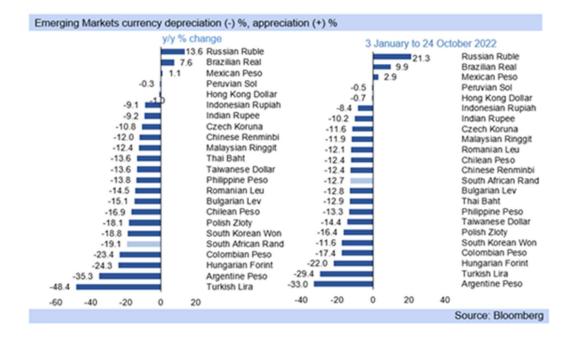




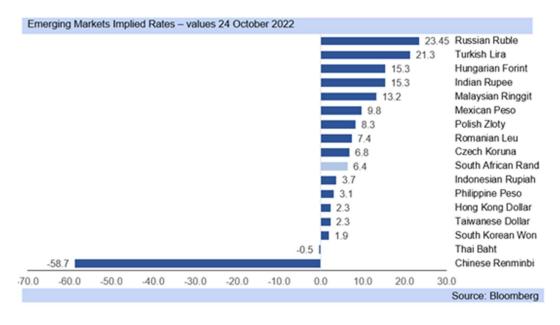
**SA Economics** 

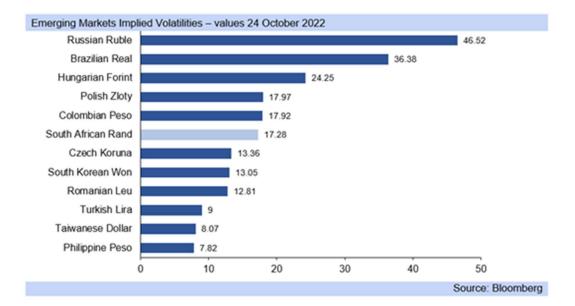
## Monday 24 October 2022

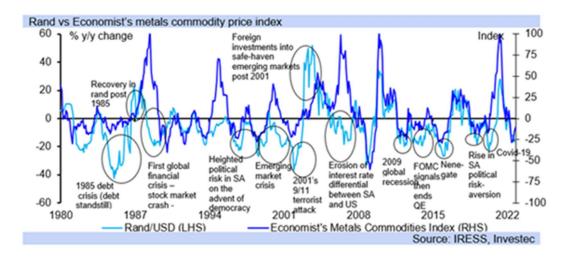
Rand note: SOEs and rise in bond yields will erode the opportunity for fiscal consolidation





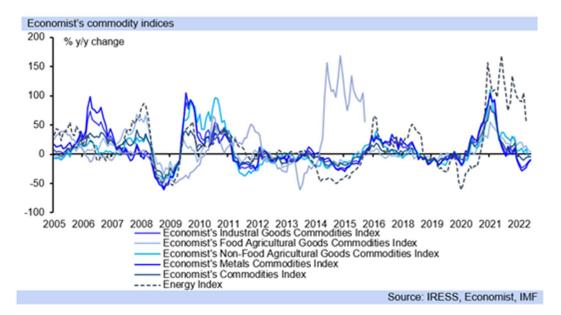




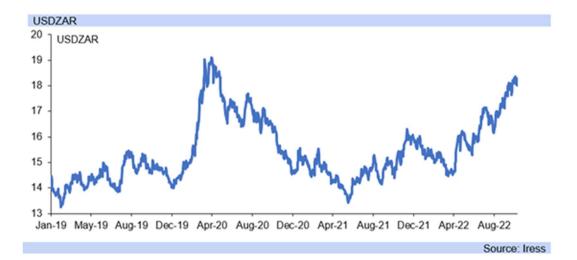


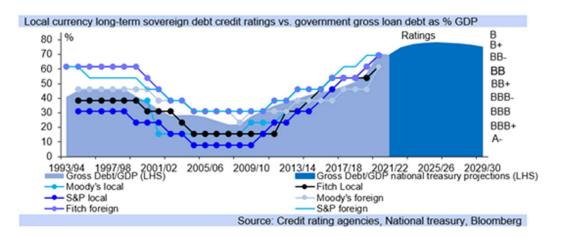
- The rand weakened today against the key crosses, at R18.39/USD from its close of R18.05/USD on Friday, R18.03/EUR from Friday's R17.84/EUR, and R20.81/GBP (after closing at R20.43/GBP last week) as risk aversion levels rise globally.
- Domestic factors are also contributing to rand weakness, particularly the growth negative
  effects of Transnet and Eskom's inability to consistently meet demand for their services,
  with no immediate solutions for electricity, rail and port transport seen in 2022 or 2023.
- Ahead of the MTBPS (Medium-term Budget Policy Statement) this week Wednesday, markets have been factoring in likely assistance from the fiscus for both Transnet and Eskom, which will lower the opportunity for fiscal consolidation and so has undermined the rand.
- Government is expected to absorb at least part of Eskom's debt onto to its balance sheet in future, and while markets have been disappointed before at previous budgets (both mini and the February Budgets), government is expected to give some clarity on its plans this week.

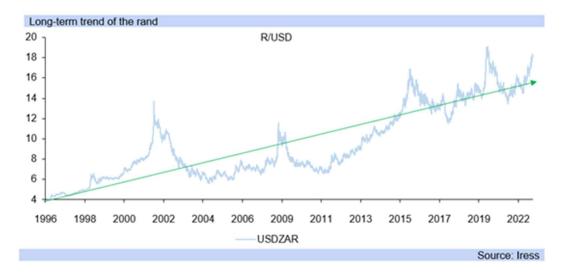
- Transnet will also need substantial state financial assistance as it will be reportedly unable to operate profitability next year, as insufficient capacity to meet the demand for its services has eroded its earning capability as has been the case with Eskom.
- Both Eskom and Transnet suffer from insufficient repair, maintenance and replacement of working infrastructure following years of state capture which has decimated the SOE's finances, governance capabilities and recently still have seen bulk commodities theft.
- That is, Eskom has reported theft of diesel needed to fire its open-cycle gas turbines, and Transnet has seen the loss of customers' minerals commodities in transit and replacement with low grade commodities instead, as the stolen high grade goods are exported.
- Finance Minister Enoch Godongwana warns "Transnet presented a facade of an efficient institution, but now things begin to burst out into the open... If we don't make an intervention, we will have another Eskom on our hands."
- Both SOE's are vital for the functioning of SA's economy, with markets reacting negatively to bad news in the risk averse environment, while the GBP has seen some recent strength as markets now see an improved fiscal plan versus September's mini-budget in the UK.



## Please scroll down to the second section below







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- South Africa is a commodity exporter, and substantial fiscal revenue is garnered from taxation of its commodities sector. Reducing SA's export capacity due to problems at the ports and on the rails harms government finances, and negatively affects the economic outlook.
- While good commodity prices earlier in the year boosted state revenues, and high coal prices persist, insufficient transport capacity has seen an estimated R50 billion loss in tax revenue for the year to date (Minerals Council) as Transnet cannot meet its full logistical demand.

- Weakened international trade dynamics have also affected the pace of the gains made earlier in the year for government revenue, but are expected to still enable further debt stabilisation, and there is scope for some mild lowering in SA's debt to GDP projections.
- For the MTBPS itself this week, strong tax receipts earlier in the year are expected to lift revenues and aid some fiscal consolidation, along with high inflation rates, and so on a credit rating front, no downgrades are expected this year.
- However, SA's debt and fiscal deficit ratios will improve in the current fiscal year mainly due to the deflationary effect of a higher nominal GDP. But the risk of global recession could impact the March quarter of the current fiscal year, a risk for the 2023/2024 fiscal year as well.
- The rating agencies will worry about the growth outlook, particularly as SOEs fail to support demand for their services in full, limiting the pace of economic growth, and so employment in the private sector.
- The rand has also weakened as investors have increasingly factored in the chance of recession next year, with Bloomberg recently showing that the % of investors expecting recession has now risen to 100%, increasing risk aversion in global financial markets.
- South Africa also continues to see a score of risks from the external environment, including
  ongoing monetary policy tightening in advanced economies, which is driving rising
  domestic borrowing costs, while high inflation also adds to the pressure on bond yields.
- Higher borrowing costs increase state expenditure, which will also erode the opportunity for fiscal consolidation, and so place pressure on the rand. The MTBPS could overall prove credit neutral this week, but is unlikely to bring major respite for the rand.

Lite Down	Case: Ex	change F	tate forec	asts									
	2022					20	23		2024				
	Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.2	
USD/ZAR	15.21	15.59	17.05	17.40	17.70	17.80	17.70	17.90	18.10	18.20	18.20	18.0	
GBP/ZAR	20.40	19.59	20.06	17.84	18.05	18.78	19.29	20.23	21.36	22.75	24.02	24.8	
EUR/ZAR	17.07	16.60	17.16	17.05	17.88	18.60	18.94	19.51	20.27	20.93	21.48	22.14	
ZAR/JPY	7.65	8.33	8.12	8.16	7.85	7.67	7.54	7.32	7.07	6.59	6.32	6.11	
CHFZAR	16.47	16.16	17.64	17.22	18.05	18.69	18.75	18.85	19.46	20.00	20.00	19.7	
AUDZAR	11.02	11.14	11.65	11.48	12.12	12.73	13.10	13.60	14.12	14.20	14.20	14.04	
GBP/USD	1.34	1.26	1.18	1.03	1.02	1.06	1.09	1.13	1.18	1.25	1.32	1.38	
EUR/USD	1.12	1.06	1.01	0.98	1.01	1.05	1.07	1.09	1.12	1.15	1.18	1.23	
USD/JPY	116	130	138	142	139	137	134	131	128	120	115	110	
								Note: av	erages,	Source:	Investe	c, Ires	

Severe Do	wn Case:	Exchang	e Rate f	orecasts									
	2022						23		2024				
	Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24	
USD/ZAR	15.21	15.59	17.05	18.00	18.30	18.50	18.60	19.00	19.30	19.40	19.30	19.30	
GBP/ZAR	20.40	19.59	20.06	18.45	18.67	19.52	20.27	21.47	22.77	24.25	25.48	26.63	
EUR/ZAR	17.07	16.60	17.16	17.64	18.48	19.33	19.90	20.71	21.62	22.31	22.77	23.74	
ZAR/JPY	7.65	8.33	8.12	7.89	7.60	7.38	7.18	6.89	6.63	6.19	5.96	5.70	
CHFZAR	16.47	16.16	17.64	17.82	18.66	19.43	19.71	20.01	20.75	21.32	21.21	21.21	
AUDZAR	11.02	11.14	11.65	11.88	12.54	13.23	13.76	14.44	15.05	15.13	15.05	15.05	
GBP/USD	1.34	1.26	1.18	1.03	1.02	1.06	1.09	1.13	1.18	1.25	1.32	1.38	
EUR/USD	1.12	1.06	1.01	0.98	1.01	1.05	1.07	1.09	1.12	1.15	1.18	1.23	
USD/JPY	116	130	138	142	139	137	134	131	128	120	115	110	
								Note	average	s. Sourc	e: Invest	ec. Ires	

change					20				-	~		
	20	22			20	23		2024				
Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24	
15.21	15.59	17.05	16.00	15.30	15.00	14.70	14.60	14.50	14.90	15.00	14.50	
20.40	19.59	20.06	16.40	15.61	15.83	16.02	16.50	17.11	18.63	19.80	20.01	
17.07	16.60	17.16	15.68	15.45	15.68	15.73	15.91	16.24	17.14	17.70	17.84	
7.65	8.33	8.12	8.88	9.08	9.10	9.08	8.97	8.83	8.05	7.67	7.59	
16.47	16.16	17.64	15.84	15.60	15.75	15.57	15.38	15.59	16.37	16.48	15.93	
11.02	11.14	11.65	10.56	10.48	10.73	10.88	11.10	11.31	11.62	11.70	11.31	
1.34	1.26	1.18	1.03	1.02	1.06	1.09	1.13	1.18	1.25	1.32	1.38	
1.12	1.06	1.01	0.98	1.01	1.05	1.07	1.09	1.12	1.15	1.18	1.23	
116	130	138	142	139	137	134	131	128	120	115	110	
	Q1.22 15.21 20.40 17.07 7.65 16.47 11.02 1.34 1.12	20 Q1.22 Q2.22 15.21 15.59 20.40 19.59 17.07 16.60 7.65 8.33 16.47 16.16 11.02 11.14 1.34 1.26 1.12 1.06	15.21         15.59         17.05           20.40         19.59         20.06           17.07         16.60         17.16           7.65         8.33         8.12           16.47         16.16         17.64           11.02         11.14         11.65           1.34         1.26         1.18           1.12         1.06         1.01	2022           Q1.22         Q2.22         Q3.22         Q4.22           15.21         15.59         17.05         16.00           20.40         19.59         20.06         16.40           17.07         16.60         17.16         15.68           7.65         8.33         8.12         8.88           16.47         16.16         17.64         15.84           11.02         11.14         11.65         10.56           1.34         1.26         1.18         1.03           1.12         1.06         1.01         0.98	2022           Q1.22         Q2.22         Q3.22         Q4.22         Q1.23           15.21         15.59         17.05         16.00         15.30           20.40         19.59         20.06         16.40         15.61           17.07         16.60         17.16         15.68         15.45           7.65         8.33         8.12         8.88         9.08           16.47         16.16         17.64         15.84         15.60           11.02         11.14         11.65         10.56         10.48           1.34         1.26         1.18         1.03         1.02           1.12         1.06         1.01         0.98         1.01	2022         20           Q1.22         Q2.22         Q3.22         Q4.22         Q1.23         Q2.23           15.21         15.59         17.05         16.00         15.30         15.00           20.40         19.59         20.06         16.40         15.61         15.83           17.07         16.60         17.16         15.68         15.45         15.68           7.65         8.33         8.12         8.88         9.08         9.10           16.47         16.16         17.64         15.84         15.60         15.75           11.02         11.14         11.65         10.56         10.48         10.73           1.34         1.26         1.18         1.03         1.02         1.06           1.12         1.06         1.01         0.98         1.01         1.05	2022         2023           Q1.22         Q2.22         Q3.22         Q4.22         Q1.23         Q2.23         Q3.23           15.21         15.59         17.05         16.00         15.30         15.00         14.70           20.40         19.59         20.06         16.40         15.61         15.83         16.02           17.07         16.60         17.16         15.68         15.45         15.68         15.73           7.65         8.33         8.12         8.88         9.08         9.10         9.08           16.47         16.16         17.64         15.84         15.60         15.75         15.57           11.02         11.14         11.65         10.56         10.48         10.73         10.88           1.34         1.26         1.18         1.03         1.02         1.06         1.09           1.12         1.06         1.01         0.98         1.01         1.05         1.07	2022         2023           Q1.22         Q2.22         Q3.22         Q4.22         Q1.23         Q2.23         Q3.23         Q4.23           15.21         15.59         17.05         16.00         15.30         15.00         14.70         14.60           20.40         19.59         20.06         16.40         15.61         15.83         16.02         16.50           17.07         16.60         17.16         15.68         15.45         15.68         15.73         15.91           7.65         8.33         8.12         8.88         9.08         9.10         9.08         8.97           16.47         16.16         17.64         15.84         15.60         15.75         15.57         15.38           11.02         11.14         11.65         10.56         10.48         10.73         10.88         11.10           1.34         1.26         1.18         1.03         1.02         1.06         1.09         1.13           1.12         1.06         1.01         0.98         1.01         1.05         1.07         1.09	2022         2023           Q1.22         Q2.22         Q3.22         Q4.22         Q1.23         Q2.23         Q3.23         Q4.23         Q1.24           15.21         15.59         17.05         16.00         15.30         15.00         14.70         14.60         14.50           20.40         19.59         20.06         16.40         15.61         15.83         16.02         16.50         17.11           17.07         16.60         17.16         15.68         15.45         15.68         15.73         15.91         16.24           7.65         8.33         8.12         8.88         9.08         9.10         9.08         8.97         8.83           16.47         16.16         17.64         15.84         15.60         15.75         15.38         15.59           11.02         11.14         11.65         10.56         10.48         10.73         10.88         11.10         11.31           1.34         1.26         1.18         1.03         1.02         1.06         1.09         1.12	2022         2023         20           Q1.22         Q2.22         Q3.22         Q4.22         Q1.23         Q2.23         Q4.23         Q1.24         Q2.24           15.21         15.59         17.05         16.00         15.30         15.00         14.70         14.60         14.50         14.90           20.40         19.59         20.06         16.40         15.61         15.83         16.02         16.50         17.11         18.63           17.07         16.60         17.16         15.68         15.45         15.68         15.73         15.91         16.24         17.14           7.65         8.33         8.12         8.88         9.08         9.10         9.08         8.97         8.83         8.05           16.47         16.16         17.64         15.84         15.60         15.75         15.38         15.59         16.37           11.02         11.14         11.65         10.56         10.48         10.73         10.88         11.10         11.31         11.62           1.34         1.26         1.18         1.03         1.02         1.06         1.09         1.13         1.18         1.25           1.12	2022         2023         2024           Q1.22         Q3.22         Q4.22         Q1.23         Q2.23         Q3.23         Q4.23         Q1.24         Q3.24           15.21         15.59         17.05         16.00         15.30         15.00         14.70         14.60         14.50         14.90         15.00           20.40         19.59         20.06         16.40         15.61         15.83         16.02         16.50         17.11         18.63         19.80           17.07         16.60         17.16         15.68         15.45         15.68         15.73         15.91         16.24         17.14         17.70           7.65         8.33         8.12         8.88         9.08         9.10         9.08         8.97         8.83         8.05         7.67           16.47         16.16         17.64         15.84         15.60         15.75         15.57         15.38         15.59         16.37         16.43           11.02         11.14         11.65         10.56         10.48         10.73         10.88         11.10         11.31         11.62         11.70           1.34         1.26         1.18         1.03         1.0	

Extreme Up	Case: E	Exchange	Rate for	ecasts									
		20	22			20	23		2024				
	Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24	
USD/ZAR	15.21	15.59	17.05	15.40	14.50	14.00	13.60	13.40	13.30	13.10	13.10	12.90	
GBP/ZAR	20.40	19.59	20.06	15.79	14.79	14.77	14.82	15.14	15.69	16.38	17.29	17.80	
EUR/ZAR	17.07	16.60	17.16	15.09	14.65	14.63	14.55	14.61	14.90	15.07	15.46	15.87	
ZAR/JPY	7.65	8.33	8.12	9.22	9.59	9.75	9.82	9.78	9.62	9.16	8.78	8.53	
CHFZAR	16.47	16.16	17.64	15.24	14.79	14.70	14.41	14.11	14.30	14.40	14.40	14.18	
AUDZAR	11.02	11.14	11.65	10.16	9.93	10.01	10.06	10.18	10.37	10.22	10.22	10.06	
GBP/USD	1.34	1.26	1.18	1.03	1.02	1.06	1.09	1.13	1.18	1.25	1.32	1.38	
EUR/USD	1.12	1.06	1.01	0.98	1.01	1.05	1.07	1.09	1.12	1.15	1.18	1.23	
USD/JPY	116	130	138	142	139	137	134	131	128	120	115	110	
								Note	average	s Sourc	e: Investe	ec Iress	

Expected 0	ase: Exc	hange R	ate forec	asts									
		20	22			20	23		2024				
	Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24	
USD/ZAR	15.21	15.59	17.05	17.30	17.60	17.40	17.00	16.90	16.70	17.20	17.70	17.20	
GBP/ZAR	20.40	19.59	20.06	17.73	17.95	18.36	18.53	19.10	19.71	21.50	23.36	23.74	
EUR/ZAR	17.07	16.60	17.16	16.95	17.78	18.18	18.19	18.42	18.70	19.78	20.89	21.16	
ZAR/JPY	7.65	8.33	8.12	8.21	7.90	7.84	7.85	7.75	7.66	6.98	6.50	6.40	
CHFZAR	16.47	16.16	17.64	17.12	17.95	18.27	18.01	17.80	17.96	18.90	19.45	18.90	
AUDZAR	11.02	11.14	11.65	11.42	12.06	12.44	12.58	12.84	13.03	13.42	13.81	13.42	
GBP/USD	1.34	1.26	1.18	1.03	1.02	1.06	1.09	1.13	1.18	1.25	1.32	1.38	
EUR/USD	1.12	1.06	1.01	0.98	1.01	1.05	1.07	1.09	1.12	1.15	1.18	1.23	
USD/JPY	116	130	138	142	139	137	134	131	128	120	115	110	
								Note	: average	s, Sourc	e: Investe	ec, Iress	