



SA Economics

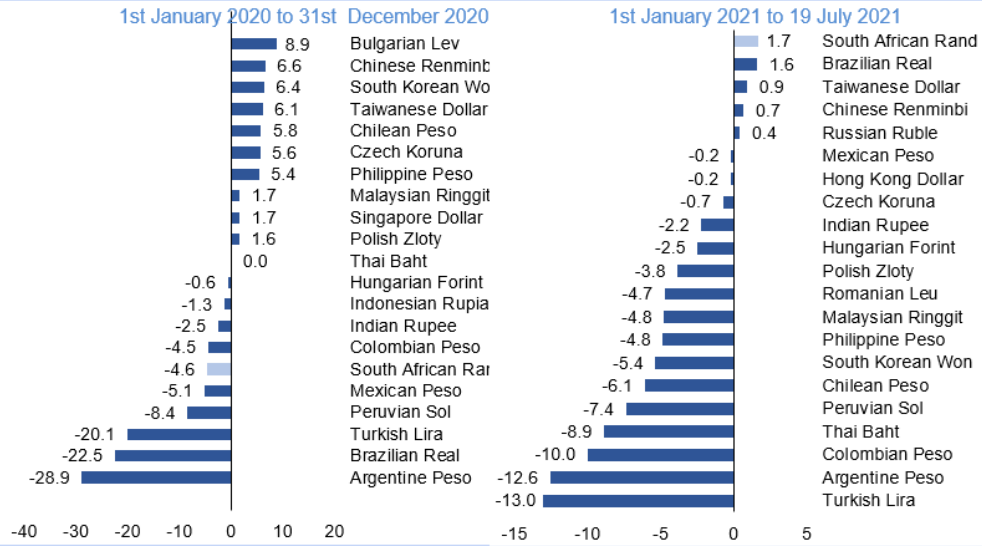
Monday 19 July 2021

Rand note: the rand is back at R14.50/USD, supported by commodities, but the radical destruction of economic activity and infrastructure in a number of areas in the riots will set back growth prospects and the future value of the rand

| 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 | 14.35 | 14.25 | 14.35 | 14.75 | 15.05 | 14.65 | 14.45 | 14.85 | 15.25 | 14.75 |
| GBP/ZAR | 20.63 | 19.75 | 20.09 | 20.09 | 20.23 | 20.95 | 21.37 | 20.95 | 20.66 | 21.24 | 21.81 | 21.09 |
| EUR/ZAR | 18.03 | 17.03 | 17.51 | 17.53 | 17.79 | 18.44 | 18.96 | 18.46 | 18.06 | 18.56 | 19.06 | 18.44 |
| ZAR/JPY | 7.09 | 7.75 | 7.53 | 7.51 | 7.46 | 7.25 | 7.11 | 7.30 | 7.40 | 7.21 | 7.02 | 7.25 |
| CHF/ZAR | 16.52 | 15.51 | 15.71 | 15.60 | 15.71 | 16.15 | 16.48 | 16.04 | 15.88 | 16.32 | 16.76 | 16.21 |
| AUD/ZAR | 11.56 | 10.88 | 11.05 | 10.97 | 11.19 | 11.51 | 11.74 | 11.43 | 11.27 | 11.58 | 11.90 | 11.51 |
| GBP/USD | 1.38 | 1.40 | 1.40 | 1.41 | 1.41 | 1.42 | 1.42 | 1.43 | 1.43 | 1.43 | 1.43 | 1.43 |
| EUR/USD | 1.21 | 1.21 | 1.22 | 1.23 | 1.24 | 1.25 | 1.26 | 1.26 | 1.25 | 1.25 | 1.25 | 1.25 |
| USD/JPY | 106 | 109 | 108 | 107 | 107 | 107 | 107 | 107 | 107 | 107 | 107 | 107 |

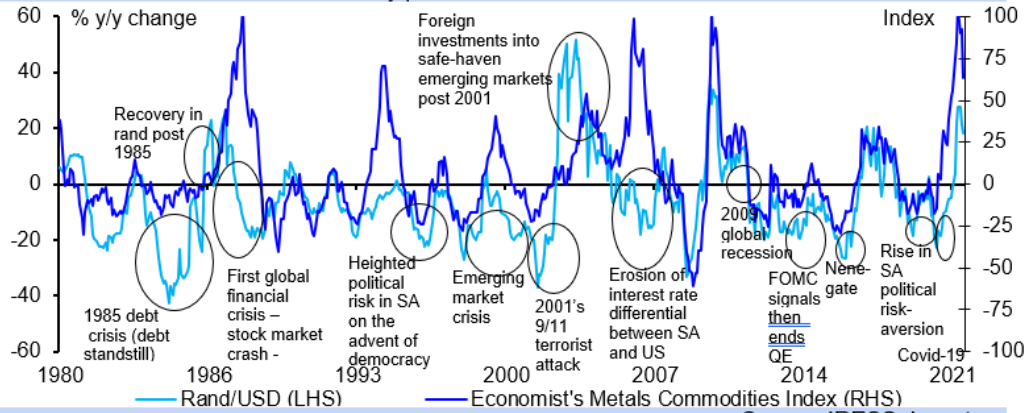
Note: averages, Source: Investec, Iress

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

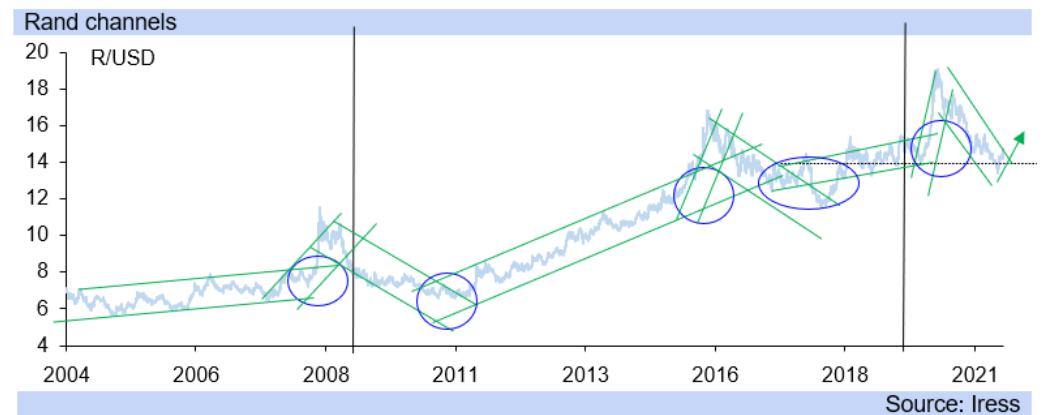
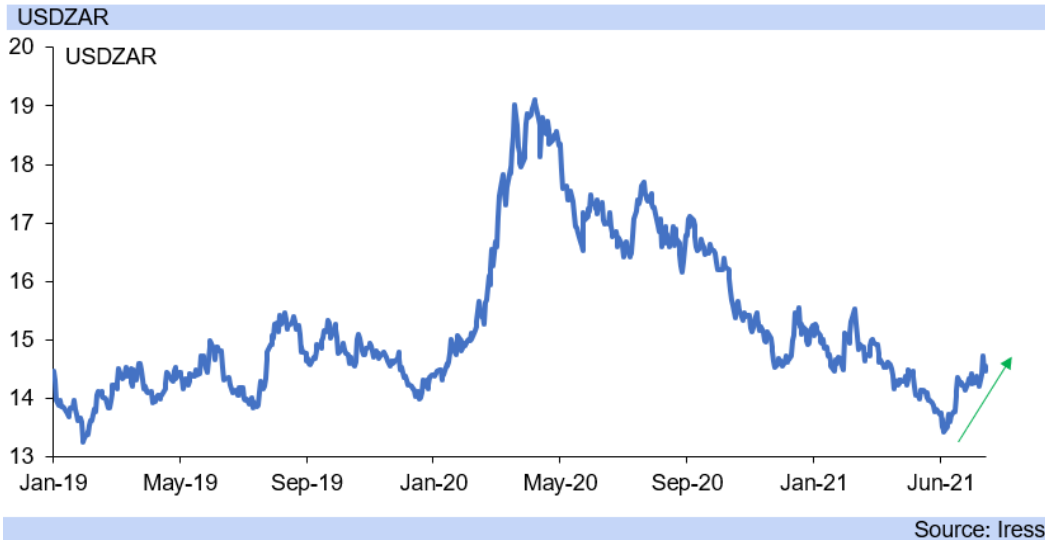


Source: Bloomberg

Rand vs Economist's metals commodity price index



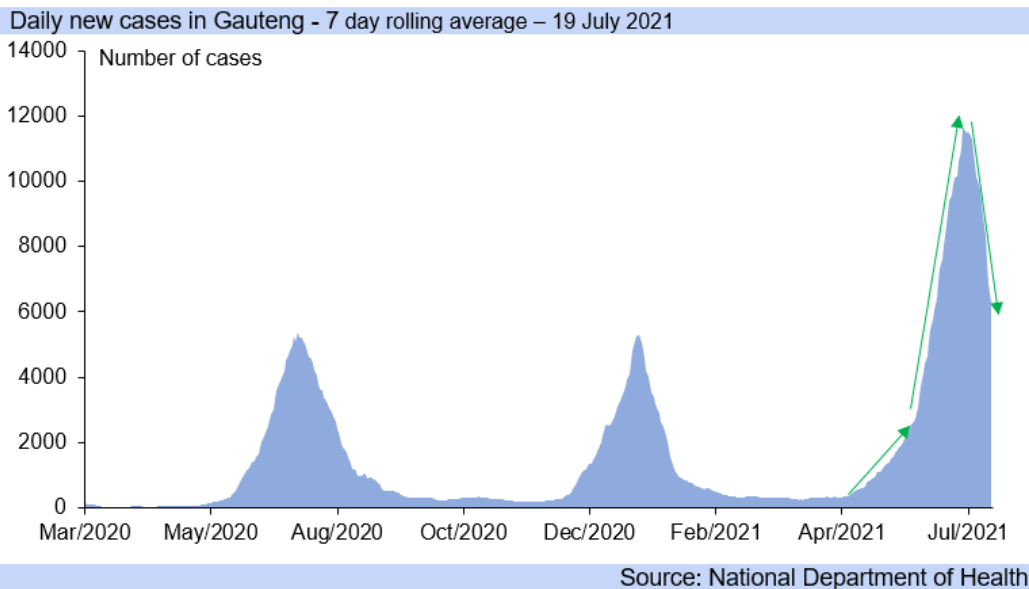
Source: IRESS, Investec

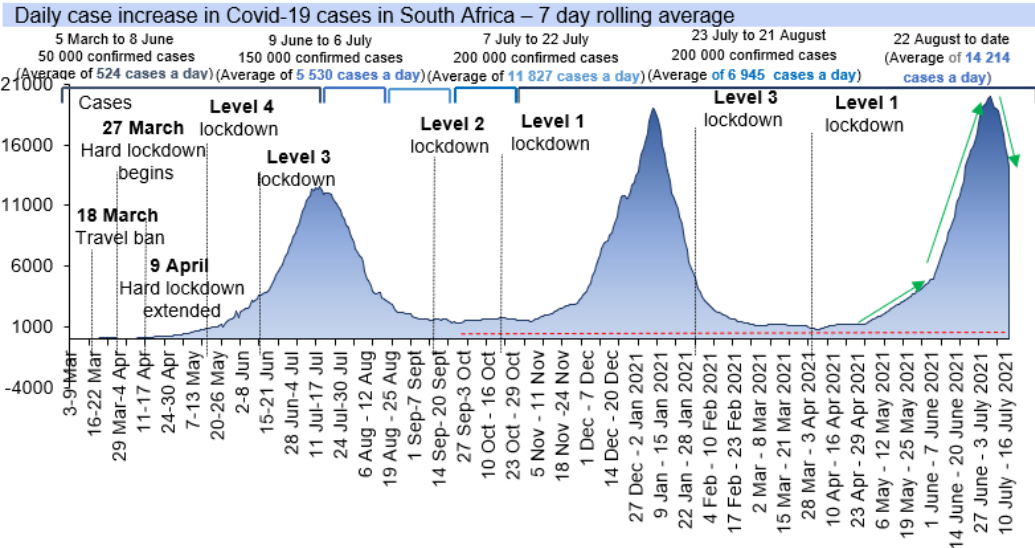


- The rand strengthened to R14.36/USD in the early hours of today as thin foreign trade saw the domestic currency being lifted by the positive commodity sentiment still at play, but the domestic currency has weakened since then to R14.52/USD.
- The widescale riots, looting and destruction of property in certain areas in South Africa last week as infrastructure was destroyed through arson and other deliberate criminal activities continues to negatively impact the rand now that SA markets are open.
- The COVID-19 delta variant, which spread rapidly in SA and in some other EMs, continues its spread around the world, negatively affecting financial market sentiment as well, given the highly contagious nature of this new strain.
- Commodity prices are still at elevated levels, despite some consolidation, which has also aided the rand as South Africa remains a key commodity exporter and suppressed economic activity after last year's harsh lockdowns have limited imports, benefiting the rand.
- The damage to SA's infrastructure will see a further curtailment in economic activity, over and above that lost in the past week from the riots incited by the previous regime's hardcore supporters, which combusted into opportunistic looting and was fuelled further by poverty.

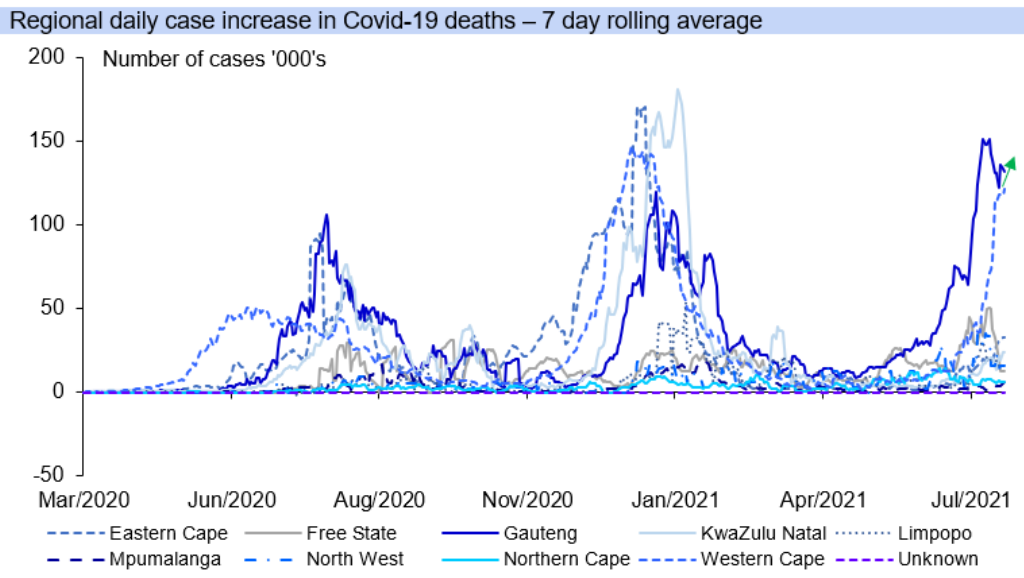
- Appetite for fixed investment in South Africa has also taken a hard knock, as will consumer and business confidence, and even the appetite for some to remain in the country, particularly for the high income groups which are internationally mobile.
- Loss of investors and skilled individuals, both of which usually characterise the internationally mobile residing in SA, even for those whom it takes longer to emigrate, would also negatively impact the future economic prospects for the country, creating a negative cycle.
- Such is the impact from a severe elevation in political risk for any country. SA risks not bringing the political risk sufficiently under control, with the slow response from state security forces seeing some in the private sector having to defend themselves and their property.
- The rand has seen some volatility from all these factors, with rising COVID-19 numbers impacting EM currencies in particular (SA's are still moderating), but SA would lose out by lagging further behind global recovery now as well, which will tell on the rand in future.

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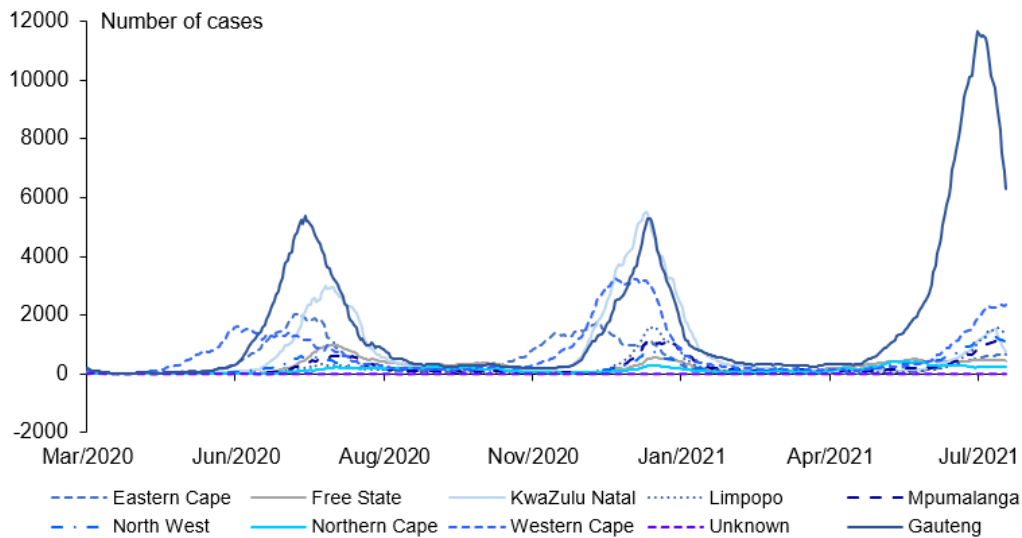


Source: National Department of Health



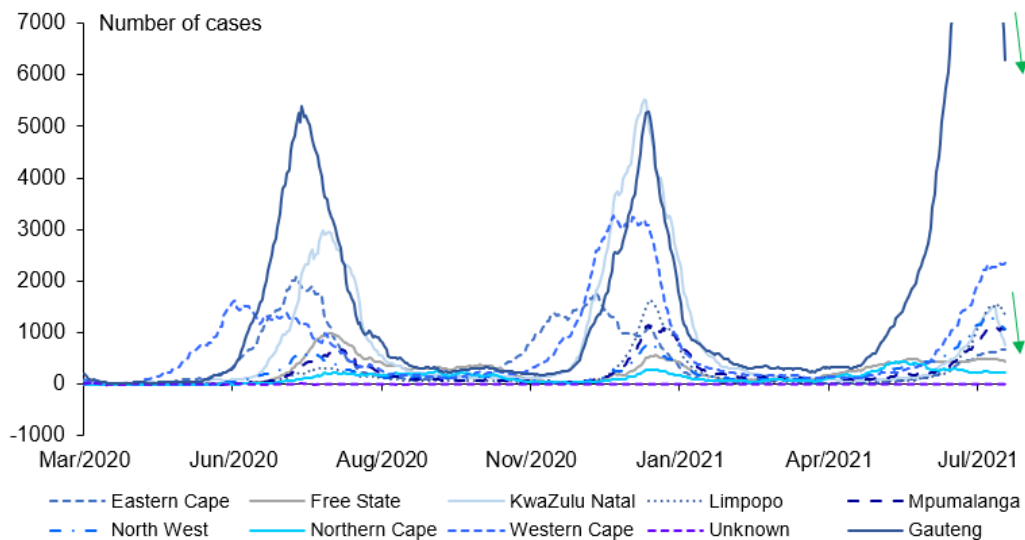
Source: National Department of Health

Regional daily case increase in Covid-19 cases – 7 day rolling average – first 3 500



Source: National Department of Health

Regional daily case increase in Covid-19 cases – 7 day rolling average – first 7 000



Source: National Department of Health

- In general, risk-off sentiment has had some negative impact on EM currencies, as market players worry about global economic recovery as COVID-19 cases rise internationally, resulting in some risk-off and some US dollar strength on safe haven flows.
- Against this backdrop the rand has made noticeable gains since its low of R14.79/USD on Wednesday last week when South Africa's riots spread, raging out of control until military action and private sector self defence mobilisations (in the main) arrested further insurgence.
- However, many in poor communities tried to gain some items too. A devastating impact of the lost decade of 2010 to 2019's collapsing growth and state institutions

under state capture has been on the poorest of society, and this added to the riots' momentum.

- Calm has been restored on many fronts, with policing now very active, and the military in place to also fend off attacks on strategic key points such as harbours, electricity substations, water treatment plants etc, attempted attacks to radically destroy the economy.
- The relatively quick shutdown of the insurrection (as termed by President Ramaphosa), has been key in aiding the rand's recovery, evidencing collective determination by the majority not to let the country and economy collapse, although the threat from insurgents is not past.
- The tail effect from the insurgency, and ensuing participation of some communities and/or community members on sentiment, will be negative and risks being long lasting, dissuading tourism, both domestic and foreign to some degree, and further cutting off economic activity.
- SASRIA payments need to urgently be actioned, those without SASRIA cover should be compensated by the state to restore economic activity, jobs and livelihoods as soon as possible, allowing the negative effect on South Africa's collective psyche to be shrugged off.
- The aim of the destruction by the instigators was to create fear, chaos, extreme disorder, undermine the Ramaphosa Presidency and the country at large, and was intended to spread throughout South Africa, burning productive capacity to the ground.
- Preventing further destruction of the economy, and so of livelihoods and lives should be paramount now. Growth enhancing reforms must finally be implemented quickly, and strong market orientated, growth perused, while populist, nationalist policies are discarded.

Economic Scenarios: note currency and probability updates

| | | 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 | 13.50 | 13.20 | 13.00 | 12.90 | 12.80 | 12.70 |
| | Repo rate (end rate) | 3.50 | 3.50 | 3.25 | 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 3% | USD/Rand (average) | 14.96 | 14.13 | 13.70 | 13.50 | 13.30 | 13.40 | 13.20 | 13.00 |
| | Repo rate (end rate) | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 |
| | 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 50% | USD/Rand (average) | 14.96 | 14.13 | 14.35 | 14.25 | 14.35 | 14.75 | 15.05 | 14.65 |
| | Repo rate (end rate) | 3.50 | 3.50 | 3.50 | 3.50 | 3.75 | 3.75 | 4.00 | 4.00 |
| | 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 41% | USD/Rand (average) | 14.96 | 14.13 | 15.15 | 15.50 | 16.00 | 16.65 | 16.90 | 17.00 |
| | Repo rate (end rate) | 3.50 | 3.50 | 3.75 | 4.00 | 4.00 | 4.25 | 4.25 | 4.50 |
| | 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 5% | USD/Rand (average) | 14.96 | 14.13 | 15.65 | 16.40 | 17.00 | 17.50 | 18.00 | 18.50 |
| | Repo rate (end rate) | 3.50 | 3.50 | 4.00 | 4.25 | 4.50 | 4.50 | 4.75 | 5.00 |
| | 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 Q3.21. Source: Investec

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 | 15.15 | 15.50 | 16.00 | 16.65 | 16.90 | 17.00 | 17.50 | 17.60 | 17.50 | 17.20 |
| GBP/ZAR | 20.63 | 19.75 | 21.21 | 21.86 | 22.56 | 23.64 | 24.00 | 24.31 | 25.03 | 25.17 | 25.03 | 24.60 |
| EUR/ZAR | 18.03 | 17.03 | 18.48 | 19.07 | 19.84 | 20.81 | 21.29 | 21.42 | 21.88 | 22.00 | 21.88 | 21.50 |
| ZAR/JPY | 7.09 | 7.75 | 7.13 | 6.90 | 6.69 | 6.43 | 6.33 | 6.29 | 6.11 | 6.08 | 6.11 | 6.22 |
| CHFZAR | 16.52 | 15.51 | 16.59 | 16.97 | 17.52 | 18.23 | 18.51 | 18.62 | 19.23 | 19.34 | 19.23 | 18.90 |
| AUDZAR | 11.56 | 10.88 | 11.67 | 11.94 | 12.48 | 12.99 | 13.18 | 13.26 | 13.65 | 13.73 | 13.65 | 13.42 |
| GBP/USD | 1.38 | 1.37 | 1.37 | 1.39 | 1.42 | 1.43 | 1.45 | 1.43 | 1.42 | 1.41 | 1.40 | 1.40 |
| EUR/USD | 1.21 | 1.20 | 1.21 | 1.24 | 1.26 | 1.26 | 1.27 | 1.26 | 1.25 | 1.25 | 1.25 | 1.25 |
| USD/JPY | 106 | 105 | 105 | 105 | 104 | 104 | 105 | 105 | 106 | 106 | 106 | 106 |

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 | 13.70 | 13.50 | 13.30 | 13.40 | 13.20 | 13.00 | 12.80 | 13.20 | 13.60 | 13.10 |
| GBP/ZAR | 20.63 | 19.75 | 19.18 | 19.04 | 18.75 | 19.03 | 18.74 | 18.59 | 18.30 | 18.88 | 19.45 | 18.73 |
| EUR/ZAR | 18.03 | 17.03 | 16.71 | 16.61 | 16.49 | 16.75 | 16.63 | 16.38 | 16.00 | 16.50 | 17.00 | 16.38 |
| ZAR/JPY | 7.09 | 7.75 | 7.88 | 7.93 | 8.05 | 7.99 | 8.11 | 8.23 | 8.36 | 8.11 | 7.87 | 8.17 |
| CHFZAR | 16.52 | 15.51 | 15.00 | 14.78 | 14.56 | 14.67 | 14.45 | 14.24 | 14.07 | 14.51 | 14.95 | 14.40 |
| AUDZAR | 11.56 | 10.88 | 10.55 | 10.40 | 10.37 | 10.45 | 10.30 | 10.14 | 9.98 | 10.30 | 10.61 | 10.22 |
| GBP/USD | 1.38 | 1.37 | 1.37 | 1.39 | 1.42 | 1.43 | 1.45 | 1.43 | 1.42 | 1.41 | 1.40 | 1.40 |
| EUR/USD | 1.21 | 1.20 | 1.21 | 1.24 | 1.26 | 1.26 | 1.27 | 1.26 | 1.25 | 1.25 | 1.25 | 1.25 |
| USD/JPY | 106 | 105 | 105 | 105 | 104 | 104 | 105 | 105 | 106 | 106 | 106 | 106 |

Note averages, Source: Investec, Iress

| 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 | 15.65 | 16.40 | 17.00 | 17.50 | 18.00 | 18.50 | 19.00 | 19.50 | 19.90 | 20.00 |
| GBP/ZAR | 20.63 | 19.75 | 21.91 | 23.12 | 23.97 | 24.85 | 25.56 | 26.46 | 27.17 | 27.89 | 28.46 | 28.60 |
| EUR/ZAR | 18.03 | 17.03 | 19.09 | 20.17 | 21.08 | 21.88 | 22.68 | 23.31 | 23.75 | 24.38 | 24.88 | 25.00 |
| ZAR/JPY | 7.09 | 7.75 | 6.90 | 6.52 | 6.29 | 6.11 | 5.94 | 5.78 | 5.63 | 5.49 | 5.38 | 5.35 |
| CHFZAR | 16.52 | 15.51 | 17.14 | 17.96 | 18.62 | 19.16 | 19.71 | 20.26 | 20.88 | 21.43 | 21.87 | 21.98 |
| AUDZAR | 11.56 | 10.88 | 12.05 | 12.63 | 13.26 | 13.65 | 14.04 | 14.43 | 14.82 | 15.21 | 15.52 | 15.60 |
| GBP/USD | 1.38 | 1.37 | 1.37 | 1.39 | 1.42 | 1.43 | 1.45 | 1.43 | 1.42 | 1.41 | 1.40 | 1.40 |
| EUR/USD | 1.21 | 1.20 | 1.21 | 1.24 | 1.26 | 1.26 | 1.27 | 1.26 | 1.25 | 1.25 | 1.25 | 1.25 |
| USD/JPY | 106 | 105 | 105 | 105 | 104 | 104 | 105 | 105 | 106 | 106 | 106 | 106 |

Note: averages, Source: Investec, Iress

| 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 | 13.50 | 13.20 | 13.00 | 12.90 | 12.80 | 12.70 | 12.50 | 12.60 | 12.70 | 12.50 |
| GBP/ZAR | 20.63 | 19.75 | 18.90 | 18.61 | 18.33 | 18.32 | 18.18 | 18.16 | 17.88 | 18.02 | 18.16 | 17.88 |
| EUR/ZAR | 18.03 | 17.03 | 16.47 | 16.24 | 16.12 | 16.13 | 16.13 | 16.00 | 15.63 | 15.75 | 15.88 | 15.63 |
| ZAR/JPY | 7.09 | 7.75 | 8.00 | 8.11 | 8.23 | 8.29 | 8.36 | 8.43 | 8.56 | 8.49 | 8.43 | 8.56 |
| CHFZAR | 16.52 | 15.51 | 14.78 | 14.45 | 14.24 | 14.13 | 14.02 | 13.91 | 13.74 | 13.85 | 13.96 | 13.74 |
| AUDZAR | 11.56 | 10.88 | 10.40 | 10.16 | 10.14 | 10.06 | 9.98 | 9.91 | 9.75 | 9.83 | 9.91 | 9.75 |
| GBP/USD | 1.38 | 1.37 | 1.37 | 1.39 | 1.42 | 1.43 | 1.45 | 1.43 | 1.42 | 1.41 | 1.40 | 1.40 |
| EUR/USD | 1.21 | 1.20 | 1.21 | 1.24 | 1.26 | 1.26 | 1.27 | 1.26 | 1.25 | 1.25 | 1.25 | 1.25 |
| USD/JPY | 106 | 105 | 105 | 105 | 104 | 104 | 105 | 105 | 106 | 106 | 106 | 106 |

Note: averages, Source: Investec, Iress