



# SA Economics

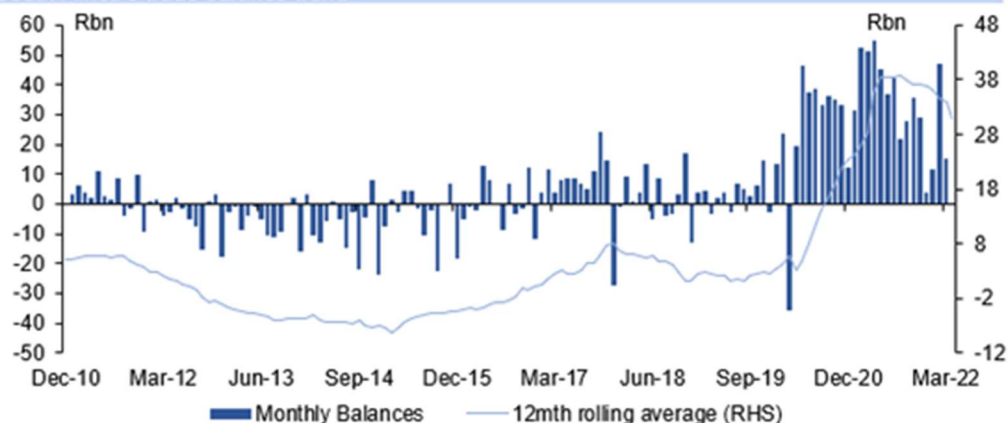
Tuesday 28 June 2022

Trade (BoP) note: rapidly rising value of imports, particularly oil and petroleum products, weakens SA's trade performance

South Africa's Trade balance monthly (Rand billions)								
	2015	2016	2017	2018	2019	2020	2021	2022
January	-24.2	-18.0	-11.2	-27.1	-13.1	-2.7	12.4	4.1
February	-8.7	-1.3	4.8	-0.6	3.9	13.7	31.2	11.5
March	0.0	2.0	11.3	9.3	4.7	23.9	52.6	45.9
April	-1.4	-0.1	5.0	1.2	-3.5	-35.9	51.3	15.5
May	4.9	18.4	7.2	3.8	1.7	19.7	54.4	
June	5.5	12.5	10.6	11.9	5.5	45.7	54.5	
July	-1.1	5.0	9.3	-5.3	-3.7	37.2	37.0	
August	-10.1	-8.9	6.0	8.8	4.5	38.7	42.3	
September	-1.3	6.9	4.5	-3.8	4.5	33.4	22.1	
October	-21.6	-3.9	4.3	-4.3	2.8	34.9	27.7	
November	0.7	-1.7	13.1	3.3	5.6	35.3	35.8	
December	7.6	12.4	15.3	16.7	13.9	33.1	29.0	

Source: SARS

South Africa's trade balance trend



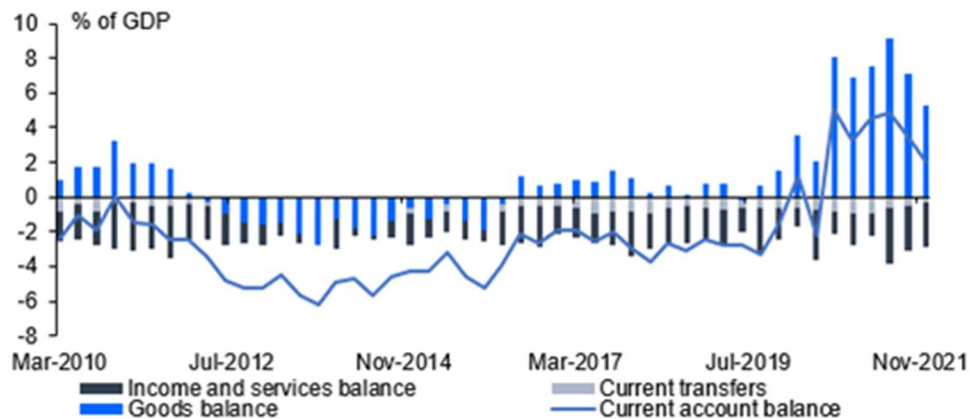
Source: SARS, Investec

#### Top ten cumulative commodities for January to April 2022 - Imports

Description	Rand (Rbn)
Crude, Coal, Petroleum and Electricity – Petroleum Oils and oils obtained from bituminous minerals	R38.6
Crude, Coal, Petroleum and Electricity – Petroleum Oils obtained from bituminous minerals, Crude	R32.5
Vehicles Components – Original Equipment Components for motor cars	R17.1
Crude, Coal, Petroleum and Electricity – Petroleum Oils and oils obtained from bituminous minerals (excluding crude)	R16.0
Vehicle components – Original Equipment Components for motor vehicles for the transport of goods	R15.0
Cellphones, Electrical Equipment and Machinery – Telephone sets	R11.5
Printed books, newspapers and pictures – Unused postage, revenue or similar stamps	R9.1
Catalytic Converters, Computers and Mechanical Appliances	R7.1
Pharmaceutical products – Medicaments	R6.8
Vehicles and accessories – motor cars and other motor vehicles principally designed for the transport of persons	R6.4
<b>Total</b>	<b>R160.0</b>

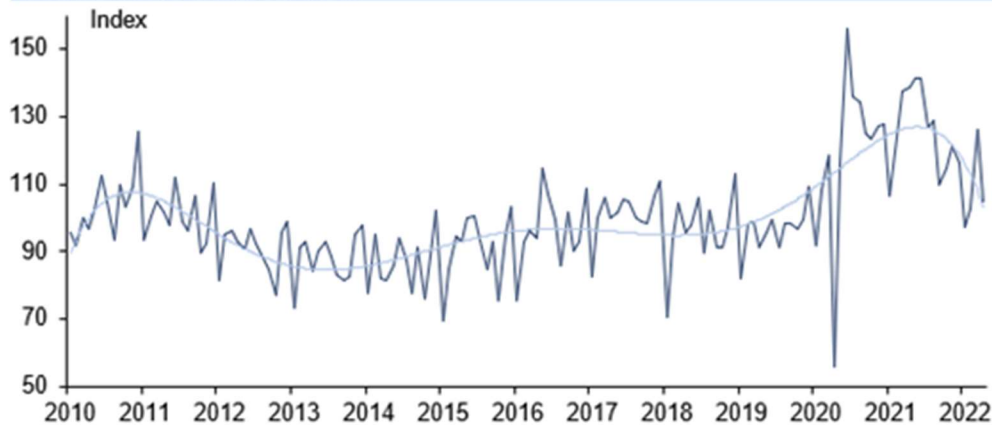
Source: SARS Customs & Excise

#### South Africa's Balance of payments, current account



Source: SARB

### South Africa's terms of trade fall



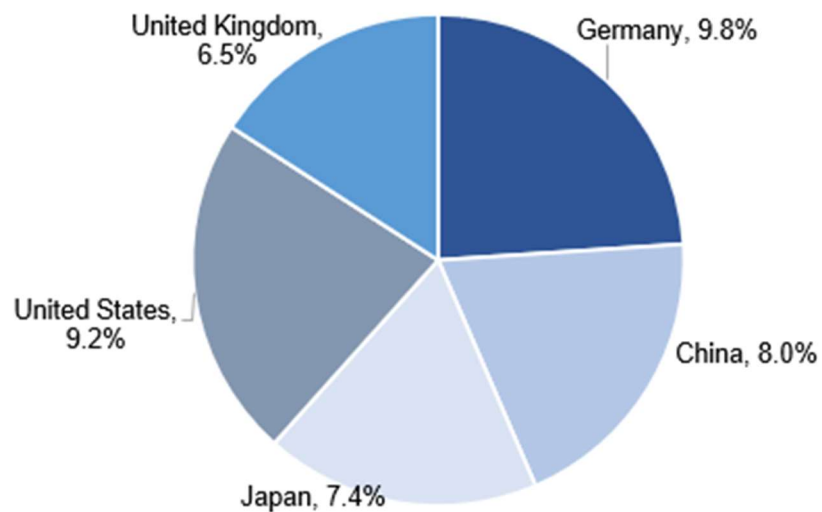
Note: base year 2011. Source: SARS

- Despite very high commodity prices, South Africa is seeing a substantially weaker trade performance this year to date, with the trade surplus at R78bn almost half the size recorded a year ago for the same period, and weaker each month in 2022 so far versus 2021.
- Structural constraints, including electricity load shedding, dwindling transport capacity on the rail networks (on theft of infrastructure, vandalism, poor management of systems, finances and procurement) and issues at the ports are not the only factors for the poor performance.
- South Africa's imports exceeded the growth in exports for the first four months of this year, with imports up R111.4bn and exports only R42bn higher. Oil, petroleum products and related chemical imports accounted for a hefty R87.1bn of SA's imports so far this year.
- Exports still exceed imports, yielding trade surpluses so far this year, but imports have accelerated rapidly in January to April, and if the pace continues, SA will be in a trade deficit by next year if commodity prices remain at the levels of 2022 to date (if not earlier).
- This will negatively impact the current account, removing a key support that limited the degree of weakness the domestic currency experienced in the face of a switch into marked investor risk-off this year on the Russian/Ukraine war, and higher US interest rates.
- High oil and petroleum product prices have driven SA's rand value of its imports substantially higher, and energy and food costs globally continue to drive high inflation, with SA's exports of bulk products such as coal hindered by structural constraints in state transport systems.
- South Africa is expected to return to a trade deficit, and so a current account deficit, and see current account deficits over the next five years if the country does not manage to cease importing oil and petroleum products, and instead extract, and refine, its own.
- SA's refining capacity is at a low level, and SA is a heavy importer of refined products, which Russia exports too. To combat high fuel costs Minister Mantashe is reported to have said "(w)e should consider importing ... from Russia at a low price because it is not sanctioned".
- Many European nations have little alternative but to continue importing energy commodities from Russia, but SA doing so in order to gain a price benefit may have

negative repercussions on its trade relations with Germany and the US, its top two export destinations (UK fifth).

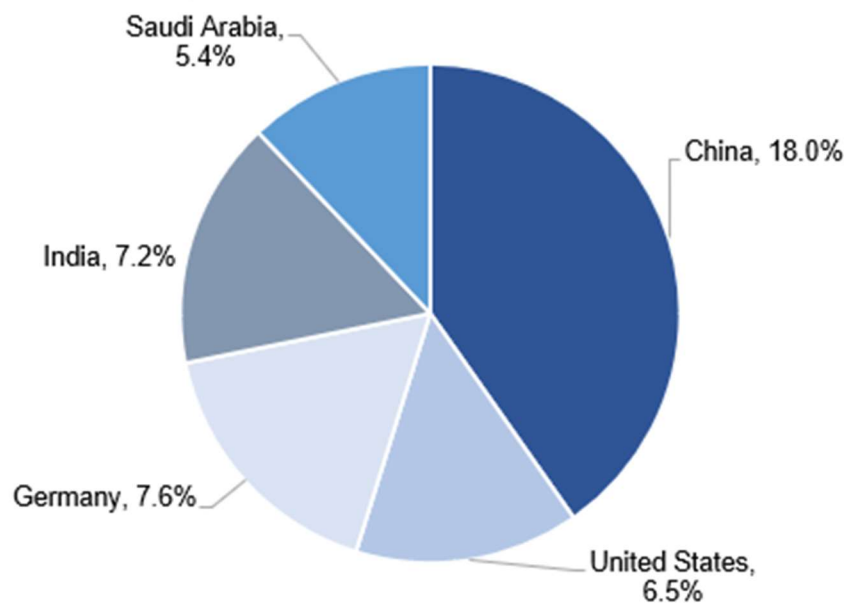
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#### Top 5 countries SA exports to



Source: SARS

#### Top 5 countries SA imports from



Source: SARS

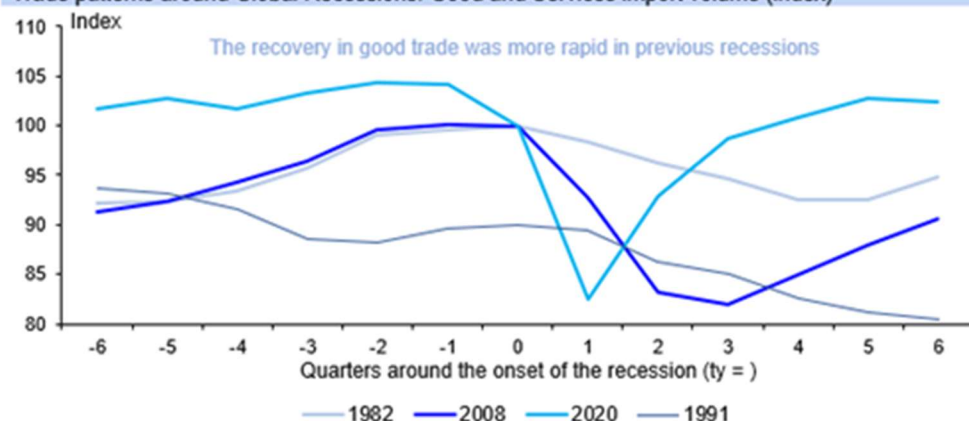
### International trade trends: Year-on-year growth rates



Source: UNCTAD

Note: Data for 2022 are preliminary

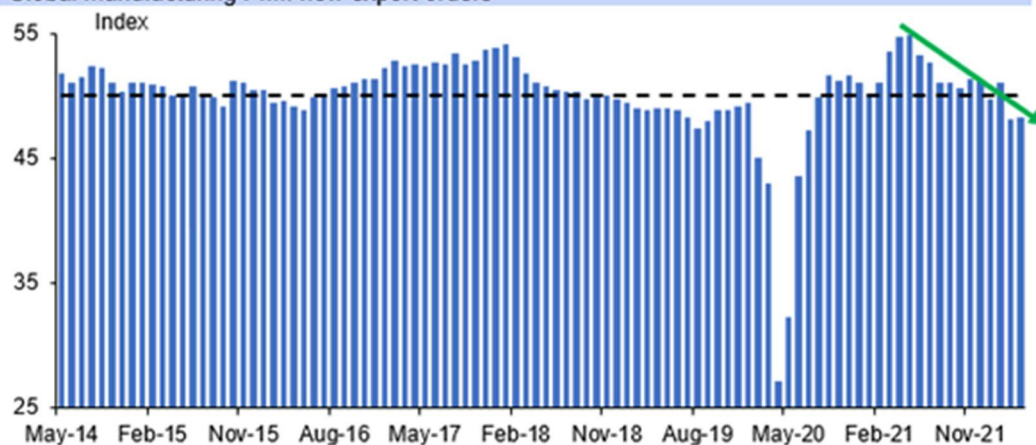
### Trade patterns around Global Recessions: Good and Services import volume (index)



Source: IMF, April WEO 2022

Note: The goods and services import volume index is normalized to 100 at the onset of the recession (t = 0)

### Global manufacturing PMI: new export orders



Source: S&P Global

- The IEA (the US's International Energy Agency) reported that Russia is the largest exporter of oil and petroleum products to global markets and the second largest crude oil exporter after Saudi Arabia. "About 60% of Russia's oil exports go to OECD Europe, ... 20% ... to China.
- Next week fuel prices are set to rise by close to R2.00/litre for petrol in SA, and over R1.50/litre for diesel, which will push up inflation further, along with higher electricity prices for SA, while Eskom warns of stage 6 loadshedding as strikes among some energy workers continues.
- Stage six load shedding will further cut into South Africa's production and so its trade activity, with Q2.22 expected to be a significantly weaker quarter than Q1.22 (which recorded a trade surplus of R62.8bn) The slowdown in global activity will also afflict the figures.
- The IMF warns of a "narrowing path" for the US to avoid recession, cutting its forecast to 2.9% for 2022 for the US, from 3.7% in April, which in turn was lowered from January's expectations. For 2023 the IMF sees 1.7%, down from 2.3%, and for 2024 only 0.8%.
- The lagged effects of US interest rate hikes will have a particularly negative effect on economic growth in longer periods, and the risk of global recession has risen based on a higher risk of US recession, pushing the severe down case probability to 9% in our scenarios.
- SA's economic (trade) activity is heavily dependent on global (trade) activity and slowing global growth negatively impacts trade. SA's performance is skewed by high energy costs and an inability to benefit substantially from high coal and other commodity prices for its exports.
- The up case, where SA achieves a sustained economic growth rate of at least 3.0% y/y over the forecast period of five years has become less likely due to the increased chance of recession in the US and globally. The potential recession is not yet feared to be lengthy.
- The world is likely to see an increasingly difficult period and the UN cautions of a "real risk" of numerous famines. "The war in Ukraine has compounded problems that have been brewing for years: climate disruption; the COVID-19 pandemic; the deeply unequal recovery."
- The US adds that "(w)e face an unprecedented global hunger crisis", and cites the need to reduce food commodity price volatility, and the resumption of Russian and Ukrainian grain exports, which together produced around 30% of global wheat exports.



Economic Scenarios: updated to decrease up case probability, increase severe down case probability as risks rise

		Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.23
<b>Extreme Up case</b> 1%	USD/Rand (average)	15.21	14.00	13.80	13.70	13.60	13.40	13.30	13.10
	Repo rate (end rate)	4.25	4.75	4.00	3.75	3.75	3.75	3.50	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. <b>Strong global growth, risk-on, commodity boom. Rapid upgrades of credit ratings.</b> Strong transition away from fossil fuel usage, a quick transition to renewable energy.								
<b>Up case</b> 1%	USD/Rand (average)	15.21	14.50	15.00	14.90	14.90	14.70	14.60	14.50
	Repo rate (end rate)	4.25	4.75	4.50	4.25	4.00	4.00	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. <b>Positive outlooks on credit ratings turn into upgrades fiscal consolidation, debt projections fall substantially.</b> Substantial transition to renewable energy away from fossil fuel usage, comprehensive measures to alleviate climate change impact on economy.								
<b>Base case</b> 50%	USD/Rand (average)	15.21	15.60	15.80	15.40	15.20	15.60	16.00	15.50
	Repo rate (end rate)	4.25	4.75	5.50	5.75	6.00	6.00	6.25	6.25
	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. <b>South Africa in the BB credit rating category bracket as fiscal consolidation (debt to GDP stabilisation) occurs leading to some positive outlooks.</b> 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.								
<b>Lite (domestic) Down case</b> 39%	USD/Rand (average)	15.21	16.00	16.65	16.90	17.00	17.50	17.60	17.50
	Repo rate (end rate)	4.25	4.75	5.75	6.25	6.75	7.25	7.75	8.25
	The international environment (incl. risk sentiment) is that of the base case. <b>South Africa fails to see debt projections stabilise, falls into single B (local and foreign currency) credit ratings from all three agencies. Recession occurs.</b> 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. <b>Substantial fiscal consolidation ultimately occurs, preventing ratings falling into the C grades.</b>								
<b>Severe down case</b> 9%	USD/Rand (average)	15.21	16.80	17.50	18.00	18.50	19.00	19.75	20.50
	Repo rate (end rate)	4.25	4.75	6.00	6.75	7.50	8.00	8.50	9.00
	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. <b>SA rated single B from all three key agencies, downgrades eventually into CCC grade, increased risk of default.</b> Government borrows from increasingly wider sources, sinks deeper into a debt trap, widespread, severe services load shedding, severe civil and political unrest. SA economy in depression. Failure to transition to renewable energy and to sufficient measures to alleviate the impact of climate change on the economy.								

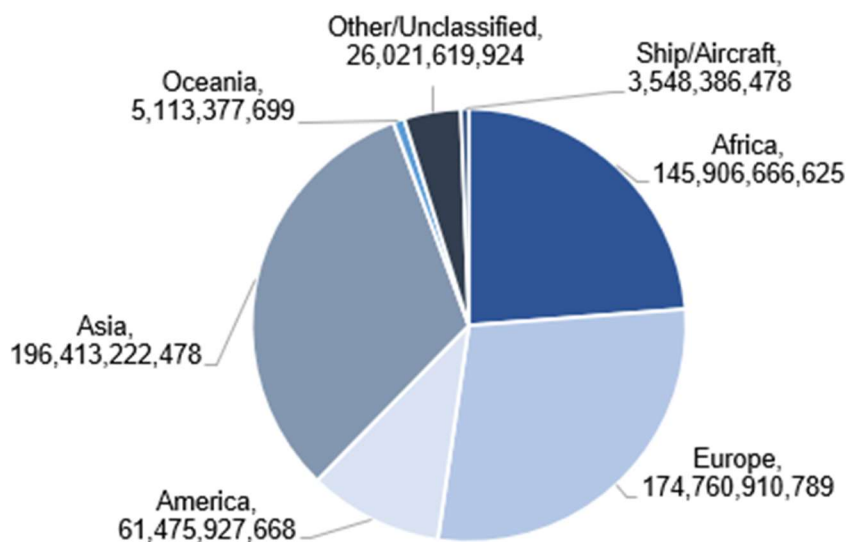
Note: Event risk begins Q3.22. Source: Investec

#### Top ten cumulative commodities for January to April 2022 - Exports

Description	Rand (Rbn)
Crude, Coal, Petroleum and Electricity – Coal, Briquettes, Ovoids and Similar solid fuels manufactured from coal	R50.5
Gold, Platinum, Diamonds, Jewellery and Precious Metals – Platinum, Unwrought or in powder form	R32.5
Ores – Iron ores and concentrates, including roasted iron pyrites – agglomerated	R25.9
Gold, Platinum, Diamonds, Jewellery and Precious Metals – Gold, unwrought or in powder form	R25.4
Gold, Platinum, Diamonds, Jewellery and Precious Metals – Platinum, unwrought or in semi-manufactured forms	R18.3
Iron and Steel – <u>Ferro-alloys</u>	R16.9
Ores – Manganese Ores and concentrates, including ferruginous manganese ores and concentrates	R16.2
Vehicles and accessories – motor cars and other motor vehicles principally designed for the transport of persons	R15.7
Ores – Iron ores and concentrates, including roasted iron pyrites – non-agglomerated	R15.2
Vehicles and accessories – motor vehicles for the transport of goods	R14.7
<b>Total</b>	<b>R231.1</b>

Source: SARS Customs & Excise

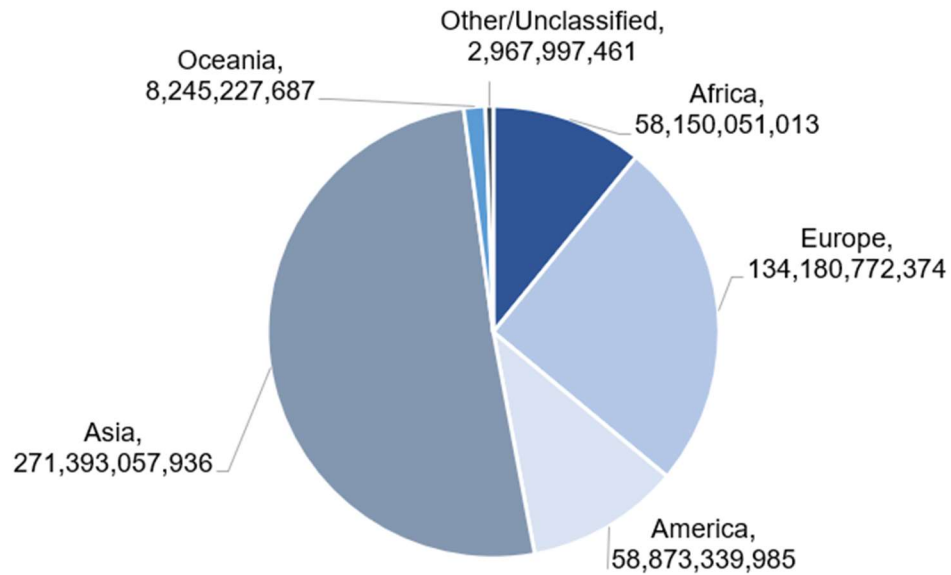
#### World Zone exports (January to April 2022) - Rand values



Source: SARS

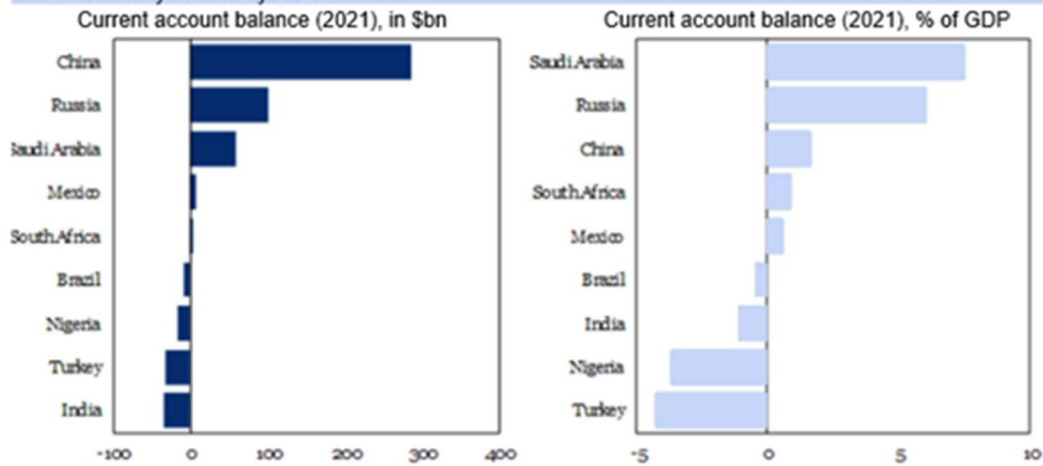


### World Zone imports (January to April 2022) - Rand values



Source: SARS

### Cross-Country Summary of BOP



Source: IIF