SA MACROECONOMIC AND FX OUTLOOK

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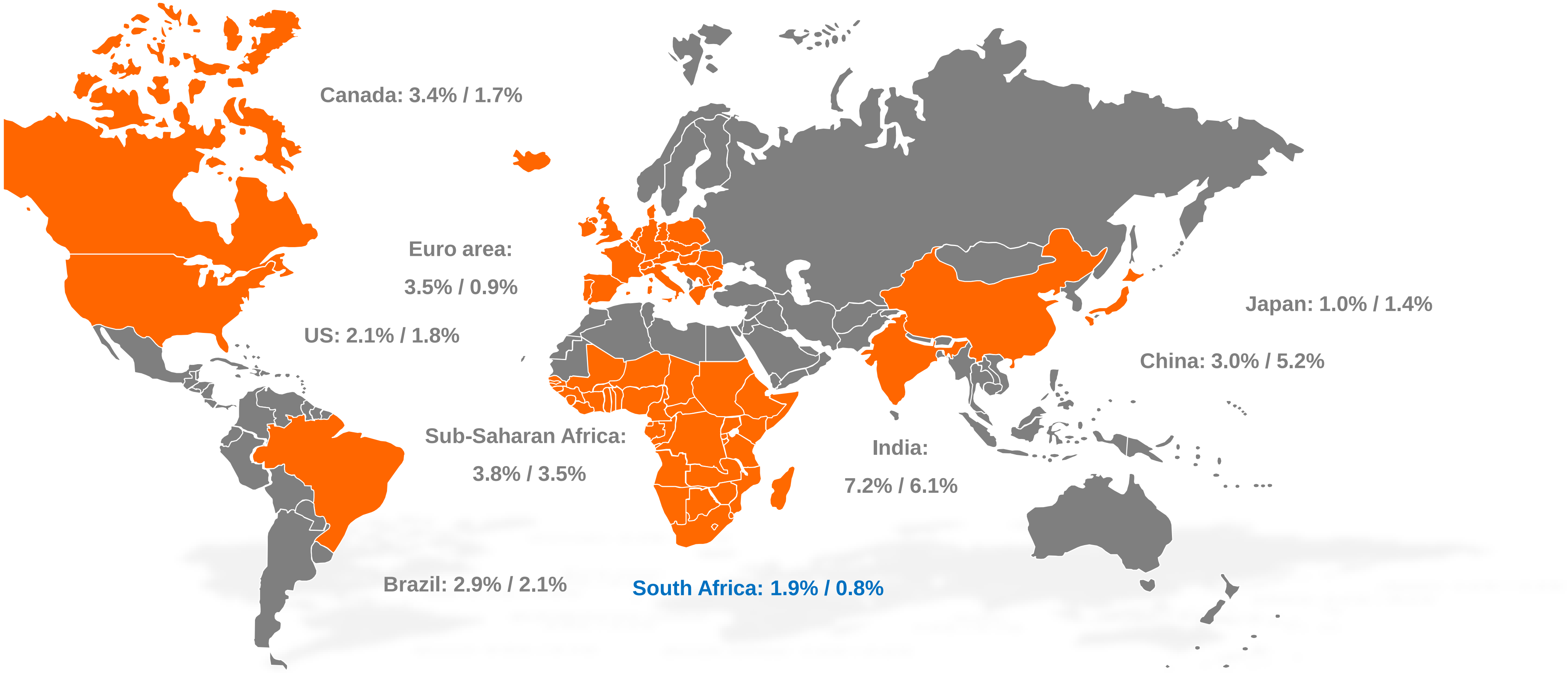
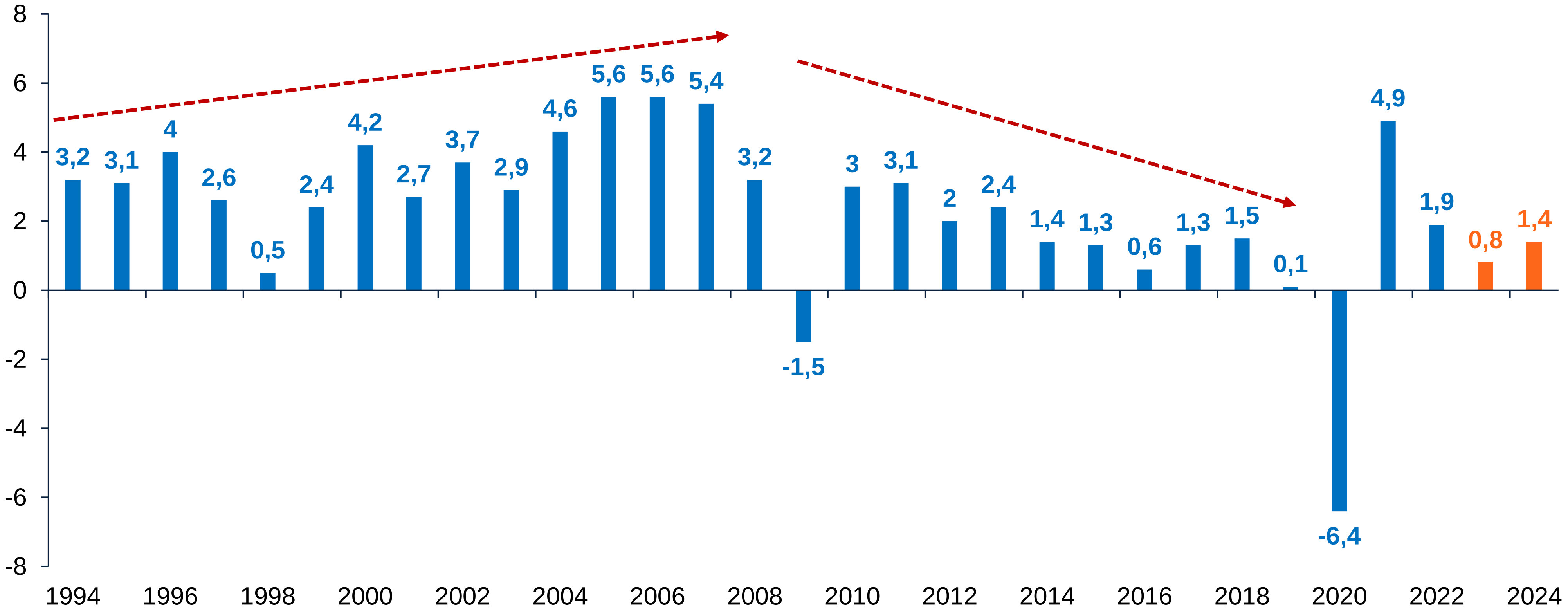
SOFTER GLOBAL GROWTH IN 2023 – 3.0%



Sources: IMF

SA GDP EXPECTED AT 0,8% IN 2023



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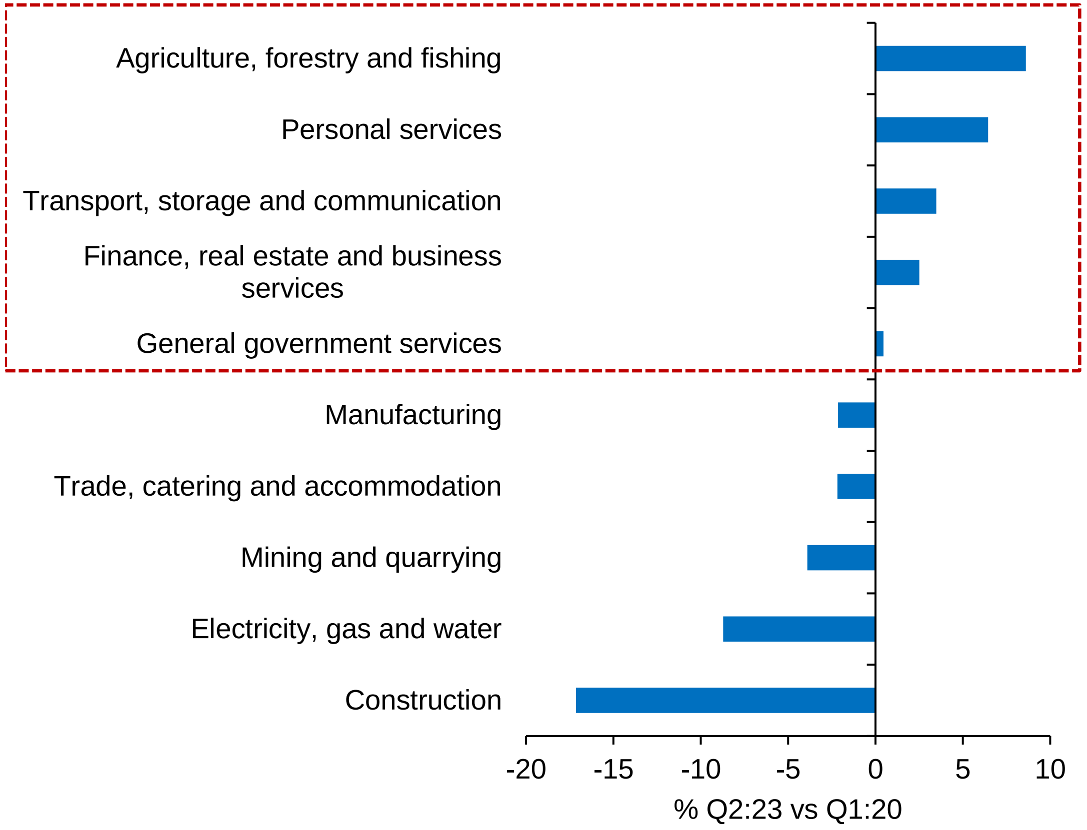
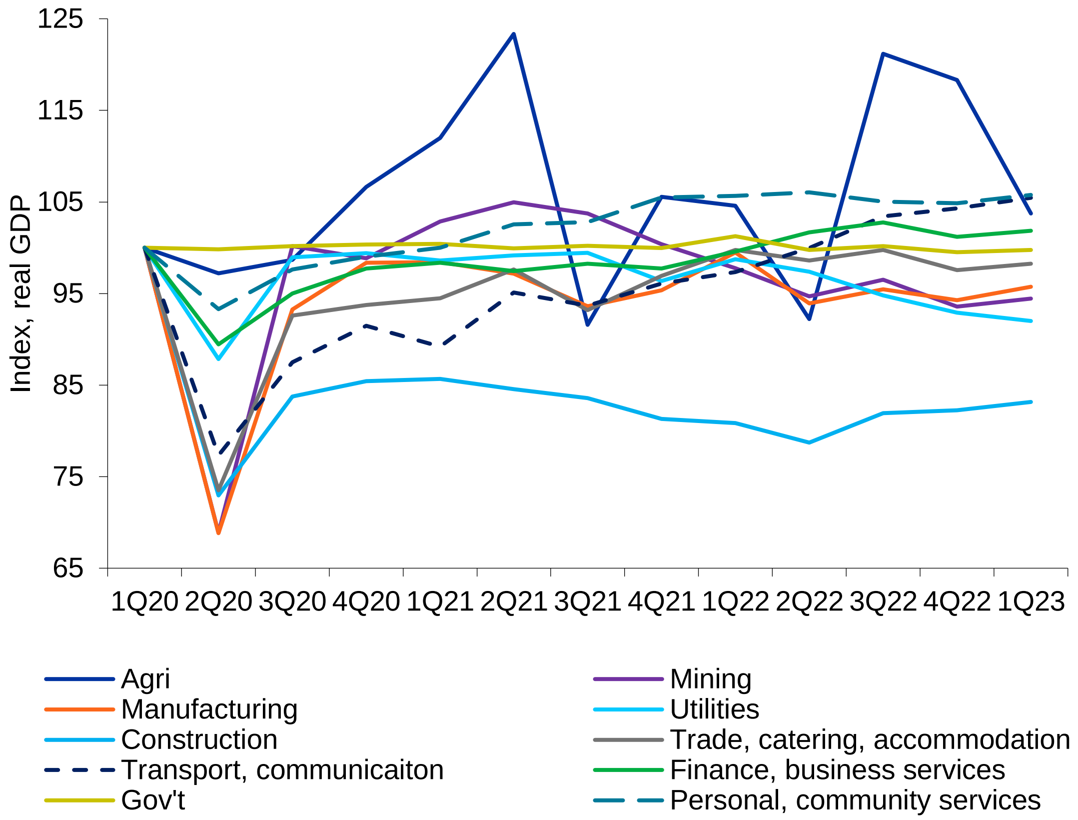
Sources: Standard Bank Research

MANY SECTORS ABOVE PRE-PANDEMIC GROWTH; UNEVEN SECTORAL RECOVERY THOUGH

Several sectors above pre-pandemic levels



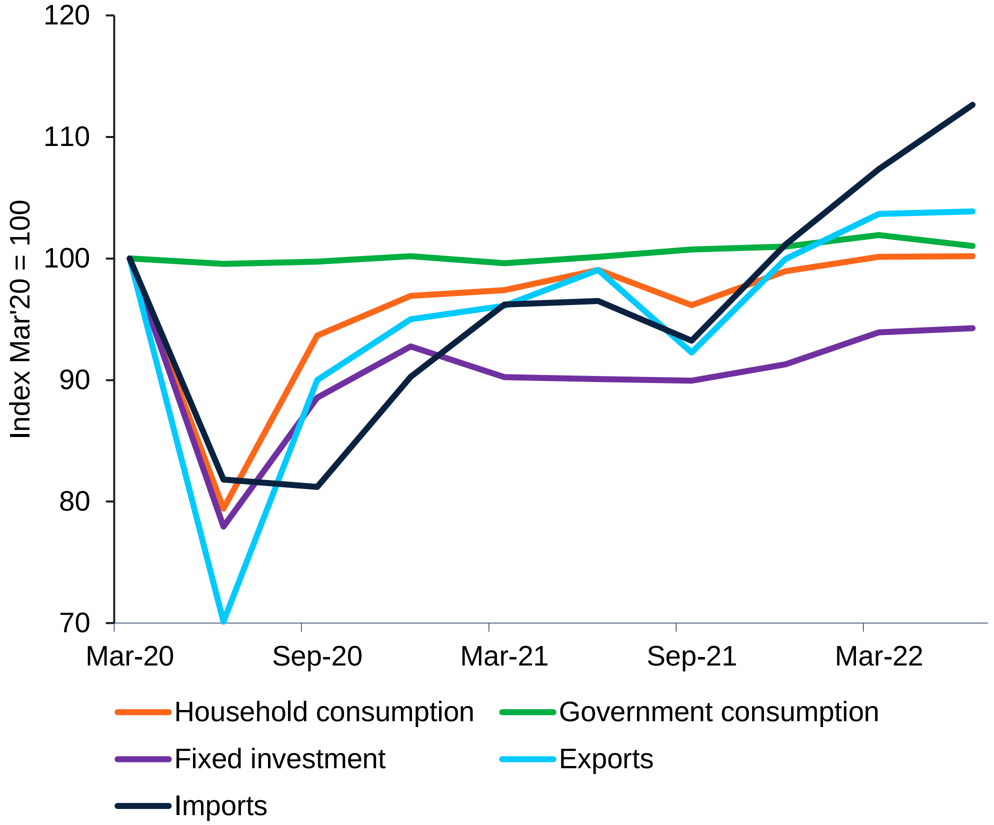
Many sectors recently just treaded water amid severe electricity (and logistical) constraints



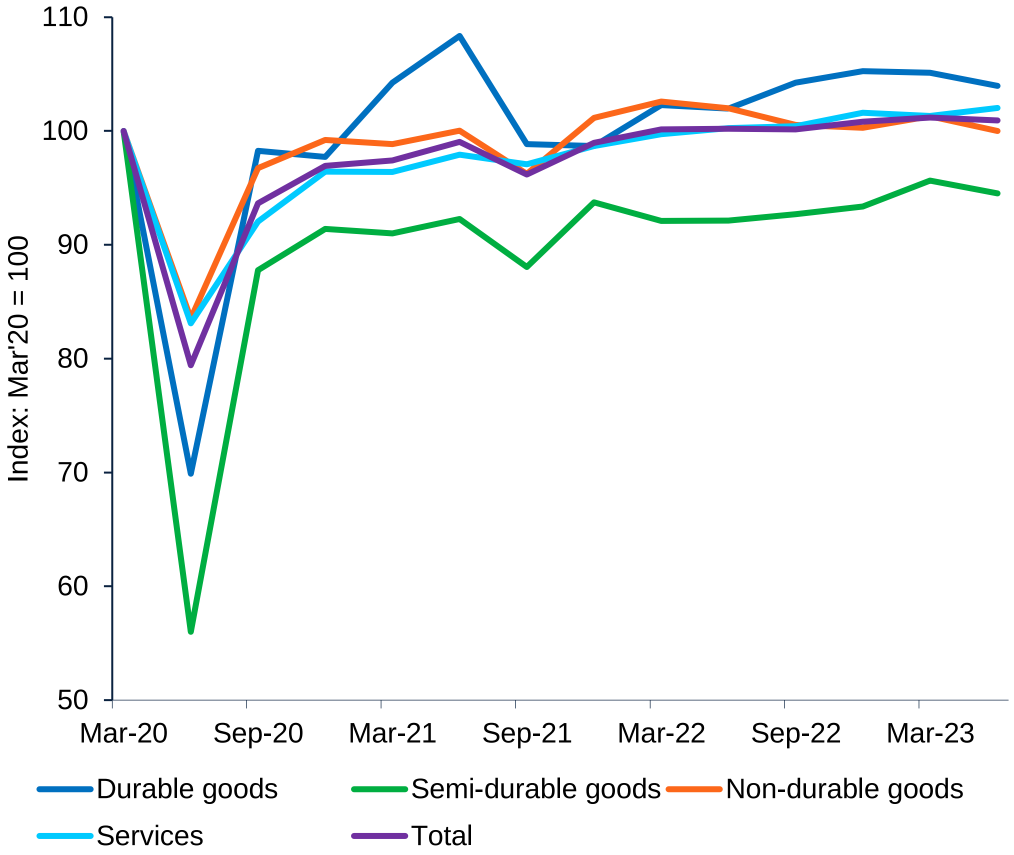
Sources: Stats SA, Standard Bank Research

EXPENDITURE-SIDE GDP

Broad-based expenditure expansion in 2Q23, with imports particularly strong



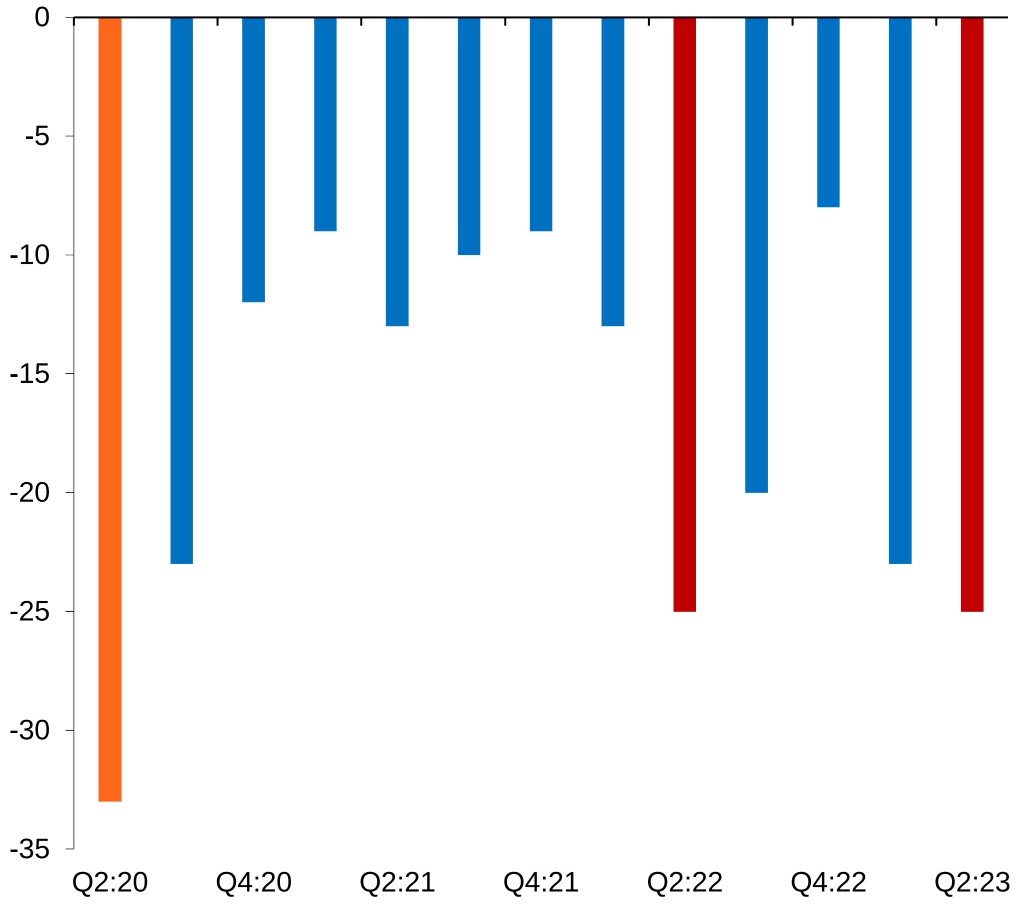
Total real consumer spending contraction reflects growing pressure on consumers

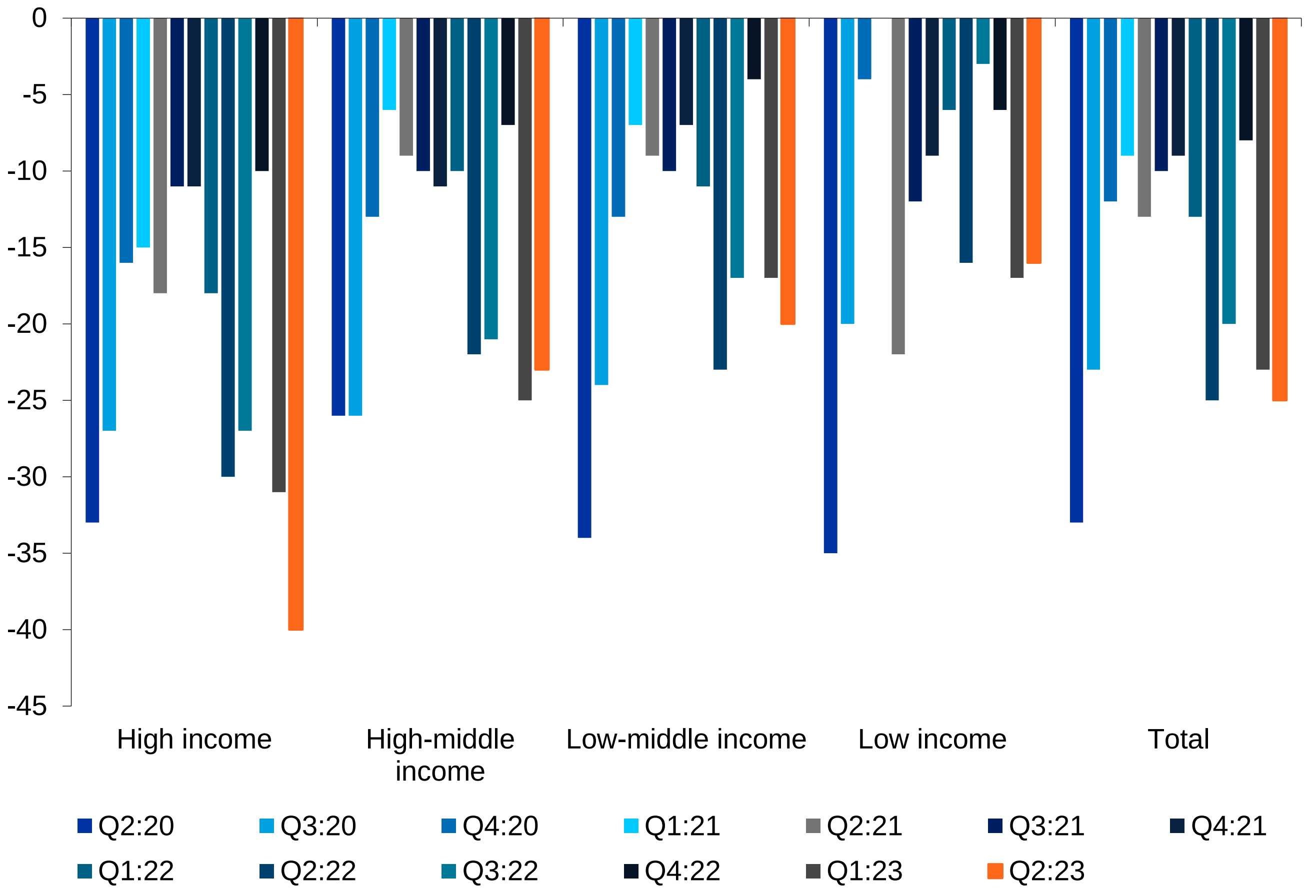


Sources: Standard Bank Research, Stats SA

SA CONSUMER CONFIDENCE DETERIORATED FURTHER IN Q2:23

Net Balance (% up less % down)

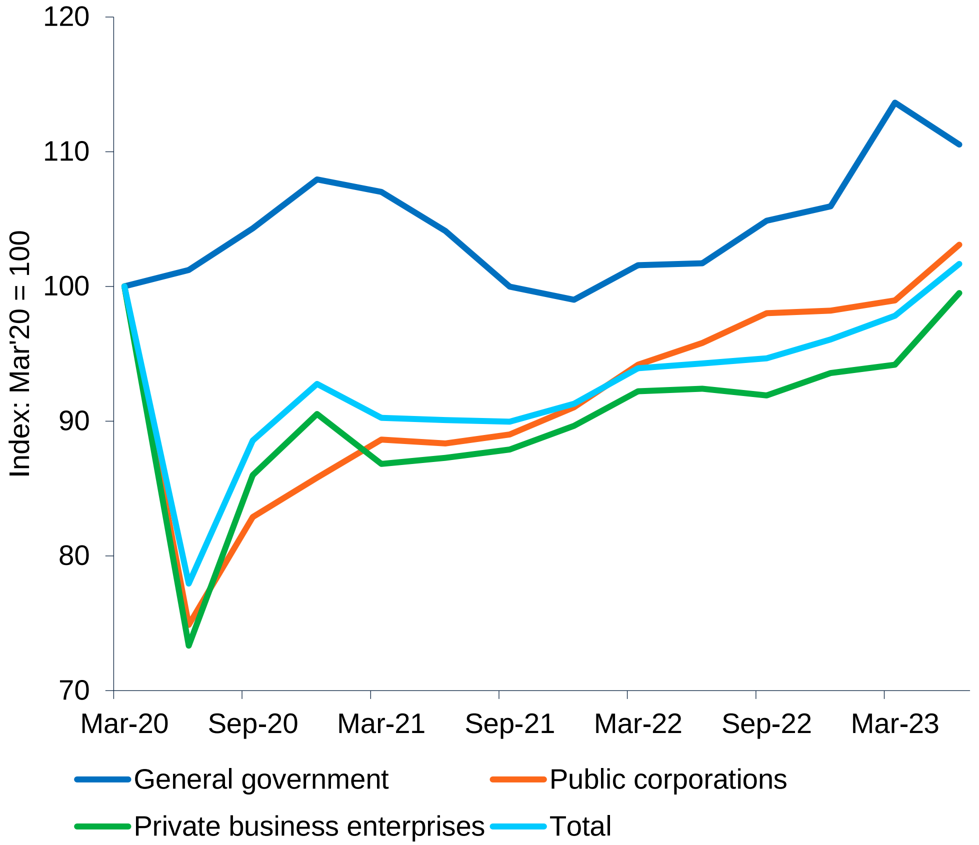


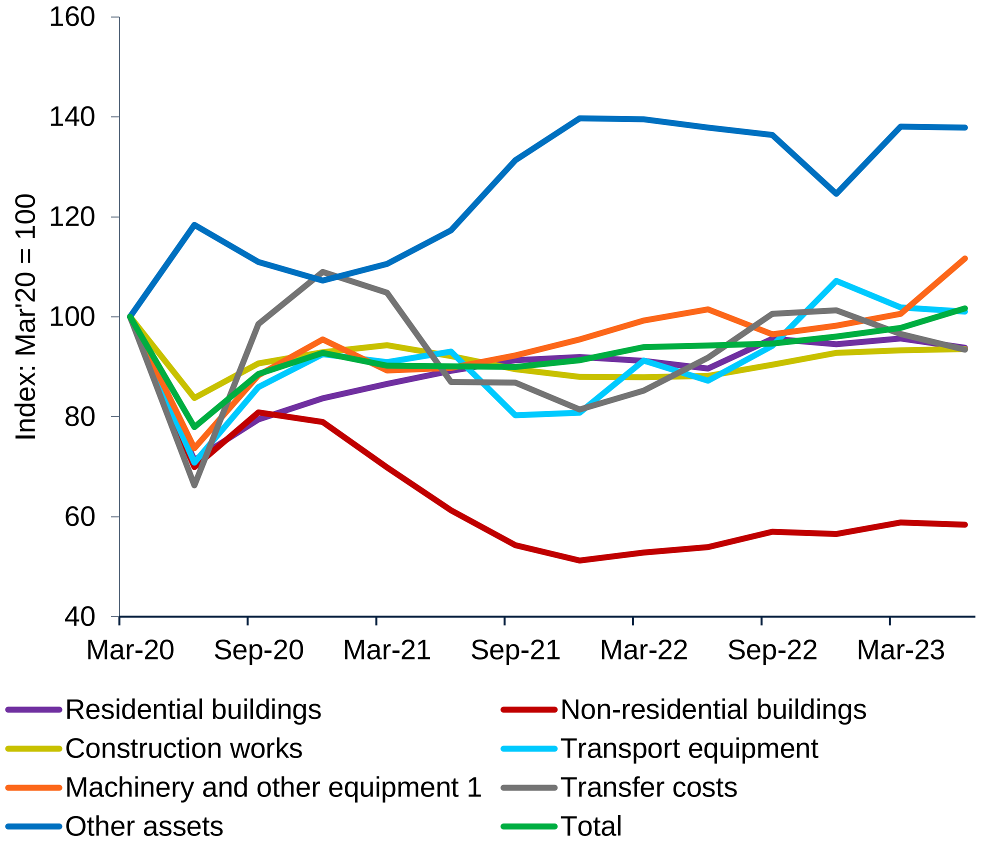


Sources: Standard Bank Research, BER

FIXED INVESTMENT RECOVERY CONTINUES

Fixed investment recovery continues in Q2:23

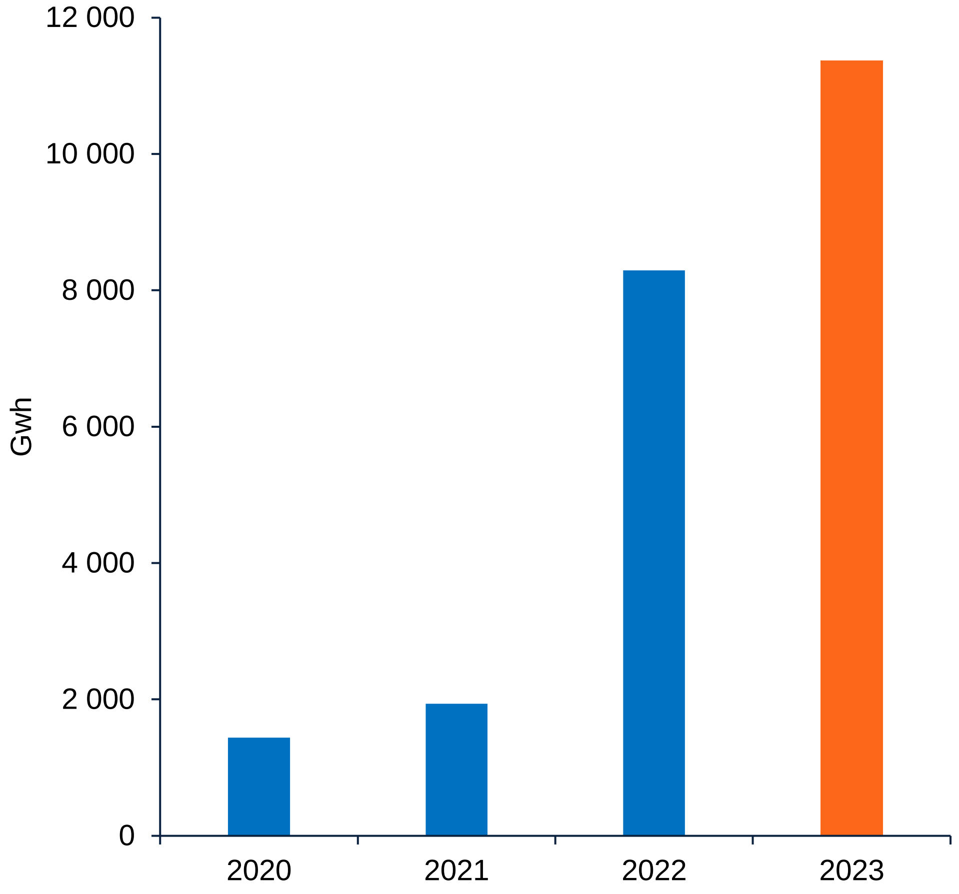




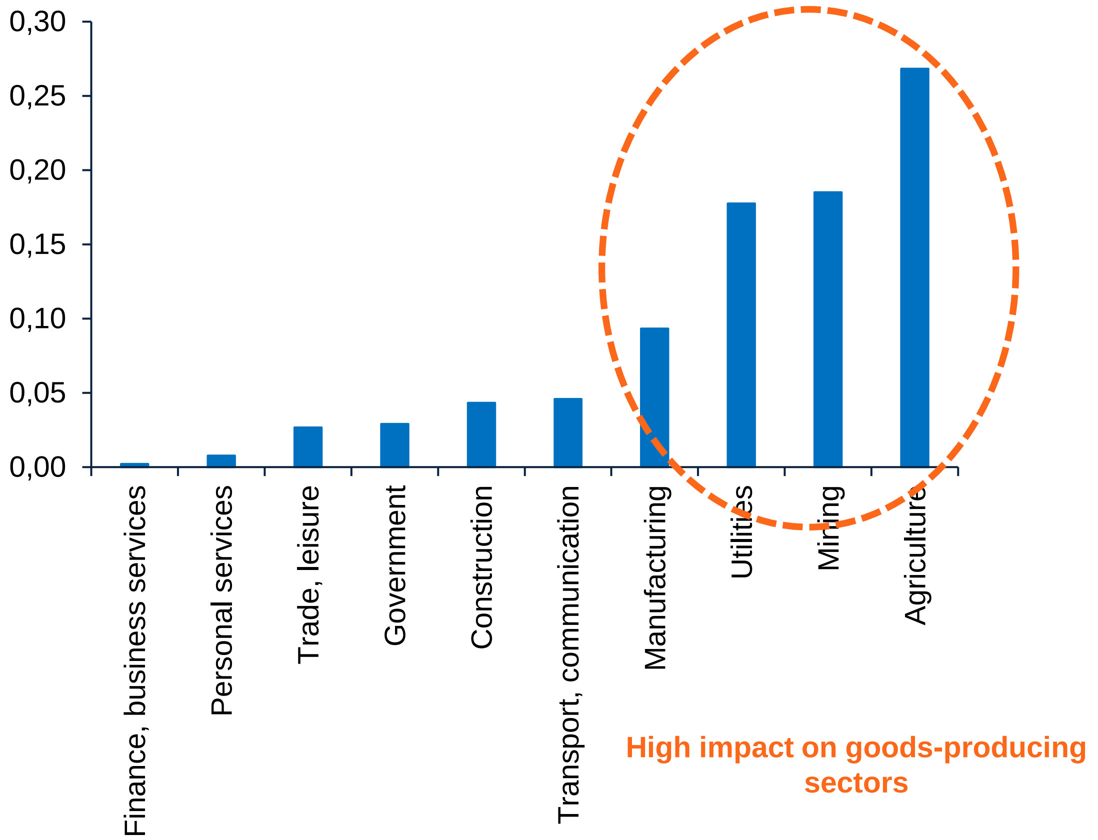
Sources: Standard Bank Research, BER, Stats SA

LOADSHEDDING A MAJOR DOWNSIDE RISK TO ECONOMIC GROWTH OUTLOOK

Record amount of loadshedding in 2023



Negative growth impact of 1000MW load-shedding for a day

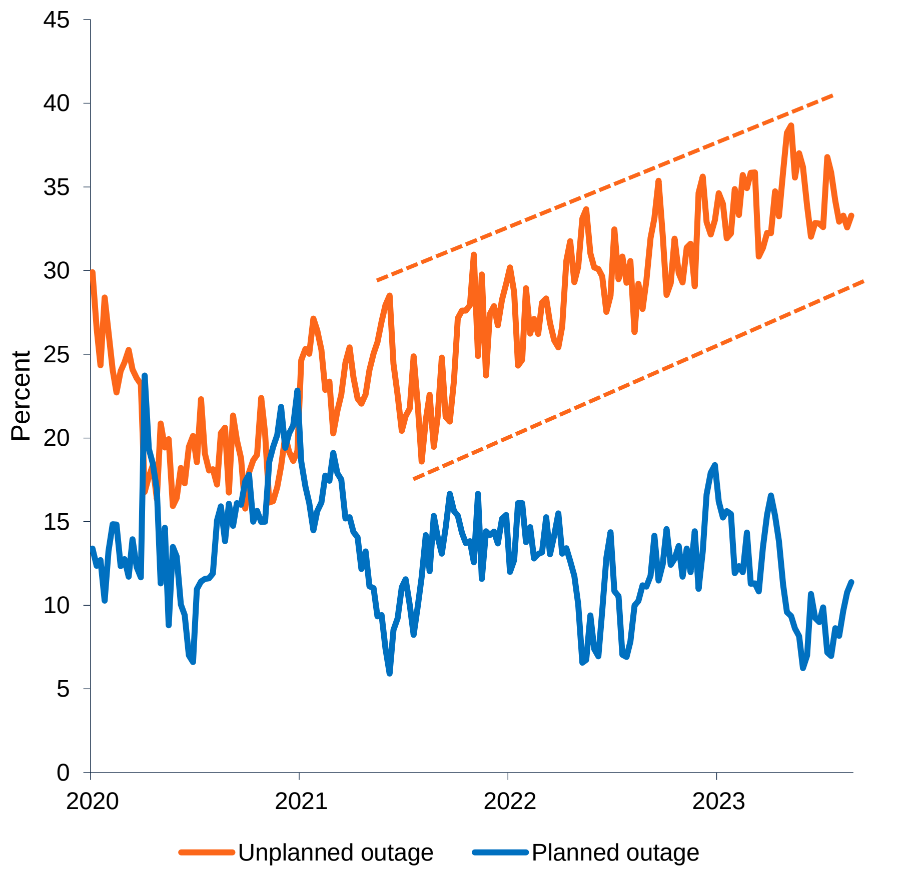


Sources: Standard Bank Research, Eskom, EE Business Intelligence

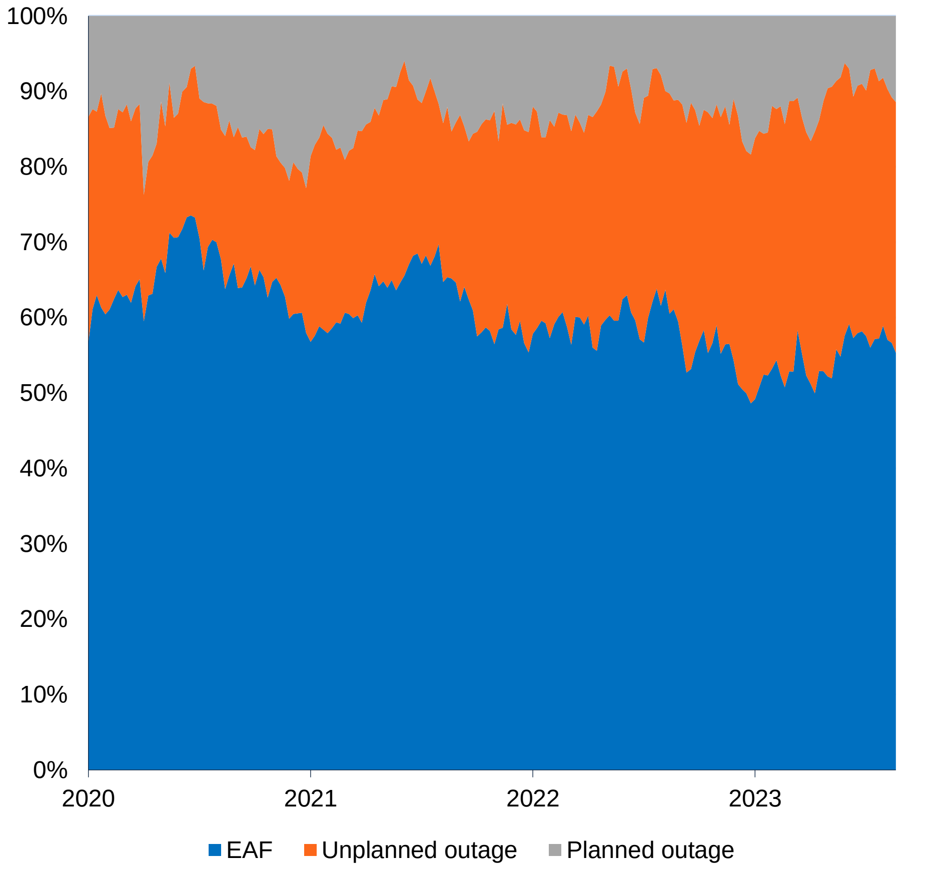
UNPLANNED OUTAGES AND EAF

- Unplanned outages is the ratio of energy losses over a given time period to the maximum amount of energy which could be produced over the same time. This is due to technical faults.
- The Energy Availability Factor (EAF) is the ratio of the available energy generation over a given time period to the maximum amount of energy which could be produced over the same time period.
- It is the amount of energy a plant is capable of supplying to the grid.
- The EAF slipped considerably in 2022, to around 5%, from 65% in 2020.
- It is currently at 55,32%.

Unplanned outages have increased since 2020



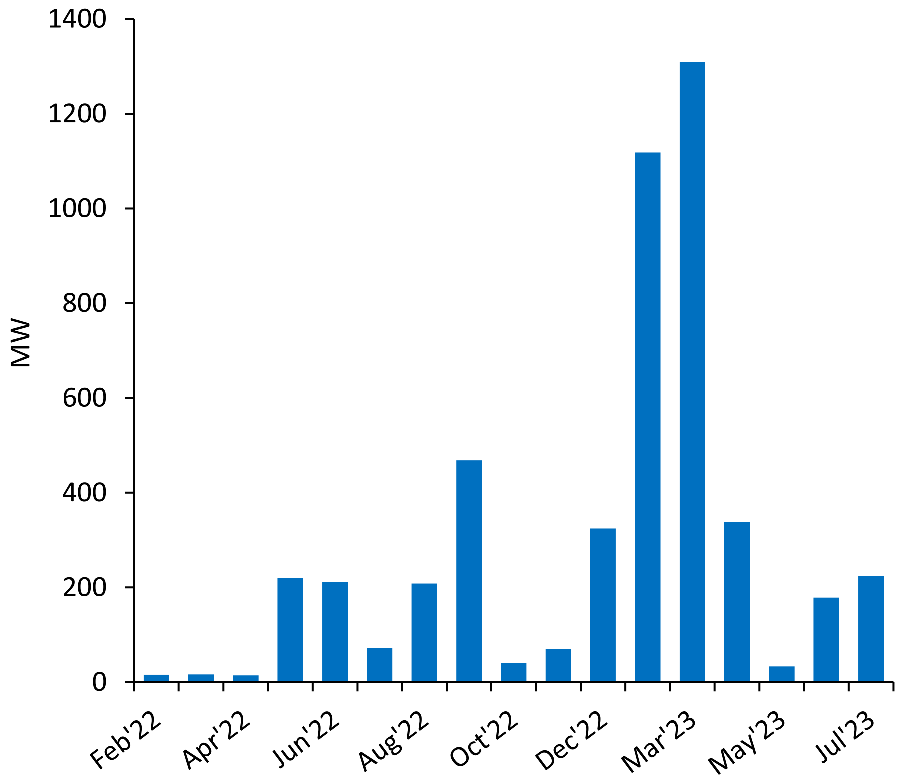
Energy availability factor



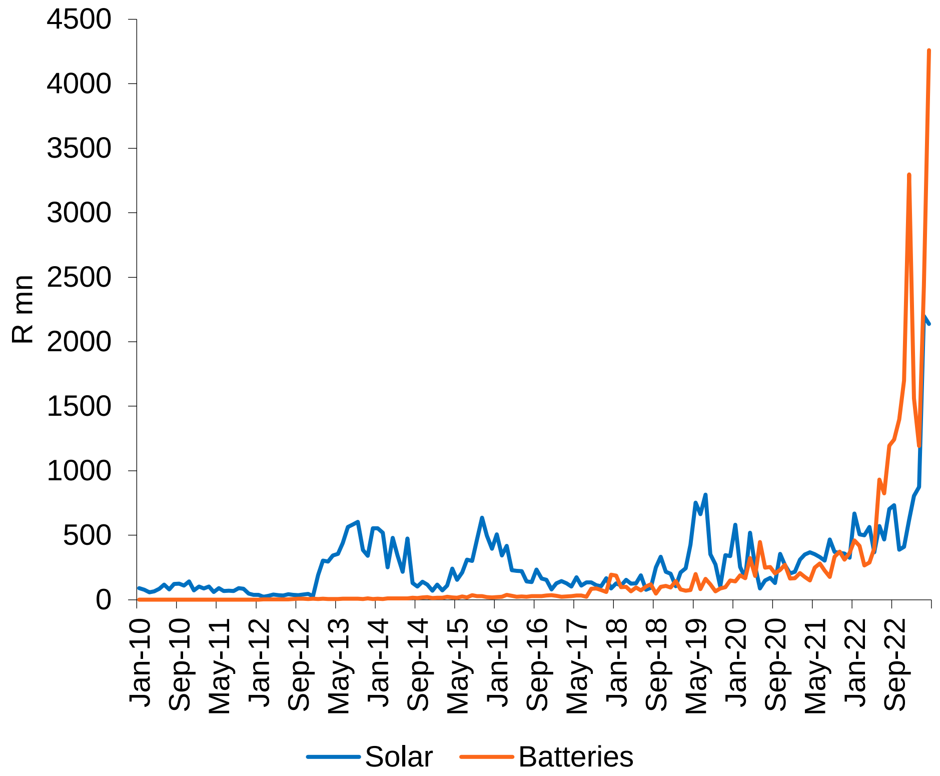
Sources: Eskom, Standard Bank Research

SELF-GENERATION AND STORAGE CAPACITY GROWING

Large number of embedded generation projects registered with Nersa points to a boost to fixed investment and loadshedding relief in the short to medium term



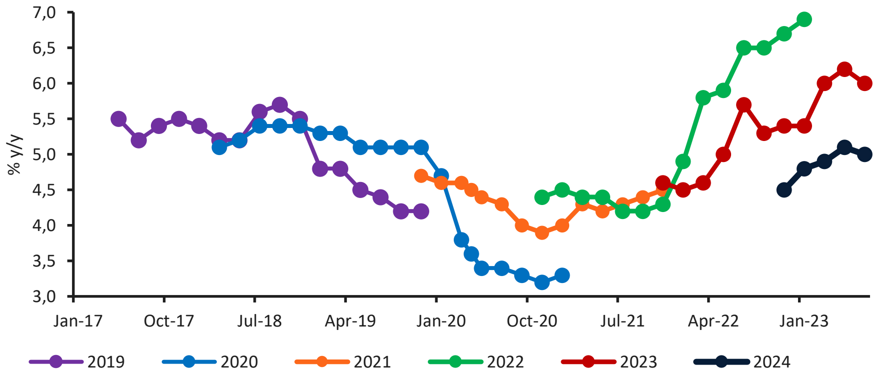
Spiking imports of solar panels and batteries reflect growing private sector electricity generation and storage capacity



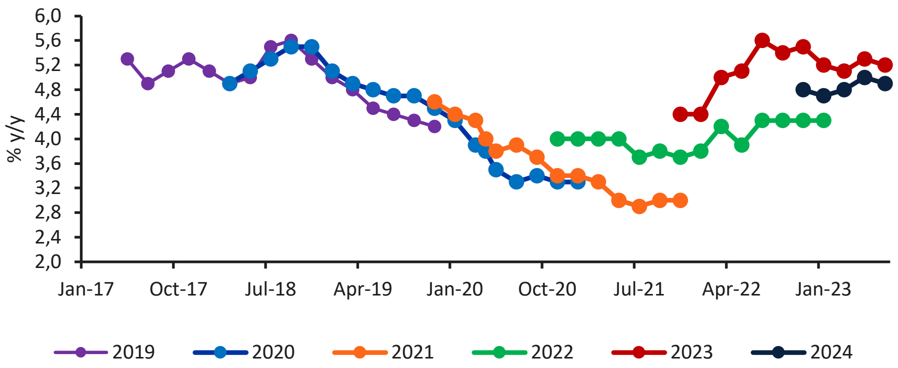
Sources: Standard Bank Research, NERSA, SAPVIA, SARS

SARB GDP AND INFLATION FORECASTS

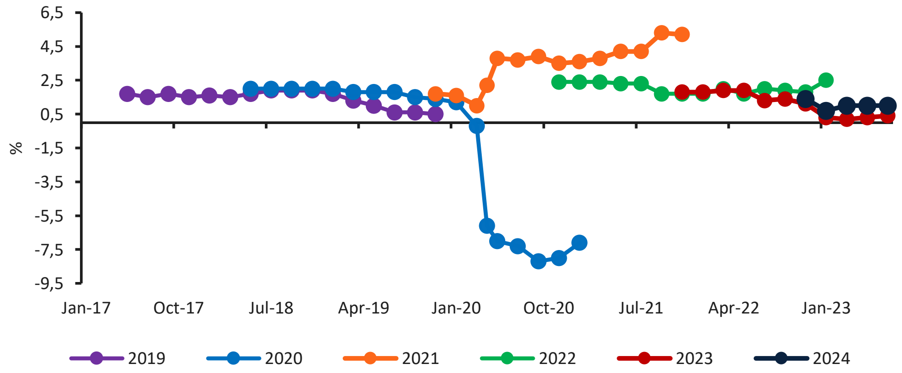
SARB's CPI forecast



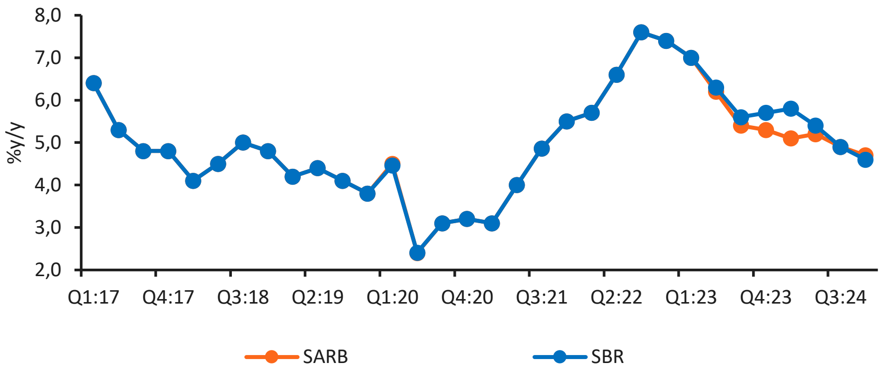
SARB's core inflation forecast



SARB's GDP growth forecast

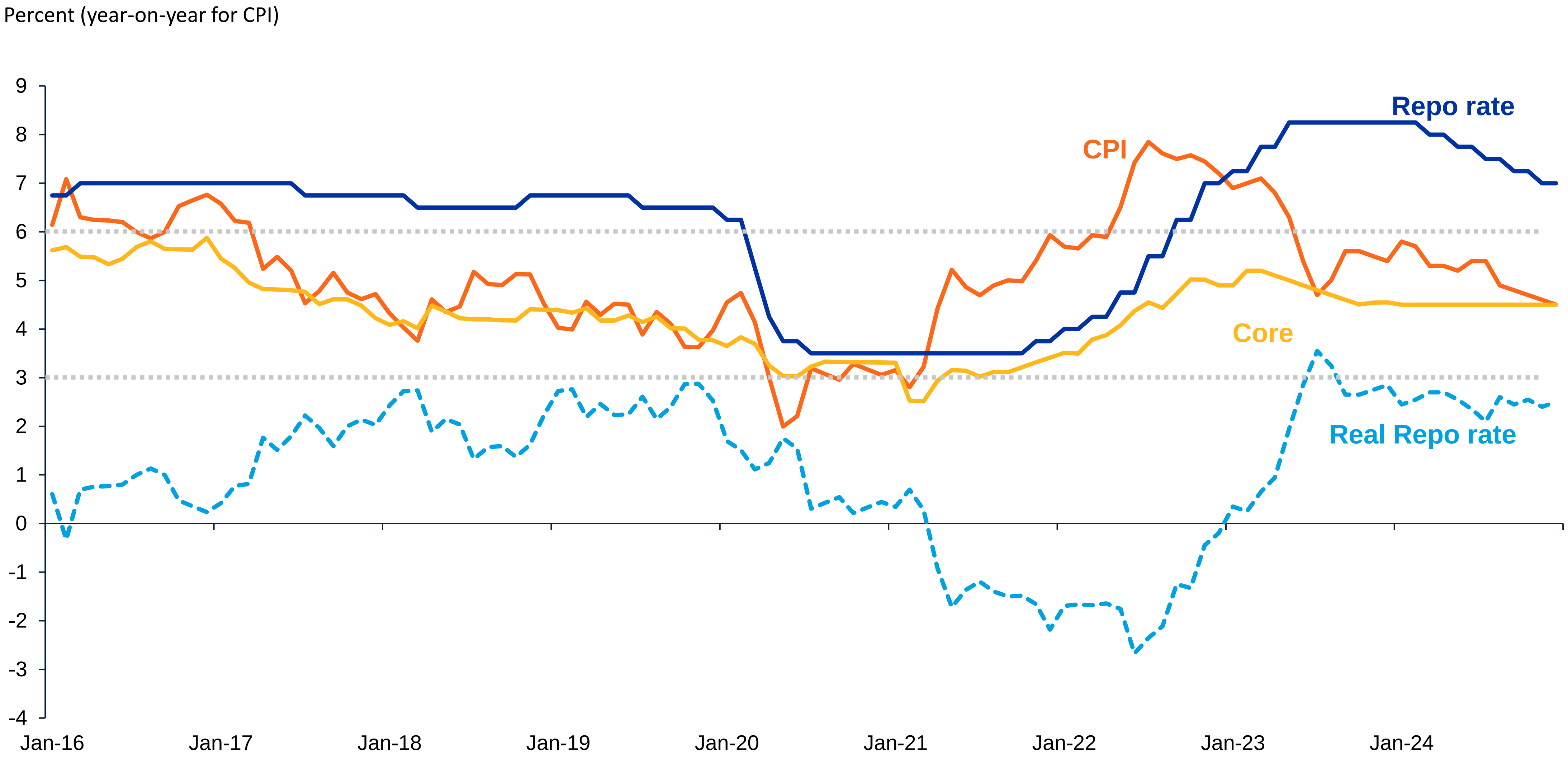


SARB's CPI forecast vs. SBR



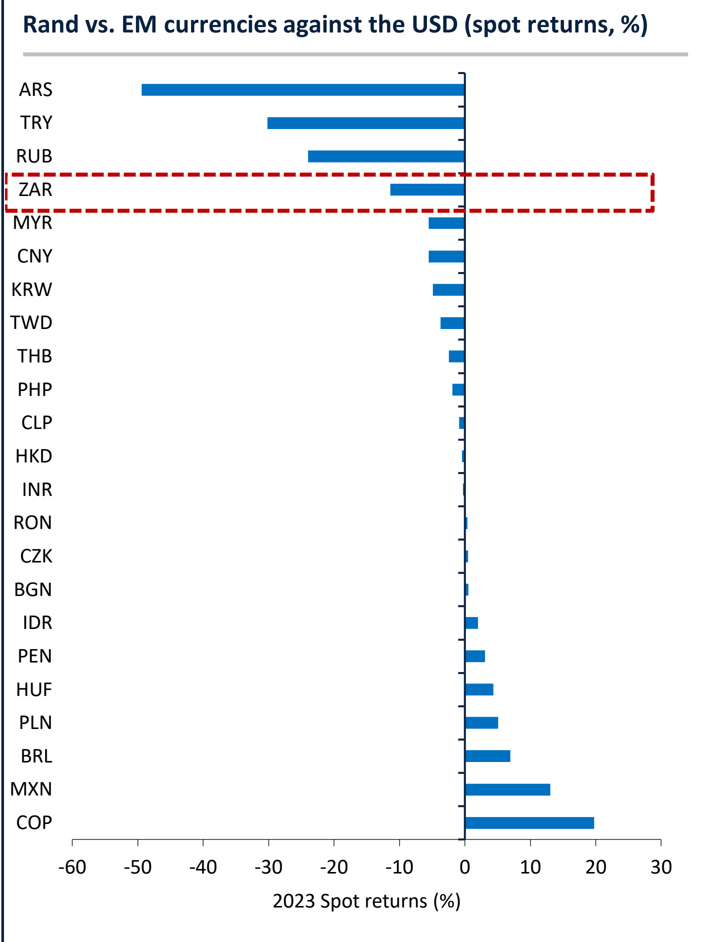
Sources: SARB, Standard Bank Research

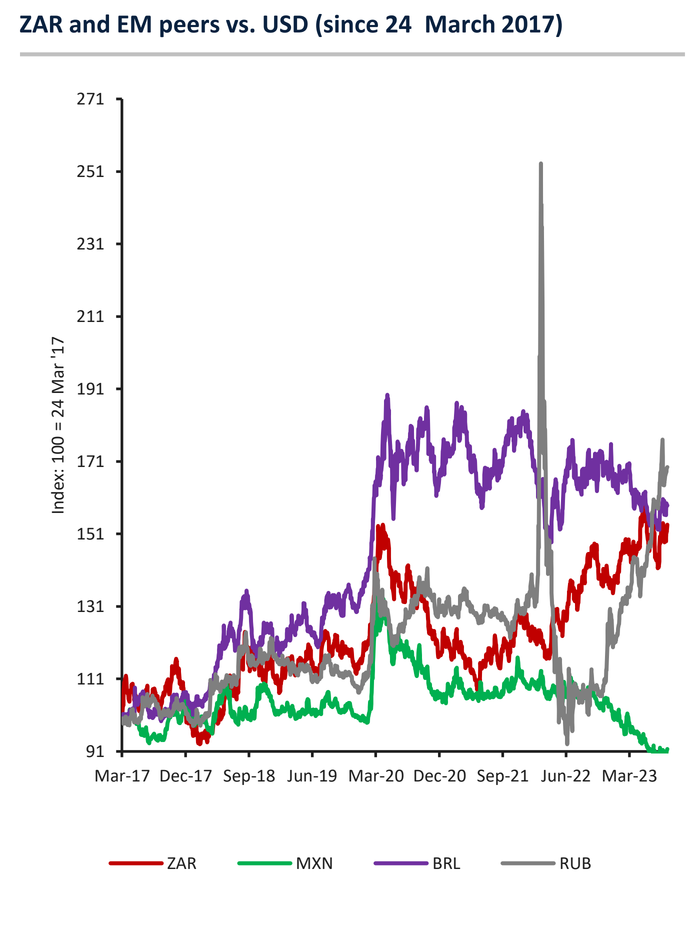
SARB FRONTLOADED MONETARY POLICY NORMALISATION (REPO NOW AT 8,25% WITH PRIME 11.75%)

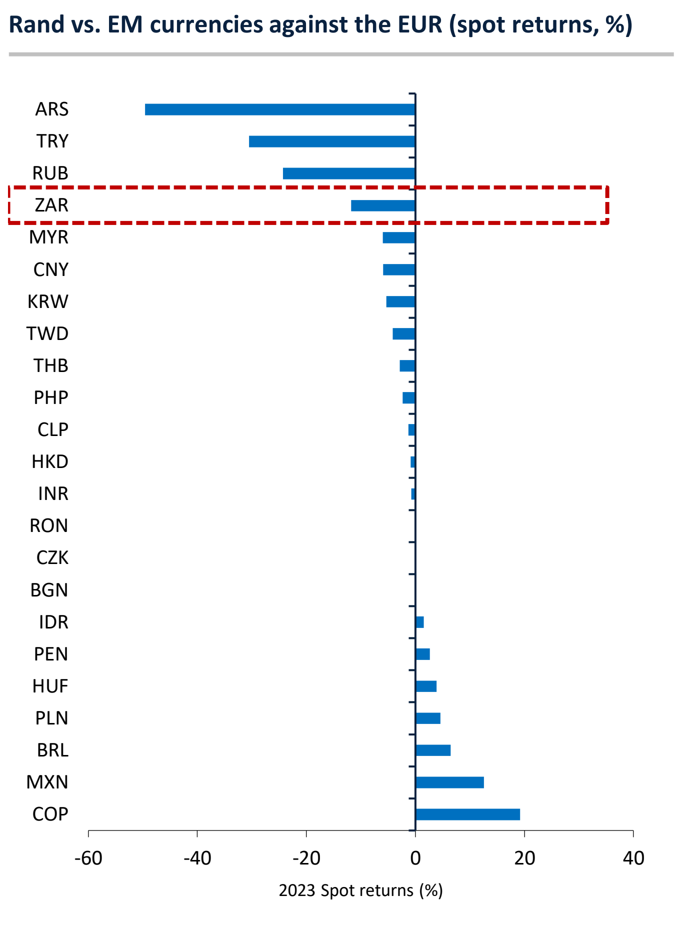


Sources: Standard Bank Research, SARB, Stats SA

ZAR AND EM CURRENCIES AGAINST THE USD AND EUR







Sources for all charts: Bloomberg, Standard Bank Research

CURRENCY EXPECTATIONS

	Current	Base case	
USDZAR	18,72	Year-end (2023)	18,20
		12-month	17,79
		Year-end (2024)	17,50
		Year-end (2025)	17,75

Forecasts/risks	Comments
Base case	• The rand remains at the weakest end of our estimated fair value range amid concerns about the strength of the global economy and weak domestic fundamentals. • In the medium term, and premised on our G10 strategist's expectation for dollar weakness, a rand recovery is likely to be more pronounced against the dollar than other major currencies.
Bearish risks	• Further global financial market stresses; weaker-than-expected terms of trade and/or global growth. • Disappointing local growth reform and/or fiscal policy consolidation. • SA's perceived relationship with Russia and the possible consequent secondary sanctions from the US and/or other G7 nations. We view this as a low-probability risk. There could be other ramifications for SA, including losing the benefits derived under the AGOA agreement. • Geopolitical tensions. Escalation of Russia-Ukraine war. • Further flare-ups in political uncertainty domestically. • Increasingly frequent bouts of high stages of loadshedding or a grid collapse (although we see this as very low-risk). • Intensification of existing growth constraints, such as concerns around Transnet and its failing rail network.
Bullish risks	• Further traction with local growth and fiscal reforms and, in turn, a stronger recovery in confidence. • Withdrawal of Russia from Ukraine. • SA-US relationship: if SA is cleared of any wrongdoing with respect to supplying weapons to Russia, sentiment, and therefore the rand, may strengthen. • Stronger terms of trade than we currently incorporate into our currency forecasts.

Sources: Bloomberg, Standard Bank Research

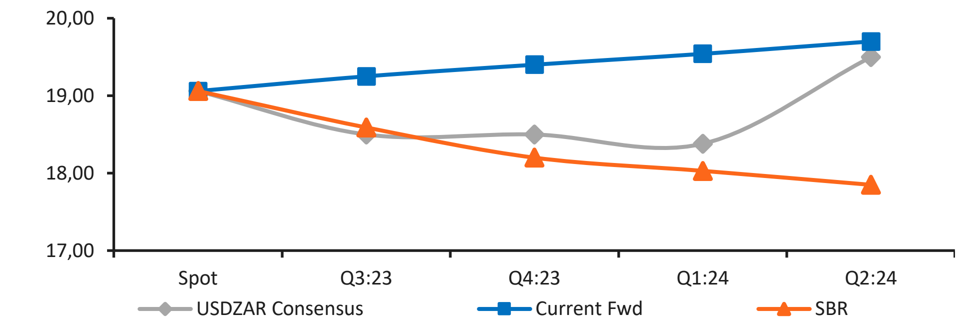
FX FORECASTS

Currency forecast table: SBR vs. consensus and forwards (period-end)							
	4 September 2023	Q3:23	Q4:23	Q1:24	Q2:24	2024	2025
USDZAR							
Consensus	19,06	18,50	18,50	18,38	19,50	18,10	17,80
Current Fwd	19,06	19,25	19,40	19,54	19,70	19,88	20,68
SBR	**19,06**	**18,59**	**18,20**	**18,03**	**17,85**	**17,50**	**17,75**
EURZAR							
Consensus	20,56	20,26	20,35	20,59	22,23	20,63	20,47
Current Fwd	20,56	20,89	21,14	21,39	21,65	21,94	23,12
SBR	**20,56**	**19,89**	**20,38**	**21,27**	**21,60**	**22,93**	**22,72**
GBPZAR							
Consensus	24,05	23,50	23,50	23,53	25,35	23,35	23,32
Current Fwd	24,05	24,30	24,47	24,63	24,80	25,00	25,80
SBR	**24,05**	**23,42**	**23,48**	**24,33**	**24,28**	**24,85**	**26,27**
ZARJPY							
Consensus	7,68	7,57	7,30	7,18	6,72	7,13	6,77
Current Fwd	7,68	7,47	7,30	7,15	7,00	6,84	6,31
SBR	**7,68**	**7,80**	**7,58**	**7,21**	**7,00**	**7,26**	**6,42**

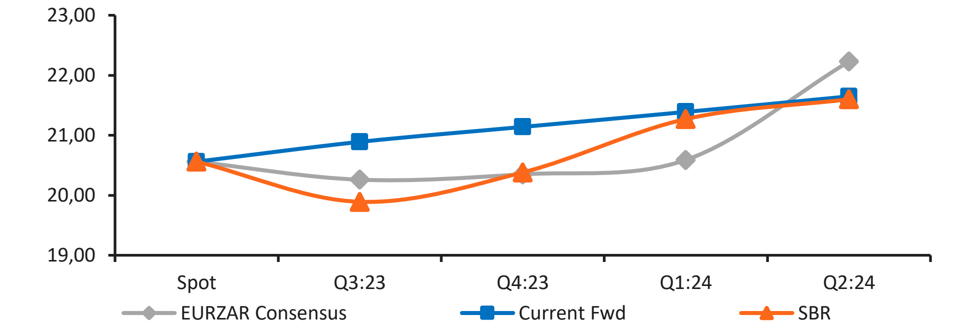
Sources: Standard Bank Research, Bloomberg

RAND FORECASTS VS. CONSENSUS AND FORWARDS

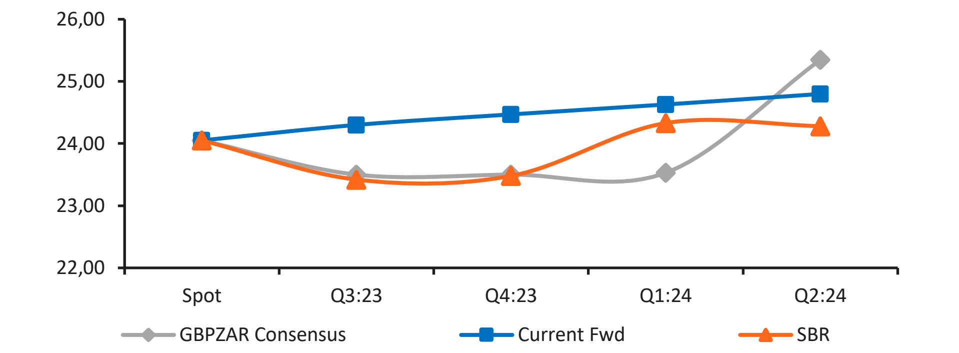
USDZAR forecasts: SBR vs. consensus and forwards



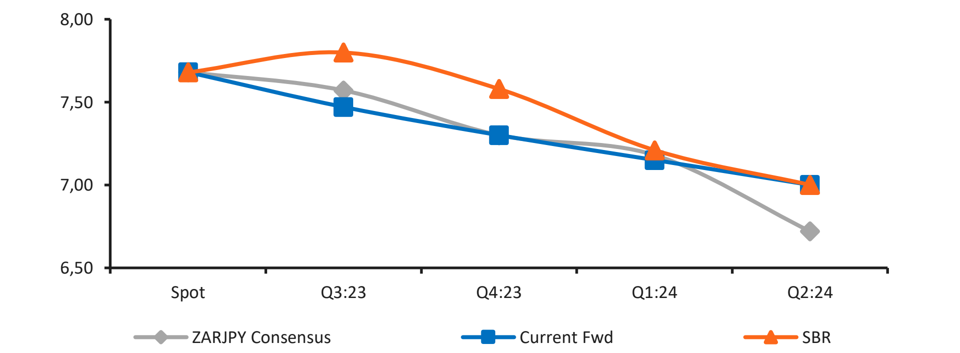
EURZAR forecasts: SBR vs. consensus and forwards



GBPZAR forecasts: SBR vs. consensus and forwards



ZARJPY forecasts: SBR vs. consensus and forwards



Sources: Standard Bank Research, Bloomberg

MACROECONOMIC FORECASTS

%, average	2022	2023f	2024f	2025f	2026f	Comment
GDP	1,9	0,8	1,4	1,7	1,80	GDP growth of 1.9% was recorded last year, after a 1.1% q/q contraction in GDP in Q4. During Q1 growth of 0.4% was recorded q/q (0.2% in y/y terms). The global growth slowdown, higher interest rates, severe loadshedding, failing rail and port infrastructure as well as low business confidence will weigh on growth. Still, we expect gradual SA policy reform to be growth-supportive over time.
Household consumption expenditure (HCE)	2,5	1,3	1,5	1,8	1,8	There are growing indications of increasing financial pressure on consumers; consumer confidence declined further in Q2:23. The labour market remains weak and household credit growth is slowing. Higher-income households remain on a better footing, with non-wage income showing sturdy growth. While spending growth is expected to slow this year, HCE is likely to be supported by lower inflation and interest rates into next year. HCE is likely to be uneven across the different income categories.
Gross fixed capital formation (GFCF)	4,8	3,8	4,2	4,3	4,5	Gross fixed capital formation (GFCF) expenditure is expected to continue recovering from a low base. Investment, however, is likely to be uneven across the sectors. We expect growing energy-related capital expenditure in response to the regulatory changes to facilitate more private sector energy generation as well as the increase in electricity loadshedding.
CPI	6,9	5,9	5,0	4,6	4,4	We expect CPI to average 5.9% in 2023. A general retreat in global commodity prices (food commodities in particular) as well as a moderation in global producer and consumer inflation momentum support our expectation for SA consumer inflation to moderate more meaningfully later this year, despite upside risks. Strong base effects should see headline CPI inflation heading lower into 2024.
Repo rate (year-end)	7,00	8,25	7,00	7,00	7,00	The MPC reacted to the upward adjustment to their forecast as well as the balance of risks by opting for a 50 bps hike at the May meeting. The bank, however, paused its rate hiking cycle in July. This brings the cumulative increase (from the pandemic-low rate of 3.50%) to 475 bps. The SARB has indicated that future policy moves would be data-dependent and sensitive to the balance of risks. We do not see any further rate hikes on the cards this year and expect the SARB to start trimming rates, from a restrictive level, in Q1:24. The repo rate is expected at 7.00% by year-end 2024.
R/$ (average)	16,4	18,3	17,8	17,6	18,0	The rand remains at the weakest end of our estimated fair value range amid concerns about the strength of the global economy and weak domestic fundamentals. We see the rand ending this year at R18.20 Importantly, this is premised on dollar weakness later in the year, as forecast by our G10 strategist. The EURUSD is expected to end the year at 1.12 and 1.31 by end 2024, from around 1.08 currently.
R/€ (average)	17,2	19,9	21,8	22,9	23,2	
R/£ (average)	20,2	23,0	24,6	26,3	25,4	
10-year generic bond yield (YE)	10,86	10,90	10,60	10,40	10,20	Investors' key focus will be on adverse fiscal (revenue and spending) risks, exacerbated by the revenue undershoot and overspending on the wage bill underway. The forecast decline in SA bond yields this year is underpinned by the decline in global yields, as foreseen by our G10 strategist.

Sources: Standard Bank Research, Stats SA, Bloomberg

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