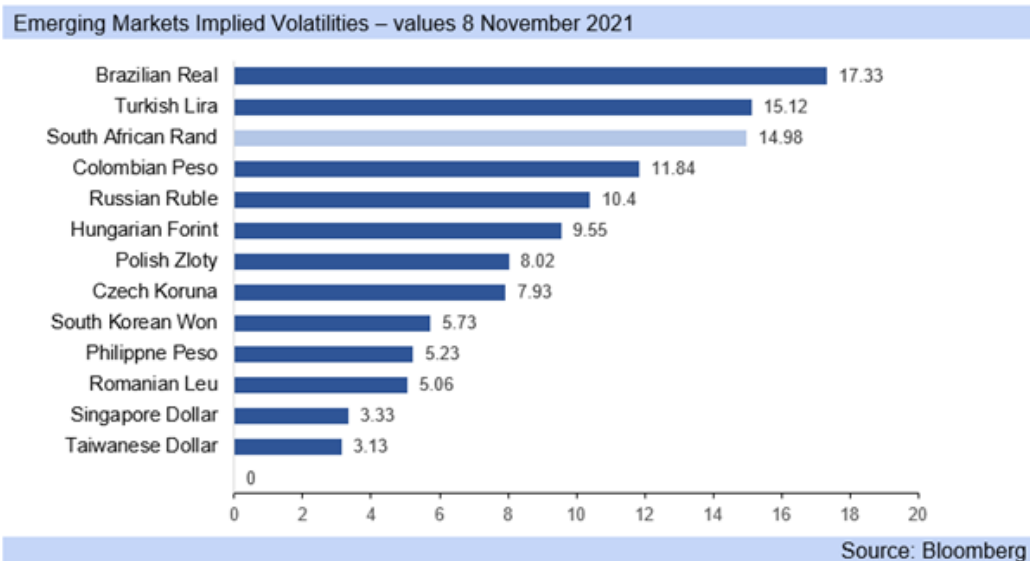
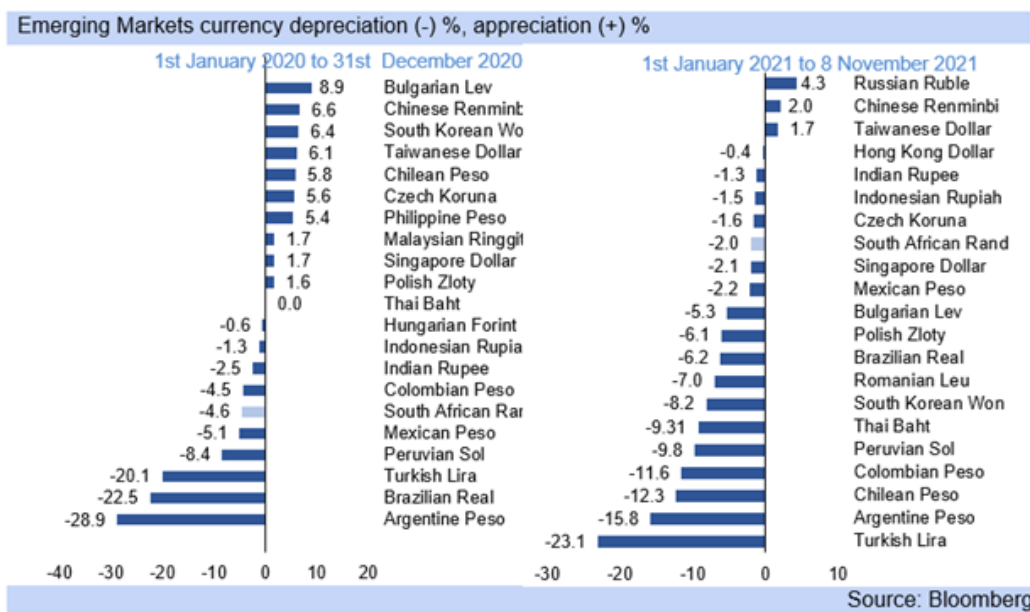


SA Economics



Monday 8 November 2021

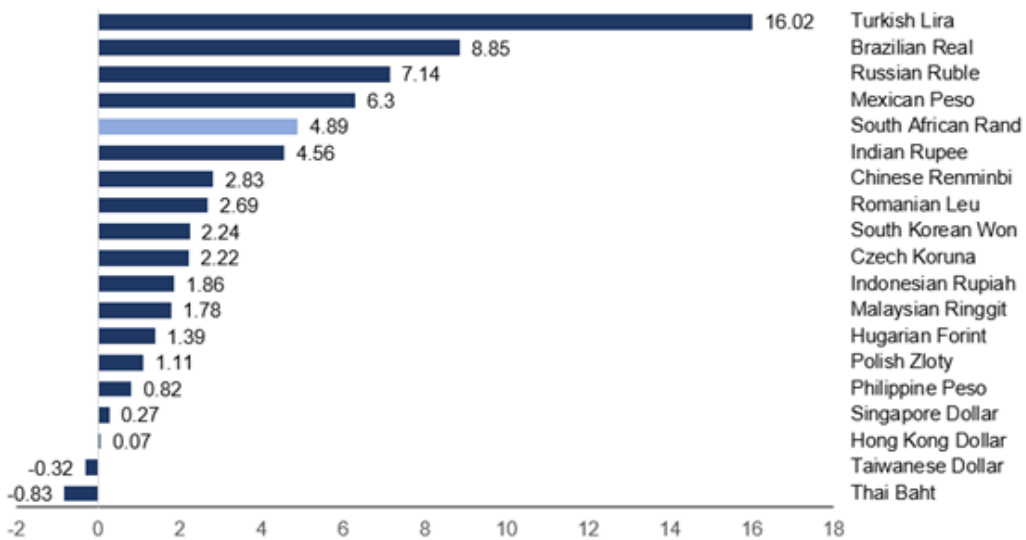
Rand note: risk-on has seen the rand strengthen as some key global indicators improve, but the currency has a weak underpin unusual for this time of year on political risk of EFF ANC coalition



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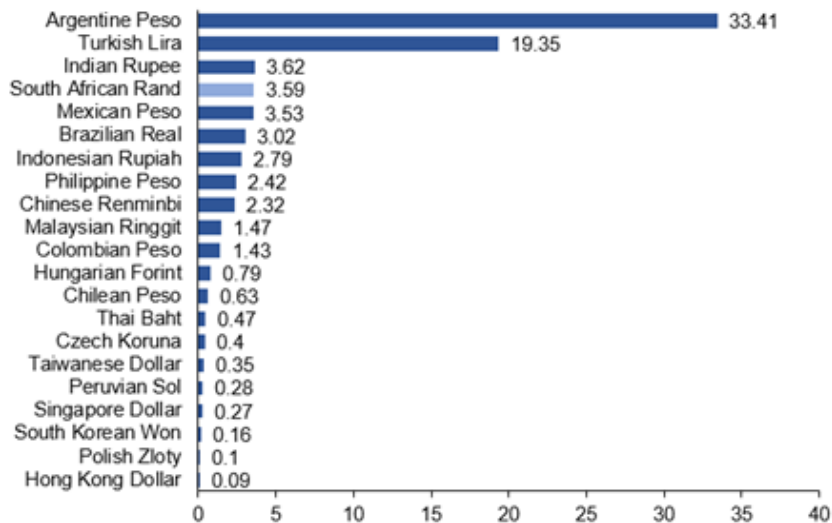


Emerging Markets Implied Rates – values 8 November 2021



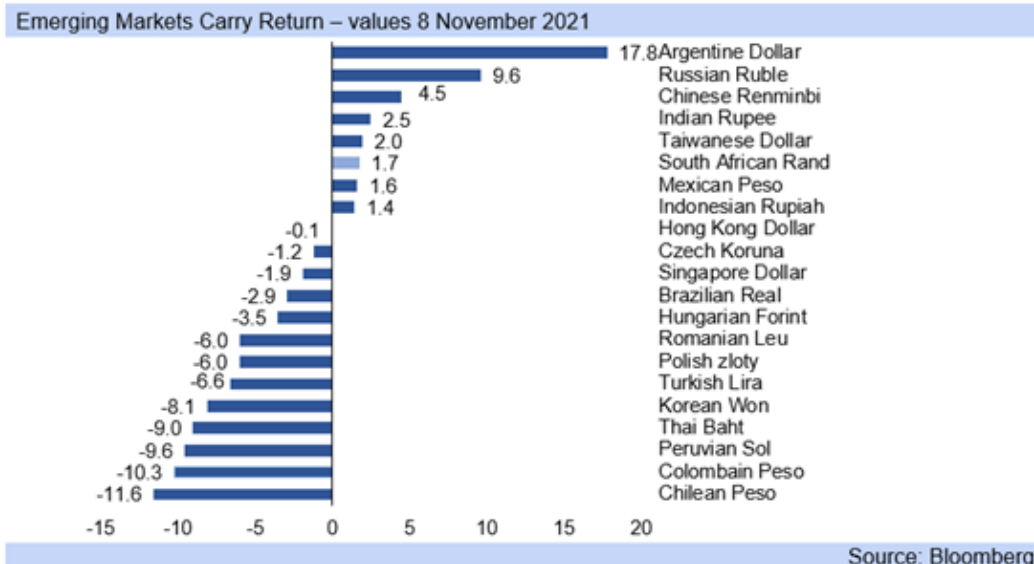
Source: Bloomberg

Emerging Markets Interest Return – values 8 November 2021



Source: Bloomberg

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- The rand usually sees some strengthening in the run up to the end of the year, and indeed has reached R14.93/USD today so far, after close to R15.50 last week, as recent improved US jobs numbers indicate further recovery in the US after the impact of the delta wave.
- Seasonally the last quarter of the year, and first quarter of the next, are often strong for risk assets, and the robust upward momentum in global equities is also improving risk-appetite further, with the rand potentially making additional gains this week.
- However, both the medium-term budget (policy statement or MTBPS), and some further signalling on political coalitions this week may have room to upset the domestic currency, as the MTBPS is expected to by and large be positive on the fiscal metrics.
- But disappointment in this regard, particularly additional heavy expenditure commitments over the medium-term could take the shine off any good news on the fiscal metric side, while increases in the projected rand value of borrowings would be market negative.
- The MTBPS is set for this Thursday at 2pm but is not likely to see any tax change announcements, instead being the second update of the year which can highlight policy on inflation targeting, exchange controls and potential future taxation directions.
- SARS has been making strong progress in a number of areas and the MTBPS should give detail on this and some upwards projected revenue adjustments - SA's revenue GDP ratios otherwise risk dropping on the recent surveyed enlargement of the economy by Stats SA.
- SA's debt and budget deficit ratios, which we expect at 69.8% for gross loan debt and a deficit of -7.5%, both as a % of GDP, could both surprise on the lower side for this year, with potentially the budget deficit closer to 6.5%.

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- National Treasury will likely announce some plans of a form of more permanent financial assistance for the unemployed as the social relief grant wears out, with the potential permanent social transfer likely to be tied to job seeking as opposed to an outright grant.
- The domestic currency could be in for a strengthening run this week and next if the budget figures surprise on the positive side leading into the country reviews on 19th November, where we expect no change, although much will depend on the ANC coalition partner/s.

Please scroll down to the second section below

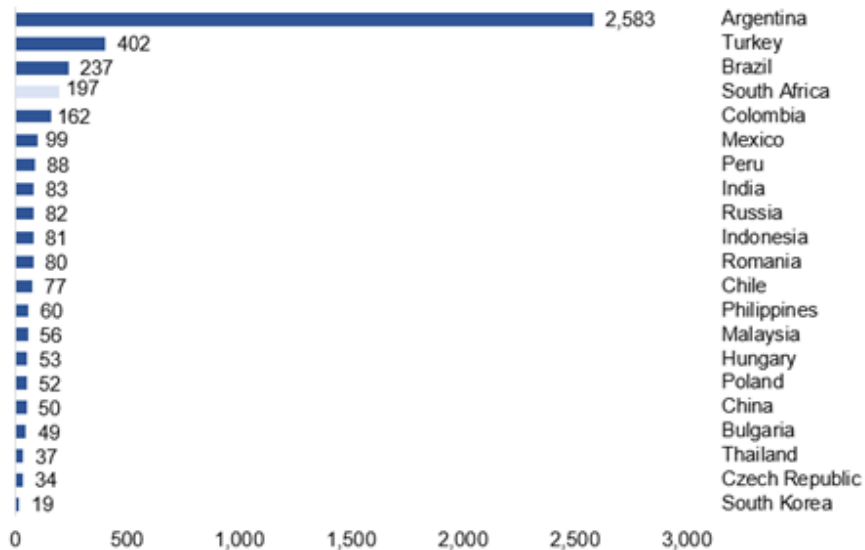
| Economic Scenarios: note interest rate hikes pushed out in expected case | | | | | | | | | |
|--|---|-------|-------|-------|-------|-------|-------|-------|-------|
| | | Q1.21 | Q2.21 | Q3.21 | Q4.21 | Q1.22 | Q2.22 | Q3.22 | Q4.22 |
| Extreme Up case 1% | USD/Rand (average) | 14.96 | 14.13 | 14.64 | 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 | 14.80 | 14.65 | 14.85 | 15.10 | 14.90 |
| | 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: Investor

SA Economics

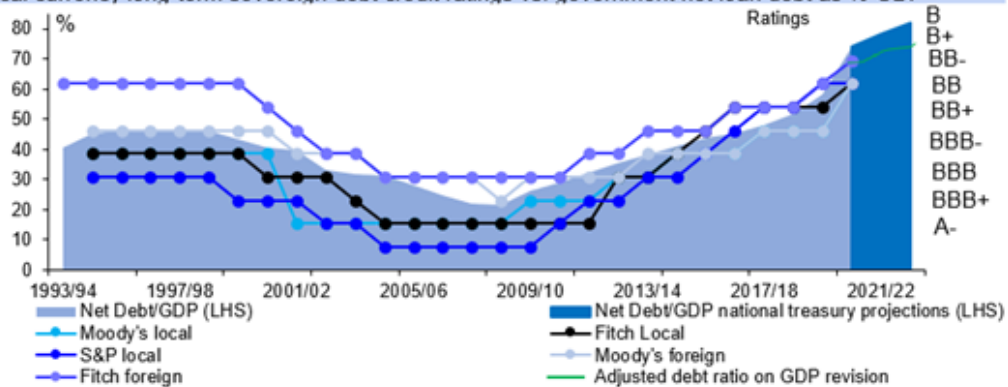


Emerging Markets CDS Spreads – values 8 November 2021



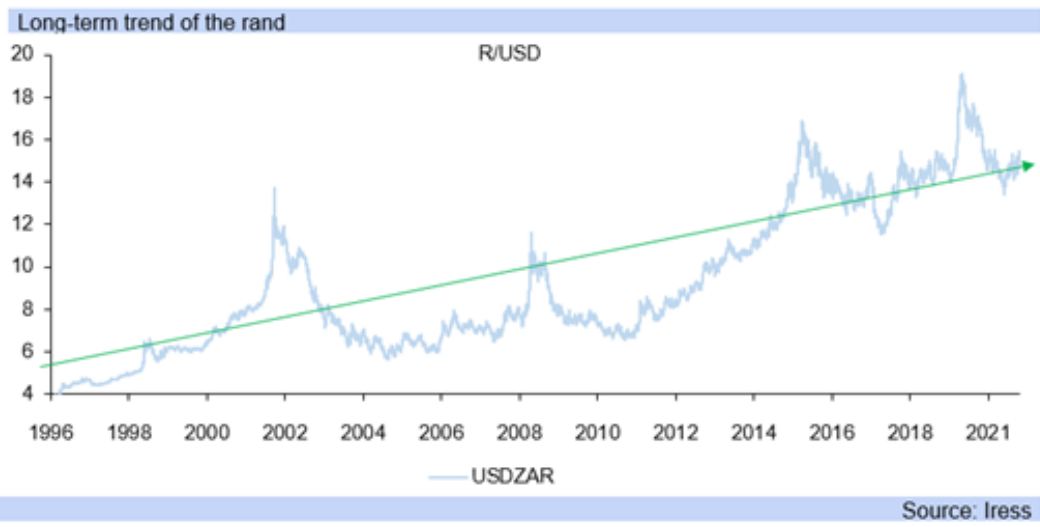
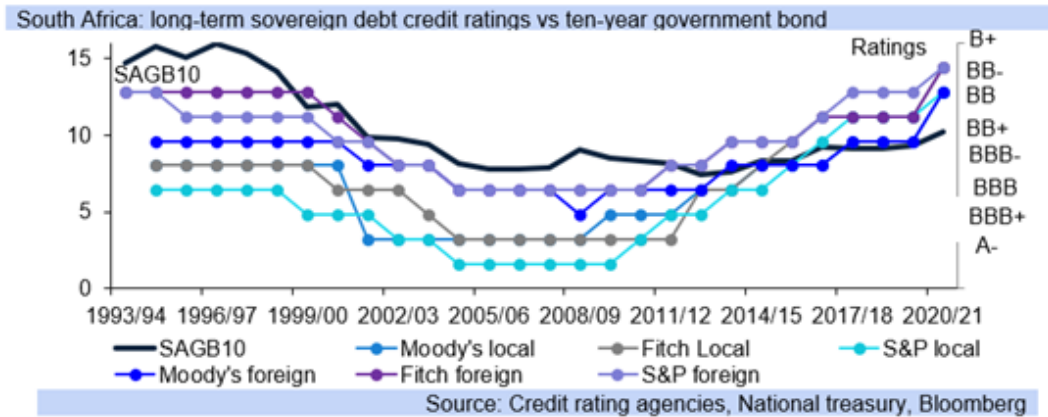
Source: Bloomberg

Local currency long-term sovereign debt credit ratings vs. government net loan debt as % GDP



Source: Credit rating agencies, National treasury, Bloomberg

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- That is, with the EFF already spelling out onerous terms for the ANC to go into coalition with it, there is a risk the ruling party caves in for short-term coalition majorities in certain municipalities, which on a longer-term then severely weakens voter support for it further.
- The EFF has already said it requires the confiscation of all land in SA without compensation which would have an extremely severe, negative and very long-lasting impact on business confidence, much worse than the impact the July riots has had.
- Placing all private sector land under state ownership without any compensation is contrary to ANC agreed policies and risks swinging the country into a deep left policy outlook, causing investor confidence to plummet until the policies are reversed, if it even recovers then.

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- This, and other forms of extreme nationalization (versus privatisation) has been very negative for other currencies when countries followed that path and will also spur huge foreign investor selling of SA's bonds, driving up borrowing costs very rapidly.
- Indeed, the market shock would likely be worse than the impact of Nenegate under ex-President Zuma, but would also not be easily reversible as Nenegate was, although it should be remembered that Nenegate still has negative tail effects which have not unwound.
- That is, the removal of Finance Minister Nene in December 2015, replaced briefly with Minister Van Rooyen, and then Minister Gordhan, has never seen the rand fully recover, nor investor confidence, and foreigners have been net bond and equity sellers since.
- The ANC adoption of EFF policies would not be quickly undone, nor would the market impact be fully undone either and it would plunge SA into the severe down case of the scenario table above, as political uncertainty would immediately soar sky high and investors retreat.
- National treasury has already warned of the high cost of Nenegate, and state capture overall, on the government's finances, pointing to the long-term damage on borrowing costs and in particular the negative impact on markets and investors in SA's government debt.
- A worse elevation of sovereign risk is likely on ANC EFF coalitions that adopt any EFF policies, with investors fleeing, fearing EEF extreme left-wing policy spread to the confiscation of all private sector assets, with the severe down case then becoming the expected case.

| 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 | 22.14 | 24.11 | 25.64 | 26.82 | 28.02 | 27.68 | 27.84 | 27.96 | 28.17 |
| EUR/ZAR | 18.03 | 17.03 | 17.26 | 18.87 | 20.24 | 21.35 | 22.32 | 23.13 | 23.38 | 24.00 | 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 | 17.45 | 18.66 | 19.50 | 20.20 | 20.74 | 20.55 | 21.10 | 21.48 | 21.65 |
| AUDZAR | 11.56 | 10.88 | 10.76 | 11.78 | 12.60 | 13.13 | 13.68 | 14.25 | 14.59 | 14.98 | 15.25 | 15.37 |
| GBP/USD | 1.38 | 1.40 | 1.38 | 1.38 | 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 | 113 | 116 | 118 | 119 | 120 | 118 | 115 | 110 | 107 |

Note: averages, Source: Investec, Iress

SA Economics



| 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 | 21.45 | 22.96 | 24.39 | 25.18 | 25.75 | 25.90 | 25.52 | 25.03 | 24.60 |
| EUR/ZAR | 18.03 | 17.03 | 17.26 | 18.28 | 19.28 | 20.31 | 20.96 | 21.25 | 21.88 | 22.00 | 21.88 | 21.50 |
| ZAR/JPY | 7.09 | 7.75 | 7.52 | 7.31 | 7.25 | 7.06 | 7.01 | 7.03 | 6.74 | 6.53 | 6.29 | 6.22 |
| CHFZAR | 16.52 | 15.51 | 15.95 | 16.90 | 17.77 | 18.55 | 18.96 | 19.06 | 19.23 | 19.34 | 19.23 | 18.90 |
| AUDZAR | 11.56 | 10.88 | 10.76 | 11.41 | 12.00 | 12.49 | 12.84 | 13.09 | 13.65 | 13.73 | 13.65 | 13.42 |
| GBP/USD | 1.38 | 1.40 | 1.38 | 1.38 | 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 | 113 | 116 | 118 | 119 | 120 | 118 | 115 | 110 | 107 |

Note: averages, Source: Investec, Iress

| 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 | 14.80 | 14.65 | 14.85 | 15.10 | 14.90 | 14.75 | 15.15 | 15.55 | 15.05 |
| GBP/ZAR | 20.63 | 19.75 | 20.18 | 20.48 | 21.02 | 21.75 | 22.50 | 22.57 | 21.83 | 21.97 | 22.24 | 21.52 |
| EUR/ZAR | 18.03 | 17.03 | 17.26 | 17.46 | 17.65 | 18.12 | 18.72 | 18.63 | 18.44 | 18.94 | 19.44 | 18.81 |
| ZAR/JPY | 7.09 | 7.75 | 7.52 | 7.65 | 7.92 | 7.91 | 7.85 | 8.02 | 8.00 | 7.59 | 7.07 | 7.11 |
| CHFZAR | 16.52 | 15.51 | 15.95 | 16.14 | 16.27 | 16.55 | 16.94 | 16.70 | 16.21 | 16.65 | 17.09 | 16.54 |
| AUDZAR | 11.56 | 10.88 | 10.76 | 10.89 | 10.99 | 11.14 | 11.48 | 11.47 | 11.51 | 11.82 | 12.13 | 11.74 |
| GBP/USD | 1.38 | 1.40 | 1.38 | 1.38 | 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 | 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 | 19.37 | 19.37 | 19.63 | 19.67 | 19.69 | 19.24 | 19.00 | 18.73 | 18.88 |
| EUR/ZAR | 18.03 | 17.03 | 17.26 | 16.51 | 16.27 | 16.35 | 16.37 | 16.25 | 16.25 | 16.38 | 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 | 15.27 | 14.99 | 14.93 | 14.81 | 14.57 | 14.29 | 14.40 | 14.40 | 14.51 |
| AUDZAR | 11.56 | 10.88 | 10.76 | 10.31 | 10.13 | 10.05 | 10.03 | 10.01 | 10.14 | 10.22 | 10.22 | 10.30 |
| GBP/USD | 1.38 | 1.40 | 1.38 | 1.38 | 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 | 113 | 116 | 118 | 119 | 120 | 118 | 115 | 110 | 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 | 19.10 | 19.08 | 19.04 | 19.22 | 19.39 | 18.80 | 18.13 | 17.59 | 17.37 |
| EUR/ZAR | 18.03 | 17.03 | 17.26 | 16.28 | 16.03 | 15.86 | 16.00 | 16.00 | 15.88 | 15.63 | 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 |
| CHF/ZAR | 16.52 | 15.51 | 15.95 | 15.05 | 14.77 | 14.48 | 14.48 | 14.35 | 13.96 | 13.74 | 13.52 | 13.35 |
| AUD/ZAR | 11.56 | 10.88 | 10.76 | 10.16 | 9.98 | 9.75 | 9.80 | 9.86 | 9.91 | 9.75 | 9.59 | 9.48 |
| GBP/USD | 1.38 | 1.40 | 1.38 | 1.38 | 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 | 113 | 116 | 118 | 119 | 120 | 118 | 115 | 110 | 107 |

Note: averages, Source: Investec, Iress