



SA Economics

Monday 31 October 2022

Rand note: after factoring in high chance of recession, sentiment is now adopting a wait and see attitude



Conference Board US Consumer Confidence Index



Source: Bloomberg

Conference Board Present Situation and Expectations Index



Source: Bloomberg

Economic Scenarios: note updated probabilities

		Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.23
Extreme Up case 1%	USD/Rand (average)	15.21	15.59	17.05	15.40	14.50	14.00	13.60	13.40
	Repo rate (end rate)	4.25	4.75	6.25	5.25	4.25	3.75	3.75	3.50
	SA economic growth 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. Strong transition away from fossil fuel usage, a quick transition to renewable energy.								
Up case 1%	USD/Rand (average)	15.21	15.59	17.05	16.00	15.30	15.00	14.70	14.60
	Repo rate (end rate)	4.25	4.75	6.25	5.50	4.75	4.25	4.25	4.25
	Economic growth of 3%, 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 private privatisation. Positive outlooks on credit ratings turn into upgrades fiscal consolidation, debt projections fall substantially. Substantial transition to renewable energy away from fossil fuel usage, comprehensive measures to alleviate climate change impact on economy.								
Base case 48%	USD/Rand (average)	15.21	15.59	17.05	17.50	16.80	16.35	16.10	16.30
	Repo rate (end rate)	4.25	4.75	6.25	7.25	7.25	7.25	6.50	6.50
	Economic growth modest but lifts towards 3.0% y/y over five years on sufficient domestic policy support measures, global financial market risk sentiment is neutral to positive. South Africa in the BB credit rating category bracket as fiscal consolidation (debt to GDP stabilisation) occurs leading to some positive outlooks. The rand sees mild weakness and inflation is impacted by the course of weather patterns via food price inflation. Little expropriation without compensation occurs and has no negative effect on economy, no nationalisation. A modest 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.								
Lite (domestic) Down case 39%	USD/Rand (average)	15.21	15.59	17.05	17.40	17.70	17.80	17.70	17.90
	Repo rate (end rate)	4.25	4.75	6.25	7.50	8.00	8.50	9.00	9.00
	The international environment (incl. risk sentiment) is that of the base case. South Africa fails to see debt projections stabilise, falls into single B (local and foreign currency) credit ratings from all three agencies. Recession occurs. Business confidence depressed, significant load shedding, weak investment growth, civil and political unrest. High inflation on unfavorable weather conditions, marked rand weakness. Little transition to renewable energy or measures to alleviate the impact of climate change. Very limited expropriation of private sector property without compensation, with some negative impact on the economy. Substantial fiscal consolidation ultimately occurs, preventing ratings falling into the C grades.								
Severe down case 11%	USD/Rand (average)	15.21	15.59	17.05	18.00	18.30	18.50	18.60	19.00
	Repo rate (end rate)	4.25	4.75	6.25	8.00	9.00	10.00	10.50	10.50
	Lengthy global recession, global financial crisis – insufficient monetary and other support domestically and internationally. Limited expropriation of private property without compensation with a marked negative economic impact. Very high inflation on very adverse weather conditions, severe rand weakness. SA rated single B from all three key agencies, downgrades eventually into CCC grade, increased risk of default. Government borrows from increasingly wider sources, sinks deeper into a debt trap, widespread, severe services load shedding, severe civil and political unrest. Failure to transition to renewable energy and to sufficient measures to alleviate the impact of climate change on the economy.								

Note: Event risk begins Q4.22. Source: Investec

Expected Case: Exchange Rate forecasts

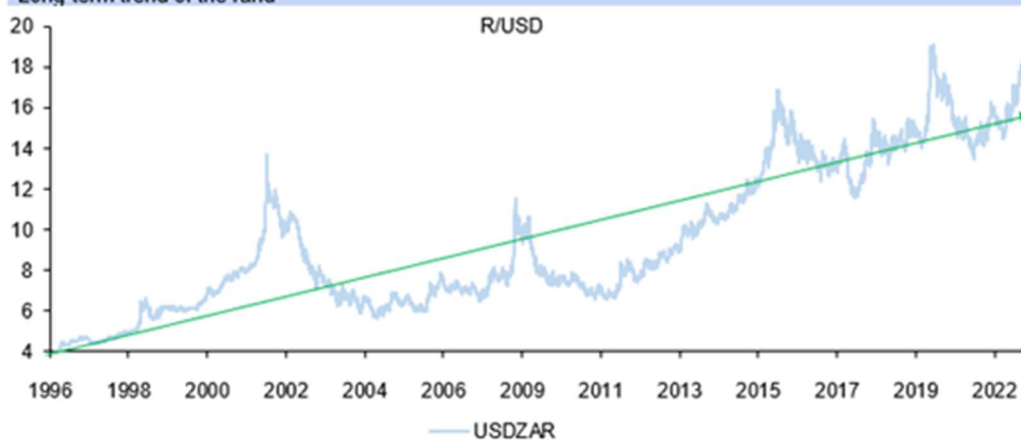
	2022				2023				2024			
	Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24
USD/ZAR	15.21	15.59	17.05	17.50	16.80	16.35	16.10	16.30	16.10	16.35	16.70	16.50
GBP/ZAR	20.40	19.59	20.05	19.88	19.49	19.46	19.56	19.89	19.96	20.44	22.04	22.77
EUR/ZAR	17.07	16.60	17.16	17.27	16.72	16.51	16.58	17.03	17.39	18.80	19.71	20.30
ZAR/JPY	7.65	8.33	8.11	8.50	8.87	8.90	8.76	8.40	8.07	7.34	6.89	6.67
CHF/ZAR	16.47	16.16	17.64	17.58	16.97	16.60	16.42	16.46	16.95	17.58	18.35	18.13
AUD/ZAR	11.02	11.14	11.65	11.11	10.92	10.95	11.11	11.57	12.08	12.75	13.03	12.87
GBP/USD	1.34	1.26	1.18	1.14	1.16	1.19	1.22	1.22	1.24	1.25	1.32	1.38
EUR/USD	1.12	1.06	1.01	0.99	1.00	1.01	1.03	1.05	1.08	1.15	1.18	1.23
USD/JPY	116	130	138	149	149	146	141	137	130	120	115	110

Note: averages, Source: Investec, Iress

- October continues to average R18.09/USD to date, with the domestic currency running around the end point reached in September. April to September saw a run on the rand, from R14.50/USD to R18.21/USD (September low), before it pulled back somewhat.
- October has been a volatile month for the domestic currency against the USD, vacillating between R17.31/USD and R18.59/USD, then gaining after the MTBPS on 26th October, to R17.81/USD, but then weaker today at R18.40/USD.
- The US dollar lost ground last week, is strengthening today, adding to rand weakness. Last week the US saw lower than expected core PCE inflation (the key measure for the FOMC), and a higher than expected GDP figure, while the U Michigan sentiment reading held up.
- This week, the FOMC (Federal Open Market Committee) meeting comes before US payroll figures and markets have seen some weakness ahead of the high risk events, causing safe haven flows to pick-up and so strengthening the US dollar.
- A 75bp hike continues to be the consensus for this week's 2nd November FOMC meeting, although for the 14th December FOMC meeting the possibility of a 50bp hike, instead of 75bp hike, in the Fed funds rate has been building this month.
- That is, expectations have increased over the course of this month for a 50bp, instead of a 75bp, hike in December and that this slowdown in the pace of the US interest rate cycle hike will continue, with a 25bp lift in January reaching the terminal rate.
- The ECB last week delivered a large 75bp hike in its refi rate, temporarily adding to some USD weakness, but today the greenback has run ahead, typically weakening EM currencies at the crosses, and the volatility is likely to persist into end-2022 and H1.23.
- The EU is expected to hike again in six weeks' time, by 75bp, with the US hiking into year-end as well. Central Banks remain focused on inflation, and domestically SA is expected to see a 100bp hike in November (24th), while fuel prices are set to rise this week.
- Risk sentiment remains highly data dependent, with near-term fluctuations likely to continue, reflecting high levels of uncertainty which has caused investors to factor in a high chance of global and US recession, while Emerging Markets are expected to fare better next year.

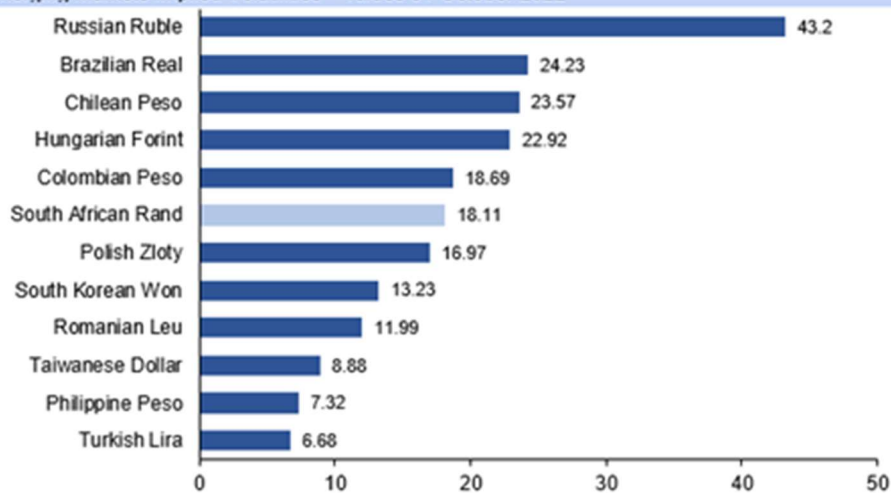
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Long-term trend of the rand



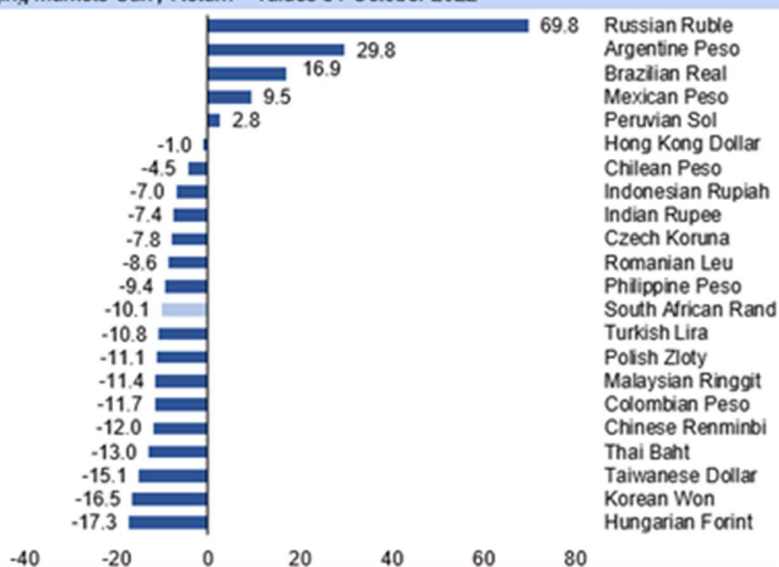
Source: Iress

Emerging Markets Implied Volatilities – values 31 October 2022



Source: Bloomberg

Emerging Markets Carry Return – values 31 October 2022



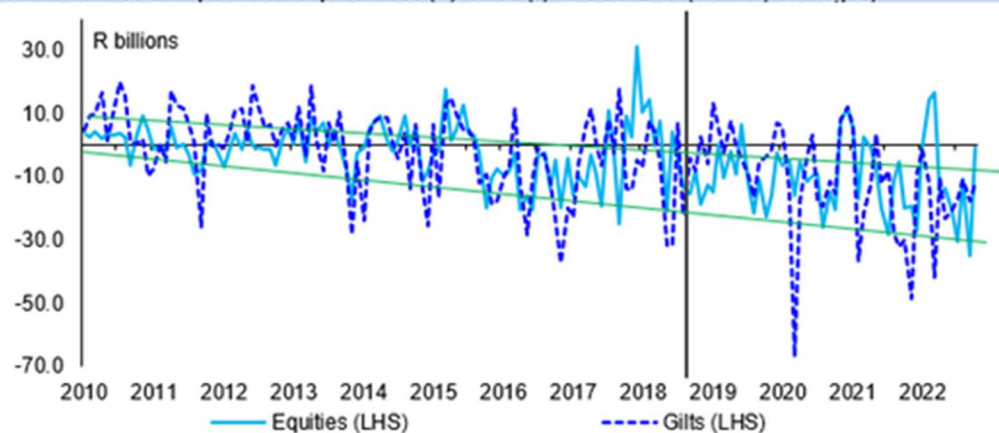
Source: Bloomberg

Rand



Source: Iress

Volatile non-resident portfolio net purchases (+)/ sales (-) vs USD/ZAR (monthly averages)



Source: Iress, Investec

- Inflation globally and domestically is expected to fall over Q4.22 and 2023, lessening the upwards pressure on interest rates. Central bankers are yet to evince meaningful concern about the recessionary effects of rapid interest rate hikes however.
- The US data last week also showed that the consumer had remained resilient in the face of the upwards interest rate hike cycle, with real purchases of goods and services rising by more than expected, at 0.3% versus in August, which was up only 0.1% against July.
- The US core PCE deflator remained unchanged at 0.5% m/m but rose by 5.1% y/y in September, from 4.9% y/y in August, indicative of broad based, and broadening, price pressures, bolstering the expectation of the 75bp hike in the fed funds target rate this week.
- The PCE deflator (or personal consumption expenditures price index) excludes food and energy. US house prices and home sales continue to fall, while the Conference Board Consumer Confidence reading moderated, although the jobs market remained elevated.
- The October US Conference Board consumer confidence expectations, a monthly survey of consumer attitudes in the US, shows a drop to recessionary levels for expected business (short-term outlook for income, business, and labor market condition) conditions.
- “Consumer confidence retreated in October, after advancing in August and September”. “The Present Situation Index fell sharply, suggesting economic growth slowed to start Q4. Consumers’ expectations regarding the short-term outlook remained dismal” the survey said.
- “The Expectations Index is still lingering below a reading of 80—a level associated with recession—suggesting recession risks appear to be rising”, “concerns about inflation—which had been receding since July—picked up again, with both gas and food prices serving as main drivers.
- “Vacation intentions cooled; however, intentions to purchase homes, automobiles, and big-ticket appliances all rose. Looking ahead, inflationary pressures will continue to pose strong headwinds to consumer confidence and spending, which could result in a challenging holiday season for retailers.”
- “And, given inventories are already in place, if demand falls short, it may result in steep discounting which would reduce retailers’ profit margins.”

Severe Down Case: Exchange Rate forecasts												
	2022				2023				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: averages, Source: Investec, Iress

Lite Down Case: Exchange Rate forecasts												
	2022				2023				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	17.40	17.70	17.80	17.70	17.90	18.10	18.20	18.20	18.00
GBP/ZAR	20.40	19.59	20.06	17.84	18.05	18.78	19.29	20.23	21.36	22.75	24.02	24.84
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
CHF/ZAR	16.47	16.16	17.64	17.22	18.05	18.69	18.75	18.85	19.46	20.00	20.00	19.78
AUD/ZAR	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: averages, Source: Investec, Iress

Emerging Markets currency depreciation (-) %, appreciation (+) %



Source: Bloomberg

Up Case: Exchange Rate forecasts												
	2022				2023				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	16.00	15.30	15.00	14.70	14.60	14.50	14.90	15.00	14.50
GBP/ZAR	20.40	19.59	20.06	16.40	15.61	15.83	16.02	16.50	17.11	18.63	19.80	20.01
EUR/ZAR	17.07	16.60	17.16	15.68	15.45	15.68	15.73	15.91	16.24	17.14	17.70	17.84
ZAR/JPY	7.65	8.33	8.12	8.88	9.08	9.10	9.08	8.97	8.83	8.05	7.67	7.59
CHF/ZAR	16.47	16.16	17.64	15.84	15.60	15.75	15.57	15.38	15.59	16.37	16.48	15.93
AUD/ZAR	11.02	11.14	11.65	10.56	10.48	10.73	10.88	11.10	11.31	11.62	11.70	11.31
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 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	Q4.23	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
CHF/ZAR	16.47	16.16	17.64	15.24	14.79	14.70	14.41	14.11	14.30	14.40	14.40	14.18
AUD/ZAR	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

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