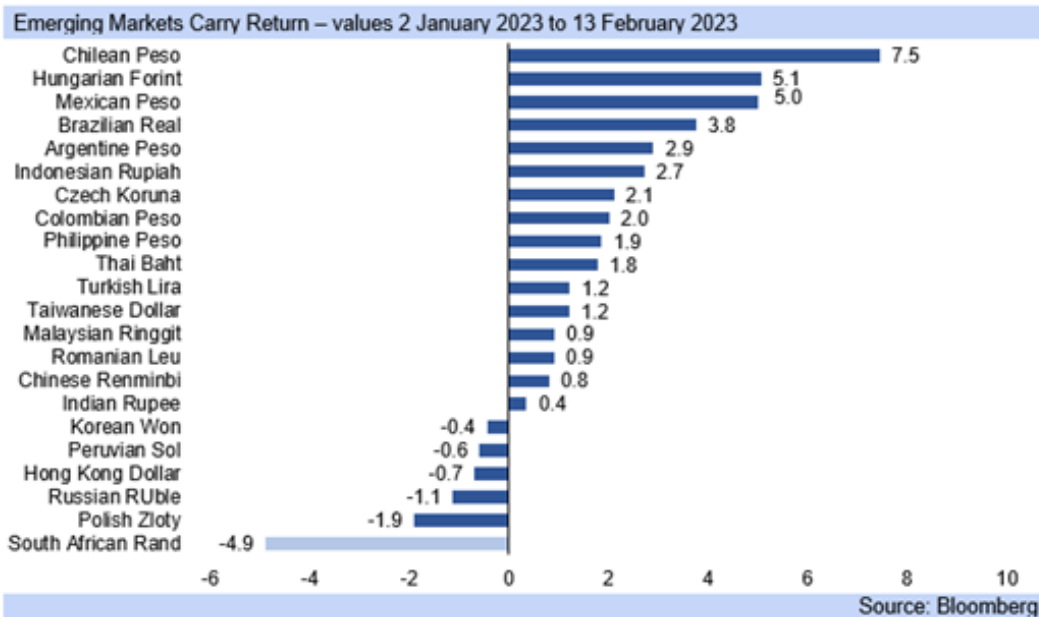


# SA Economics

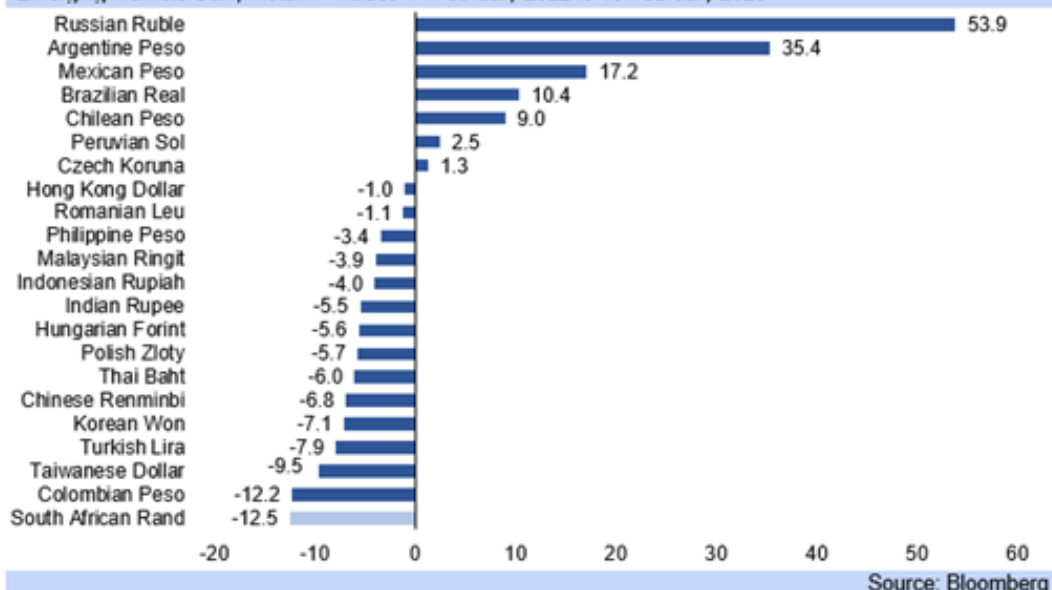


Rand note: the rand continues to depreciate on rising political risk, along with deteriorating fundamentals

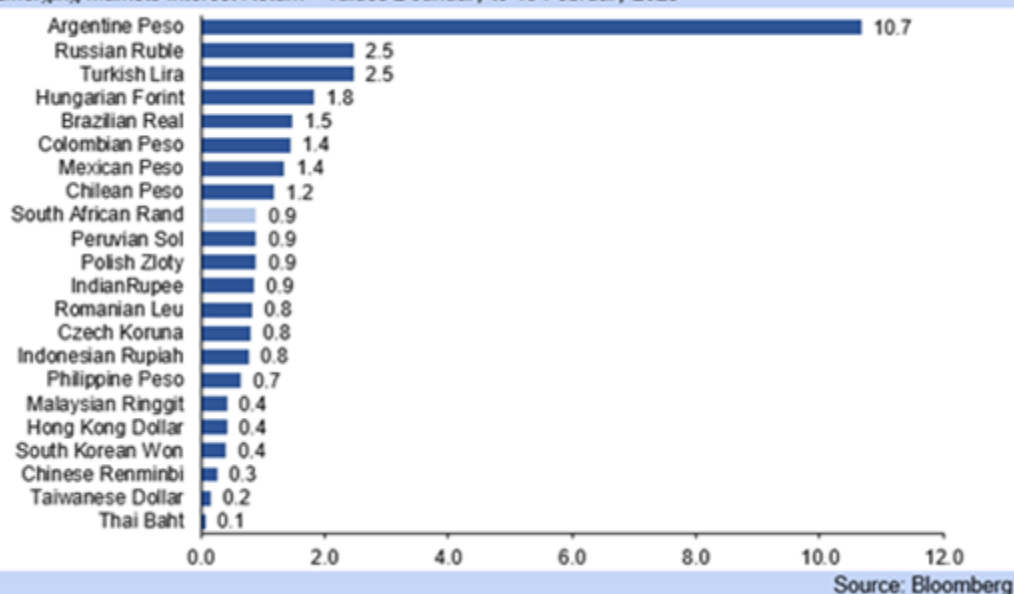
Monday 13 February 2023



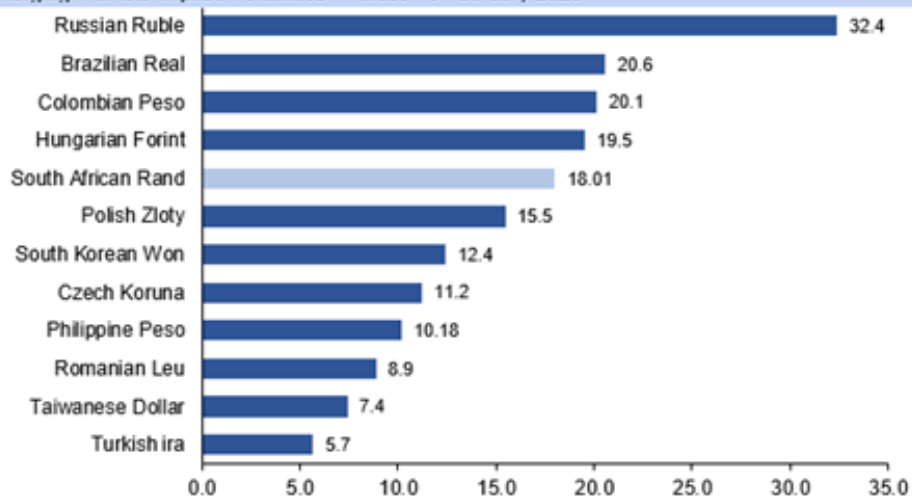
Emerging Markets Carry Return – values 14 February 2022 to 13 February 2023



Emerging Markets Interest Return – values 2 January to 13 February 2023



Emerging Markets Implied Volatilities – values 13 February 2023



Source: Bloomberg

Expected Case: Exchange Rate forecasts

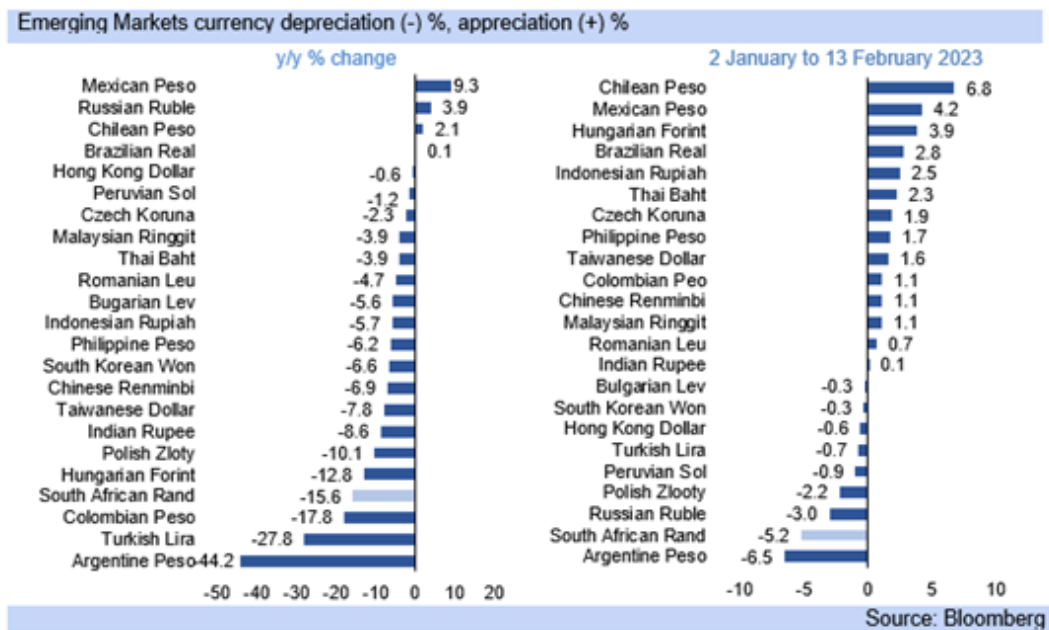
	2023				2024				2025			
	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24	Q1.25	Q2.25	Q3.25	Q4.25
USD/ZAR	17.10	17.00	16.90	16.80	16.60	16.85	17.20	17.00	16.90	16.90	17.20	17.00
GBP/ZAR	21.02	21.08	21.13	21.00	20.92	21.40	22.10	22.19	21.97	21.97	22.36	22.10
EUR/ZAR	18.50	18.62	18.76	18.82	18.76	19.21	19.87	19.98	19.77	19.77	20.12	19.89
ZAR/JPY	7.57	7.56	7.46	7.44	7.44	7.24	7.03	7.06	7.93	7.81	7.62	7.65
CHF/ZAR	18.68	18.71	18.57	18.18	17.78	18.04	18.56	18.67	18.57	18.57	18.90	18.68
AUD/ZAR	11.85	12.07	12.25	12.35	12.28	12.47	12.81	12.75	12.84	13.01	13.59	13.43
GBP/USD	1.23	1.24	1.25	1.25	1.26	1.27	1.29	1.31	1.30	1.30	1.30	1.30
EUR/USD	1.08	1.10	1.11	1.12	1.13	1.14	1.16	1.18	1.17	1.17	1.17	1.17
USD/JPY	130	129	126	125	124	122	121	120	134	132	131	130

Note: averages, Source: Investec, Iress

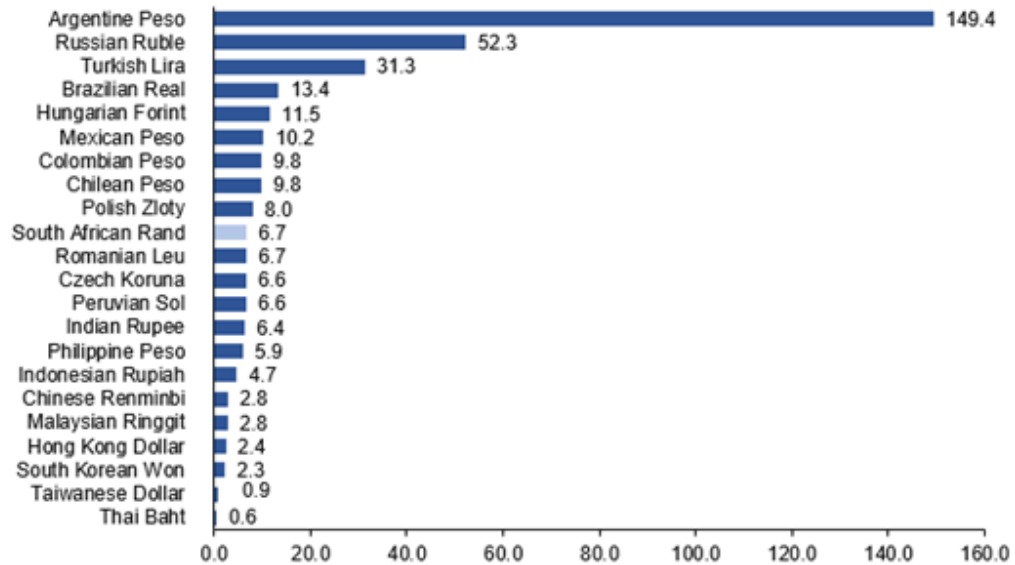
- The rand has breached R18.00/USD, and is moving closer to R22.00/GBP and R19.50/EUR, experiencing substantial risk-off against the key crosses, losing ground on both global and SA specific issues.
- The recent increased appetite of the ANC for coalitions with SA's far left wing political party at the municipal level has negatively affected investor sentiment, as has the country's energy crisis with load shedding permanent for the foreseeable future.
- Businesses fear increased left wing policies (which typically are anti-business) and so the ANC moving away from its centrist stance. The ANC's current preferred coalition party is now the EFF, likely to push for some ANC adoption of its policies.
- Business sentiment is depressed, damaged also by weakening economic productive capacity as rail and port transport capacity deteriorates, along with security of water supply, and the Reserve Bank revising its GDP growth forecast to close to zero.
- That is, on 26<sup>th</sup> January, SA's Reserve Bank (SARB) revised down its GDP growth forecast for this year, from 1.1% y/y, to 0.3% y/y, after Eskom's announcement on 22<sup>nd</sup> January that load shedding is likely permanent for this year.

- The SARB also substantially weakened its forecast of SA's economic growth rate for the next two years, halving it for 2024, to 0.7% y/y from the 1.4% y/y held previously, and for 2025 dropped it from 1.5% y/y to 1.0% y/y.
- Global financial markets are also showing some concern over a lengthier than hoped for disinflation (falling inflation) path this year, with the US implicitly targeting the core PCE deflator measure, which is proving sticky, as are most core measures.
- Federal Reserve Bank Chair Jerome Powell recently warned that returning inflation to its target will take "quite a bit of time", and that the recent strong employment data "shows why we think this will be a process that takes quite a bit of time."
- After weakening over January on the improved global economic outlook, the US dollar strengthened over February, as risk sentiment has deteriorated somewhat on a recalibration of US inflation expectations for a more moderate core descent.

Please scroll down to the second section below

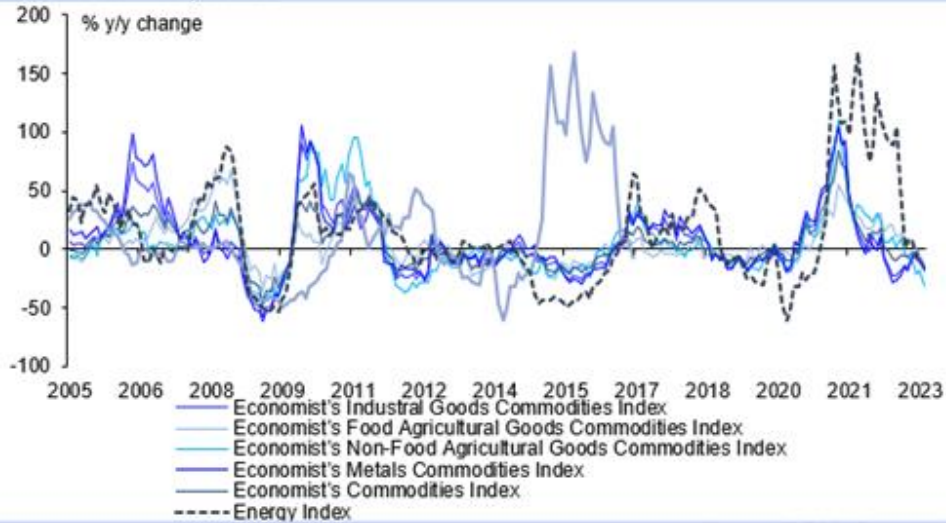


### Emerging Markets Interest Return – values 14 February 2022 to 13 February 2023

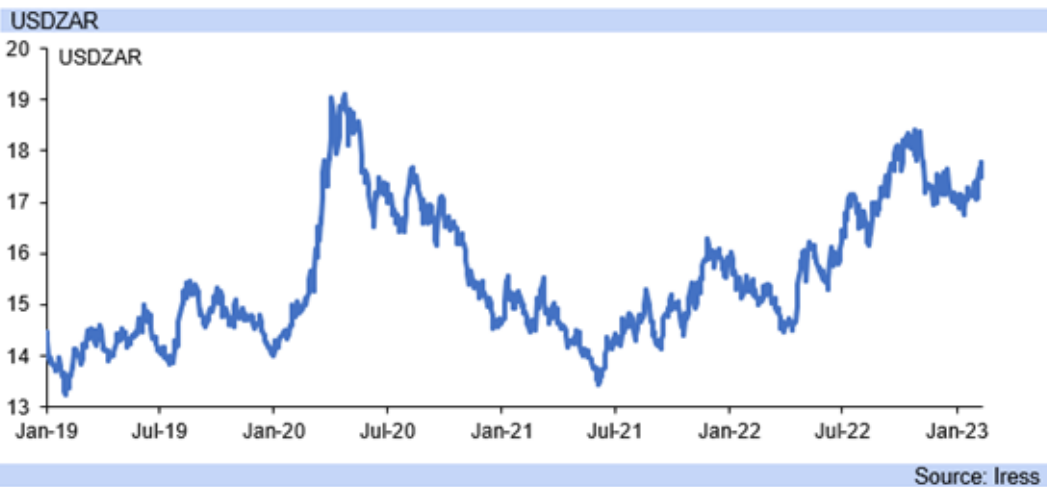
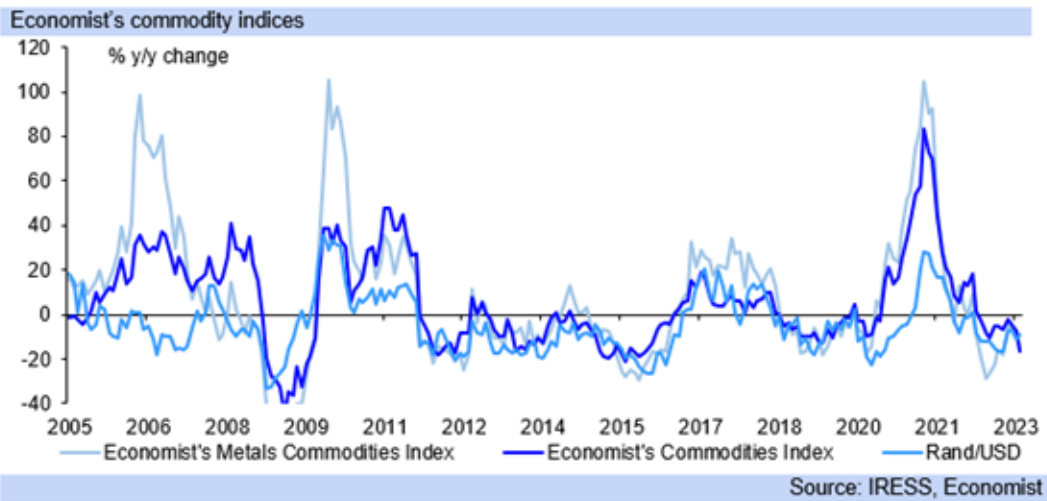


Source: Bloomberg

### Economist's commodity indices



Source: IRESS, Economist, IMF



- The tempering of market optimism for a very rapid drop in core inflationary pressures has seen the rand weaken since the start of the month, and with a negative carry trade, while foreigners remain net sellers of SA portfolio assets.
- Indeed, foreigners have sold -R6.7bn worth of South African equities since the announcement of permanent load shedding, despite Eskom seeking to dampen the statement subsequently.
- Moody's credit rating agency warned on Friday night that "South Africa's longest-ever stretch of power cuts is credit negative". Moody's currently has a stable outlook on SA, with a Ba2 rating, a notch higher than the Fitch and S&P equivalents.
- Moody's added that it "expect the government will accelerate the delivery of new power generation licences, which will allow investment in utility plants, leverage economies of scale and liberalize the South African energy market."
- And“(w)e currently do not expect a major widening in the fiscal deficit since the government is likely to reduce its spending commensurately.” But, given its credit negative view of the event, a negative outlook is likely if state finances are pressure.

- “The three-month state of disaster will give the government wide-ranging powers in managing the electricity crisis, including emergency procurement procedures that bypass existing laws and bureaucratic hurdles”.
- Moody’s concludes that “(i)mplementation risks are significant and any real effects will take time to materialise”, as one of the top three rating agencies globally adds to market concerns on SA’s deteriorating economic growth outlook.
- Looking forward, tomorrow sees the publication of US CPI inflation figures, with the headline print for CPI expected to have dropped to a rate of 6.2% y/y in January from 6.5% y/y in December, while core inflation falls to 5.5% y/y from 5.7%.
- Also due this week are the US’s PPI inflation numbers, which are also forecast lower, while the US’s core PCE deflator is published next week on the 24<sup>th</sup> for Q4.22, although it is a second (revised) release of the data.



Economic Scenarios: note updated probabilities

		Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24
<b>Extreme Up case</b>	USD/Rand (average)	16.40	15.50	14.50	14.00	13.60	13.40	13.30	13.10
	Repo rate (end rate)	6.50	6.25	6.00	5.75	5.50	5.25	4.75	4.75
<b>1%</b>	SA economic growth very quickly rises to 3-5%, then 5-7%. Good governance, growth-creating reforms (structural constraints eradicated), strong property rights, no nationalisation or expropriation without compensation. High business confidence and fixed investment growth, substantial FDI, fiscal consolidation drives debt to low ratios of 2000s. Very subdued domestic inflation on extreme rand strength, very favourable weather conditions. Strong global growth, risk-on, commodity boom. Rapid upgrades of credit ratings to investment grade. No grey listing. Quick transition to renewable energy from fossil fuels.								
<b>Up case</b>	USD/Rand (average)	16.60	15.90	15.50	15.00	14.70	14.60	14.50	14.70
	Repo rate (end rate)	7.00	6.75	6.50	6.25	6.00	6.00	5.50	5.50
<b>4%</b>	Economic growth averages 3.3% over five-year period, but lifts towards 5.0% y/y by period end, rising confidence and investment levels, structural constraints eroded, global growth strong, global financial markets risk-on. No nationalisation or expropriation without compensation. Low domestic inflation on favourable weather and global conditions, rand strength, lower state-controlled price inflation on increased privatisation. Credit rating upgrades on fiscal consolidation, markedly lower borrowings. Substantial transition to renewable energy away from fossil fuel usage, comprehensive measures to alleviate climate change impact on economy. No grey listing.								
<b>Base case</b>	USD/Rand (average)	17.10	17.00	16.90	16.80	16.60	16.85	17.20	17.00
	Repo rate (end rate)	7.25	7.25	7.25	7.25	7.00	7.00	7.00	6.50
<b>50%</b>	Economic growth modest (1.9% average over 5 years) but lifts towards 3.0% y/y by end period on reforms, global financial market risk sentiment is neutral to positive. South Africa follows fiscal consolidation (debt to GDP stabilisation) leading to positive outlooks, then likely credit rating upgrades. The rand stabilises, then strengthens somewhat. Inflation is impacted by the course of weather patterns via food price inflation. A transition to renewable energy and slow move away from fossil fuel usage occurs and measures to alleviate the impact of climate change on the economy are modestly implemented. The Russian/Ukraine conflict eases and does not exacerbate. Little expropriation without compensation. Temporary grey listing.								
<b>Lite (domestic) Down case</b>	USD/Rand (average)	18.30	18.50	18.00	18.20	17.90	18.10	18.20	18.30
	Repo rate (end rate)	7.50	8.00	8.50	9.00	9.00	9.00	9.00	9.00
<b>34%</b>	Weak GDP growth (0.9% average over 5-years), swing toward left leaning policies. Business confidence depressed, substantial electricity and water shedding, very weak rail capacity, civil and political unrest, very little investment growth, recession. Increased state borrowings, risk of credit rating downgrades rises, then occurs later in period. Some expropriation of private sector property without compensation with a negative impact on the economy. High inflation on unfavorable weather conditions, marked rand weakness. Little transition to renewable energy or measures to alleviate climate change. Grey listed.								
<b>Severe down case</b>	USD/Rand (average)	18.70	19.30	19.50	19.70	19.90	19.90	20.00	20.50
	Repo rate (end rate)	8.00	9.00	10.00	10.25	10.25	10.50	10.75	10.75
<b>11%</b>	Lengthy global recession, global financial crisis – insufficient monetary and other support domestically and internationally. ANC/EFF coalition in 2024. Widespread, severe services load shedding, severe civil and political unrest. Government borrows from increasingly wider sources, SA rated single B from all three key agencies, eventually CCC grade, increased risk of default, sinks deeper into a debt trap. Failure to transition to renewable energy and to sufficient measures to alleviate the impact of climate change on the economy. Very high inflation on very adverse weather conditions, severe rand weakness. Expropriation of private property without compensation with a marked negative economic impact. Grey listed								

Note: Event risk begins Q1.23. Source: Investec

Lite Down Case: Exchange Rate forecasts

	2023				2024				2025			
	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24	Q1.25	Q2.25	Q3.25	Q4.25
USD/ZAR	18.30	18.50	18.00	18.20	17.90	18.10	18.20	18.30	18.35	18.45	18.45	18.40
GBP/ZAR	22.49	22.94	22.50	22.75	22.55	22.99	23.39	23.88	23.86	23.99	23.99	23.92
EUR/ZAR	19.80	20.26	19.98	20.38	20.23	20.63	21.02	21.50	21.47	21.59	21.59	21.53
ZAR/JPY	7.08	6.95	7.00	6.87	6.90	6.74	6.65	6.56	7.30	7.15	7.10	7.07
CHF/ZAR	19.99	20.36	19.78	19.69	19.17	19.37	19.64	20.10	20.16	20.27	20.27	20.22
AUD/ZAR	12.69	13.14	13.05	13.38	13.25	13.39	13.56	13.73	13.95	14.21	14.58	14.54
GBP/USD	1.23	1.24	1.25	1.25	1.26	1.27	1.29	1.31	1.30	1.30	1.30	1.30
EUR/USD	1.08	1.10	1.11	1.12	1.13	1.14	1.16	1.18	1.17	1.17	1.17	1.17
USD/JPY	130	129	126	125	124	122	121	120	134	132	131	130

Note: averages, Source: Investec, Iress



### Up Case: Exchange Rate forecasts

	2023				2024				2025			
	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24	Q1.25	Q2.25	Q3.25	Q4.25
USD/ZAR	16.60	15.90	15.50	15.00	14.70	14.60	14.50	14.70	14.80	14.60	14.70	14.80
GBP/ZAR	20.40	19.72	19.38	18.75	18.52	18.54	18.63	19.18	19.24	18.98	19.11	19.24
EUR/ZAR	17.96	17.41	17.21	16.80	16.61	16.64	16.75	17.27	17.32	17.08	17.20	17.32
ZAR/JPY	7.80	8.08	8.13	8.33	8.40	8.36	8.34	8.16	9.05	9.04	8.91	8.78
CHF/ZAR	18.14	17.50	17.03	16.23	15.74	15.63	15.65	16.14	16.26	16.04	16.15	16.26
AUD/ZAR	11.51	11.29	11.24	11.03	10.88	10.80	10.80	11.03	11.25	11.24	11.61	11.69
GBP/USD	1.23	1.24	1.25	1.25	1.26	1.27	1.29	1.31	1.30	1.30	1.30	1.30
EUR/USD	1.08	1.10	1.11	1.12	1.13	1.14	1.16	1.18	1.17	1.17	1.17	1.17
USD/JPY	130	129	126	125	124	122	121	120	134	132	131	130

Note averages, Source: Investec, Iress

### Severe Down Case: Exchange Rate forecasts

	2023				2024				2025			
	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24	Q1.25	Q2.25	Q3.25	Q4.25
USD/ZAR	18.70	19.30	19.50	19.70	19.90	19.90	20.00	20.50	20.40	20.40	20.70	20.50
GBP/ZAR	22.99	23.93	24.38	24.63	25.07	25.27	25.70	26.75	26.52	26.52	26.91	26.65
EUR/ZAR	20.23	21.13	21.65	22.06	22.49	22.69	23.10	24.09	23.87	23.87	24.22	23.99
ZAR/JPY	6.93	6.66	6.46	6.35	6.21	6.13	6.05	5.85	6.57	6.47	6.33	6.34
CHF/ZAR	20.43	21.24	21.43	21.32	21.31	21.30	21.59	22.51	22.42	22.42	22.75	22.53
AUD/ZAR	12.96	13.70	14.14	14.48	14.73	14.73	14.90	15.38	15.50	15.71	16.35	16.20
GBP/USD	1.23	1.24	1.25	1.25	1.26	1.27	1.29	1.31	1.30	1.30	1.30	1.30
EUR/USD	1.08	1.10	1.11	1.12	1.13	1.14	1.16	1.18	1.17	1.17	1.17	1.17
USD/JPY	130	129	126	125	124	122	121	120	134	132	131	130

Note: averages, Source: Investec, Iress

### Extreme Up Case: Exchange Rate forecasts

	2023				2024				2025			
	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24	Q1.25	Q2.25	Q3.25	Q4.25
USD/ZAR	16.40	15.50	14.50	14.00	13.60	13.40	13.30	13.10	12.90	12.80	12.70	12.60
GBP/ZAR	20.16	19.22	18.13	17.50	17.14	17.02	17.09	17.10	16.77	16.64	16.51	16.38
EUR/ZAR	17.74	16.97	16.10	15.68	15.37	15.28	15.36	15.39	15.09	14.98	14.86	14.74
ZAR/JPY	7.90	8.29	8.69	8.93	9.08	9.10	9.10	9.16	10.39	10.31	10.31	10.32
CHF/ZAR	17.92	17.06	15.94	15.15	14.57	14.34	14.35	14.39	14.18	14.07	13.96	13.85
AUD/ZAR	11.37	11.01	10.51	10.29	10.06	9.92	9.91	9.83	9.80	9.86	10.03	9.95
GBP/USD	1.23	1.24	1.25	1.25	1.26	1.27	1.29	1.31	1.30	1.30	1.30	1.30
EUR/USD	1.08	1.10	1.11	1.12	1.13	1.14	1.16	1.18	1.17	1.17	1.17	1.17
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