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DECEMBER 2021

MONTHLY INSIGHTS CHART PACK

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SUMMARY OF VIEWS

- **Growth:** We now see downside risks to growth in SA, prompted by the onset of the fourth COVID-19 wave of infections, the discovery and spread of the new Omicron strain and more frequent occurrences of stage 3 and 4 load shedding. Demand and output may be curtailed if there are further lockdown restrictions imposed. Our forecast for real GDP growth in 2021 is 5,1%, while the 2022 estimate is 2,0%. Further details on the downward revisions to growth will be provided in our Quarterly Outlook report.
- **Inflation:** In the final two months of the year, we expect a sharper rise in headline CPI, driven predominantly by fuel costs, but also supported by higher prices of discretionary goods and services. In November, the local petrol price went up by 6,6% m/m (and 34% yoy). In December, the fuel price has risen by a further 3.8% m/m, taking the annualised inflation rate for petrol to 40.3% yoy. This will likely raise SA CPI to 5,4% and 5,6% yoy, respectively, in November and December 2021 (with an annual average of 4,5%). Our CPI forecast for 2022 remains unchanged at 4,3%, but the risk to this estimate is to the upside, particularly in light of the new COVID-19 variant and the resulting supply chain disruptions this may entail.
- **Monetary policy:** In line with our expectations, the SARB MPC raised the repo rate by 25 bps to 3,75%. We maintain our forecast for a cumulative 100 bps increase to the repo rate by the end of 2022, taking the repo rate to 4,5%, compared to a more hawkish QPM reflecting hikes of 167 bps instead. We believe SARB may continue with its gradual rate hike path by raising the repo rate again in 1Q22 as it seeks to anchor inflation and inflation expectations around the mid-point of its target range.
- **Fixed income:** The SAGB yield curve bull-steepened in November, with front-end yields sharply lower as the market digested SARB's recent rate hike in the context of further gradual interest rate increases expected. The combination of a more hawkish MPC and improved fiscal outlook will likely raise short-end yields and reduce long-end bond yields to offer a flattening bias to the yield curve in the near term. Global factors, including a tighter monetary policy stance, higher global inflation rates and a higher risk-free rate (UST yields) have raised fair-value yields since our last update. Our fair-value range for the R2030 rises to 9,00-9,50% (previously 8,50-9,00%), with a point target of 9,22% (previously 8,70%). We adjust our fair-value range for the R2048 50 bps higher to 10,50-11,00%.
- **Currency:** We do see the rand's sharp depreciation in November as an overshoot, as opposed to a fundamental shift in the currency's fair value. We have already seen in the past week fears about inflation in general and central banks that will tighten policy sooner rather than later adversely effecting EM currencies including the rand. As a result, we will continue to be better buyers of USD when the USDZAR falls below our neutral range of 14,80-15,50.

	Current price/yield	Core views	Target levels	
USDZAR	15.81	Our fair-value estimate range for the USDZAR remains unchanged at 14.80-15.50. With the USDZAR now above our fair-value level of 15,10, we are by extension neutral on the currency. The discovery of a new Covid variant, and the ensuing restrictions which follows could keep the rand on the back foot until more certainty around the new variant is obtained. As before, we will again turn better buyers of USD with the USDZAR below 14,80.	3-month	15.00
			6-month	15.20
			12-month	16.00
Repo rate	3.75	Before the SARB's November MPC meeting, the FRA's were pricing in a terminal repo rate (by end-2023) of 6.74%; after the meeting this rose to 6.88%. The FRAs are currently projecting a repo rate of 6.6% in 2 years' time, which is still well above the SARB's own QPM forecast of 6%.	12-month	4.50
SAGBs	4.99 (R2023)	Our fair-value range for the R2030 rises to 9,00-9.50% (previously 8.50-9,00%). With a point-target of 9.22% (prev. 8,70%). This is made up of a US 10y yield of 1,80% (as the "risk-free" rate) (prev. 1.50%), a credit risk premium of 3,72% to account for SA-specific country risk (prev. 3,50%) and an inflation risk premium of 3,70% (the difference between long-run SA and US CPI). We adjust our fair-value range for the R2048 50 bps higher to 10,50-11.00%. The key changes come from the higher US 30y bond yield embedded in our fair value (up 30bps) and a higher country risk premium (up 40bps) relative to our prior estimate. We see our fair-value as a three-month view.	3-month	5.10
			Year-end	5.10
	9.75 (R2030)		3-month	9.22
			Year-end	9.50
	10.79 (R2048)		3-month	10.90
			Year-end	10.90

Source: Nedbank CIB Markets Research

Disclaimer – The views and observations in this report represent the analyst's own and not the Nedbank Group house view. Nedbank Group house view forecasts are available upon request.

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GLOBAL DEVELOPMENTS

Product shortages and high oil prices raise global inflation rates further

- US CPI rose further in October, to 6,2% yoy, from 5,4% previously, worse than consensus expectations of 5,9%. A sharp increase in the cost of energy, driven predominantly by gasoline prices, was the main reason for the uptick in CPI in October. This resulted in a sharp increase in the prices of utilities, all other fuels, transportation and new- and used-vehicle prices. Other CPI components that have also seen higher prices recently are recreation, apparel and medical care. The Fed's preferred gauge of inflation, the PCE deflator, also surged in October, rising to 5% yoy, from 4,4% in September. It is currently at the highest level since 1982, and is being driven up by goods, food and energy costs. A worldwide chip and semiconductor shortage, shortages of products globally, supply chain delays, as well as elevated oil prices have pushed up inflation rates globally.
- In the UK, CPI jumped to 4,2% yoy, from 3,1% in September, and is expected to rise above 5% in the coming months. Core inflation saw a sharp 50 bps rise to 3,4% yoy in October. The main inflationary drivers were housing, transport, education and prices at restaurants and hotels.
- China's inflation rate more than doubled in October, to 1,5% yoy, and its PPI surged to 13,5% yoy (previously 10,7%), the highest since 1995, on account of higher transport, housing and household goods prices.
- The Eurozone's CPI was finalised at 4,1% yoy for October, up from 3,4% in September, while core inflation remained unchanged at 2%. Like the US, the rise in CPI was driven by sharply higher energy and industrial goods costs.
- Global inflationary pressures remain elevated on the back of the rising oil price, global supply chain bottlenecks, power outages in China limiting manufacturing and exports, shortages of key inputs (such as semiconductors) and widespread product shortages as supply fails to keep up with global demand in the near term.

Table 1: Summary of economic and financial indicators

Economic, fiscal and monetary indicators	Retail sales y/y %		Consumer confidence		GDP growth q/q ann.		PMI		Manufact. prod. y/y %		Budget bal. (% of GDP)		Central bank rate %	
Available data as at 01-Dec-21	LAST	PREV.	LAST	PREV.	LAST	PREV.	LAST	PREV.	LAST	PREV.	LAST	PREV.	LAST	PREV.
US	16.3	14.3	109.5	111.6	2.1	6.7	61.1	60.8	1.63	-1.27	-11.5	-12.2	0.25	0.25
UK	-1.3	-0.6	-14	-17	1.3	5.5	58.1	57.8	2.9	4	-9.65	-11.3	0.1	0.1
Eurozone	2.5	1.5	-6.8	-4.8	2.2	2.1	58.4	58.3	5.2	4.9	-7.05	-8.37	0	0
Japan	0.9	-0.5	39.2	37.8	-3	1.5	54.5	53.2	-4.7	-2.3	-10.1	-2.9	-0.1	-0.1
Turkey	1.17	0.93	64.55	61.95	0.3	0.66	52	51.2	14	9.7	-1.45	-1.62	15	16
China	4.9	4.4	120.2	121.2	4.9	7.9	50.1	49.2	3.5	3.1	-8.3	-5.3	4.35	4.35
Brazil	-5.5	-4.1	74.9	76.3	-0.1	1.2	49.8	51.7	-3.9	-0.7	-4.72	-4.84	7.75	7.75
Russia	5.6	5.3	68.3	71.3	4.3	10.5	51.7	51.6	7.1	6.9	-3.03	-0.92	7.5	7.5
India	7021	7006	47.8	46.1	8.39	20.13	57.6	55.9	3.1	12	-6.58	-6.83	4	4
Mexico	5.9	7.2	105.1	106.1	-0.43	1.15	50.73	49.95	1.58	5.51	-2.84	-2.45	5	4.75
South Africa	2.1	-1.5	-10	-13	1.2	1	57.2	53.6	1.3	1.9	-7.79	-10.1	3.75	3.5

Chart 1: Global inflation trend remains elevated

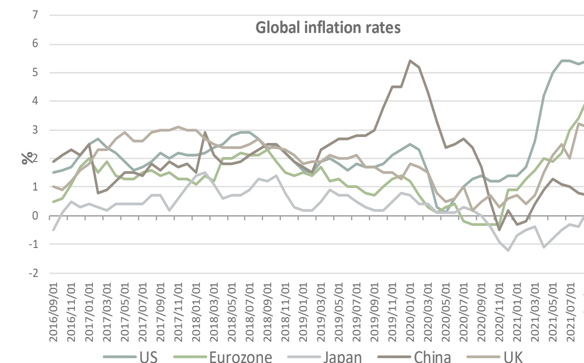
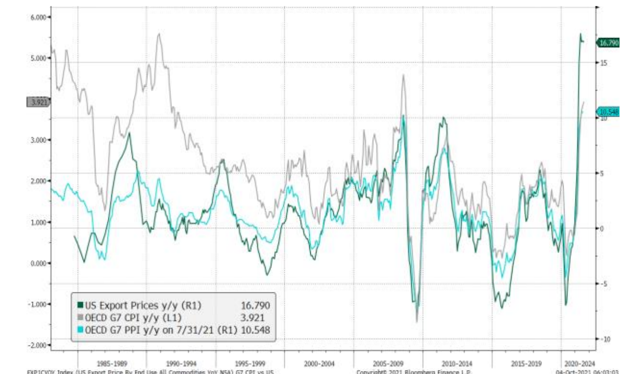


Chart 2: US export price inflation close to record high



Source: Bloomberg, Nedbank CIB Markets Research

GLOBAL DEVELOPMENTS

New COVID-19 variant threatens to reduce global growth estimates

- The OECD reduced its global growth forecast by 10 bps to 5,6% for 2021 and kept its 2022 forecast unchanged at 4,5%. The main reason for the downward revision is its concern over the new Omicron strain, which it says could pose a threat to the current recovery. The OECD, like the IMF, has sounded alarm over the recovery that is becoming increasingly imbalanced. It notes that low-income countries with low vaccination rates are being left behind in the recovery as demand in these countries remains weak.
- The key priority is to ensure all countries have access to vaccines and booster shots in order to minimise the strain on health infrastructure, minimise fatalities, transmissibility and development of new strains, and ensure borders can remain open. The OECD did, however, reduce the growth forecasts across most large advanced economies such as the UK, US, Eurozone and China.
- It expects global inflation to recede after peaking early in 2022, but believes product-shortages may only wane through 2022-23 as production capacity grows and people return to the labour force.
- In its October 2021 World Economic Outlook, the IMF revised its global growth estimate for 2021 down by 0,1% points to 5,9%, from 6% previously. It left its growth forecast for 2022 unchanged at 4,9%. Growth is then projected to ease to 3,3% over the medium term. The main reason for the downward adjustment to the 2021 growth projection is weaker growth in advanced economies given supply chain disruptions, while growth in low-income developing economies is weighed down by effects of the pandemic.
- Global growth eased in 3Q, with Japan's economy having contracted 0,8% q/q, after the 0,4% q/q growth rate recorded in 2Q. A sharp decline in consumption and investment led to the contraction in GDP. Preliminary GDP growth data for the UK shows a slowdown to 1,3% q/q, from +5,5% recorded in 2Q. In the Eurozone, growth is expected to have remained unchanged at +2,2% q/q in 3Q. The second estimate for US growth in 3Q reflects a sharp slowdown to 2,1% q/q annualised, from 6,8% in 2Q. A sharp slowdown in consumer spending is the key driver of the lower growth rate in 3Q.
- Preliminary GDP data for 4Q may signal a pickup in economic activity after the slowdown in 3Q. However, the fourth COVID-19 wave of infections, along with the discovery of a new variant, may threaten such a recovery.

Chart 3: Manufacturing – major PMIs taper off

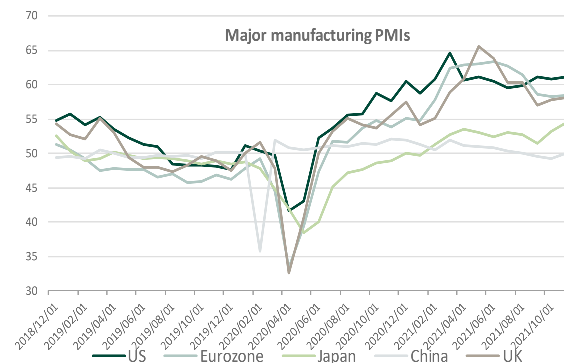


Chart 4: Global manufacturing PMIs begin to deteriorate

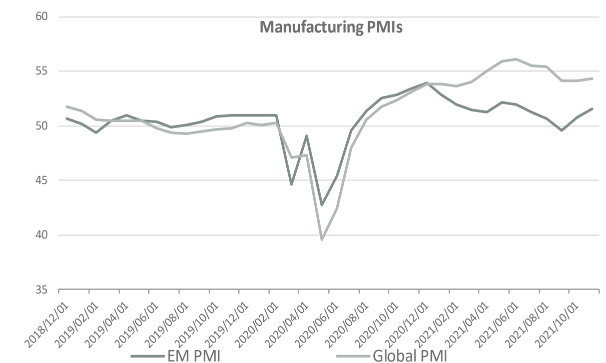


Chart 5: Global activity indicators begin to roll over – IMF

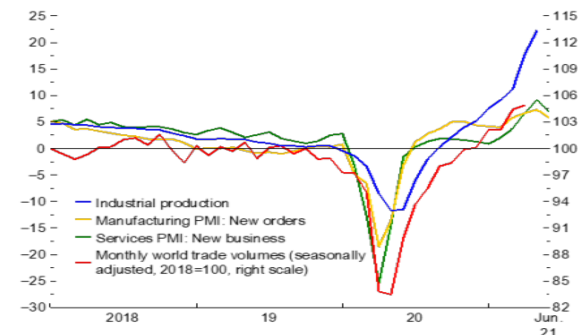
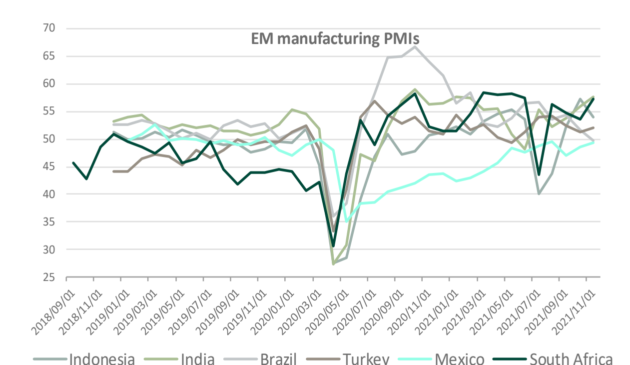


Chart 6: EM PMIs follow global trend



Source: Bloomberg, IMF, Nedbank CIB Markets Research

MONETARY POLICY DYNAMICS: GLOBAL

Advanced-economy central banks turn more hawkish while EMs continue hiking

- EM central banks remain hawkish, with a few raising their interest rates multiple times this year. The Polish central bank followed up the 40 bps hike in October with a further 75 bps hike in November, well ahead of consensus of +25 bps. Central banks in the Czech Republic (+125 bps), Romania (+25 bps), Mexico (+25 bps), Hungary (+30 bps), Iceland (+50 bps), SA (+25 bps), Pakistan (+150 bps), Ghana (+100 bps), Zambia (+50 bps) and South Korea (+25 bps) all raised interest rates in November, citing higher inflation, upside inflation risks and a more hawkish global monetary policy rhetoric as reasons for the hikes.
- Among advanced economies, the Reserve Bank of New Zealand raised its official cash rate by a further 25 bps in November, after the 25 bps hike in October, while the Bank of Canada ended its asset purchase programme in October and turned more hawkish, bringing forward its projection for its first rate hike to mid-2022, from 2H22 previously. In all cases, central banks have cited rising and more persistent inflationary pressures as the reason for the hawkish stance.

	Next MPC meeting	Probability of a hike/cut/hold
US	2021/12/15 21:00:00	97.30%
UK	2021/12/16 14:00:00	41.00%
Eurozone	2021/12/16 14:45:00	95.40%
Japan	2021/12/17	98.40%
China		
India	2021/12/08 06:30:00	122.00%
Mexico	2021/12/16 21:00:00	
South Africa	2022/01/27	135.20%
Updated 01-Dec-21		

Chart 7: US inflation expectations elevated above 2% target

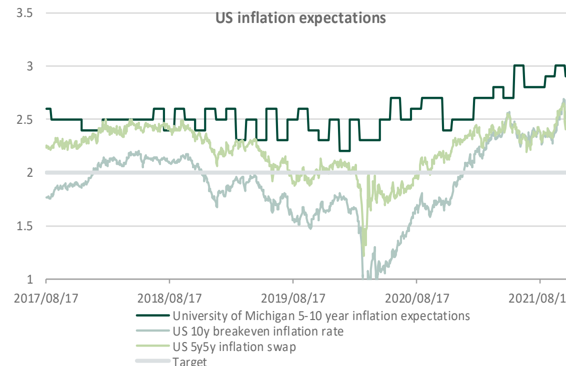


Chart 8: UK inflation remains elevated; expectations rise

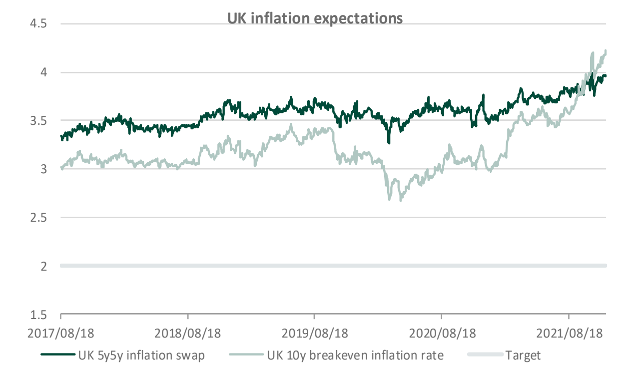


Chart 9: Eurozone swap markets more in tune with actual inflation

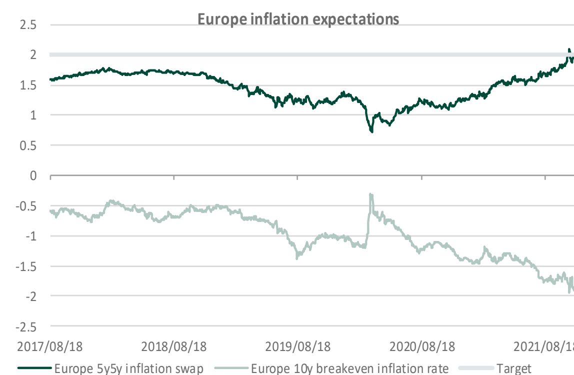
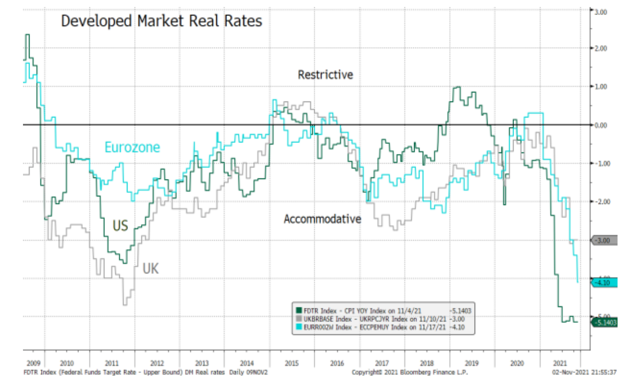


Chart 10: DM real rates remain accommodative as inflation rises



Source: Bloomberg, Nedbank CIB Markets Research

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MONETARY POLICY DYNAMICS: GLOBAL

Fed mulls an earlier end to its QE programme and an earlier start to its hiking cycle

- The Fed began tapering its bond-buying programme at the start of November, reducing Treasury purchases by USD10bn per month to USD70bn in November, while it reduced its purchases of mortgage-backed securities (MBSs) by USD5bn to USD35bn. At the current pace, its QE programme will end mid-2022. It had previously stated that rate hikes would begin when its asset-purchase programme ends, although its official dot-plot projection shows the first rate hike occurring only in 2023. Towards the end of the month, the minutes of the Fed meeting and comments by Fed Chair Powell indicated a much more hawkish tilt to its policy stance, as many policymakers were in favour of ending its QE programme earlier than its initial projection if high inflation persists. Comments made by Chair Powell at a meeting with Congress saw the word "transitory" being dropped when describing elevated inflationary pressures. He said that a faster pace of tapering will be discussed at its December policy meeting.
- The BoE kept its benchmark interest rate changed at 0,1% at its November MPC meeting. This was decided in a majority vote of 7 to 2. The BoE cut its growth forecasts for 2022 to 5%, from 6% previously, due to supply chain-related disruptions and higher energy costs impacting consumption. It now expects growth to slow to 1,5% in 2023 and 1% in 2024. Inflation is expected to rise to 5% in April 2022. The corporate bond target remained unchanged at GBP20bn while the Gilt Purchase Target was also left unchanged at GBP875bn. The BoE is expected to raise its bank rate in December, with further hikes expected in 2022 as inflation remains elevated.
- In its October MPC meeting, the ECB kept its main refinancing rate unchanged at 0,0%, in line with consensus. The ECB will continue its bond purchases under the Pandemic Emergency Purchase Programme (PEPP) at a moderately lower pace until the end of March 2022. Asset purchases under the Asset Purchase Programme (APP) will continue at EUR20bn. The ECB remains a laggard in respect of normalising interest rates, with a first rate hike likely by the end of 2023.

Chart 11: Policy rates at zero bound

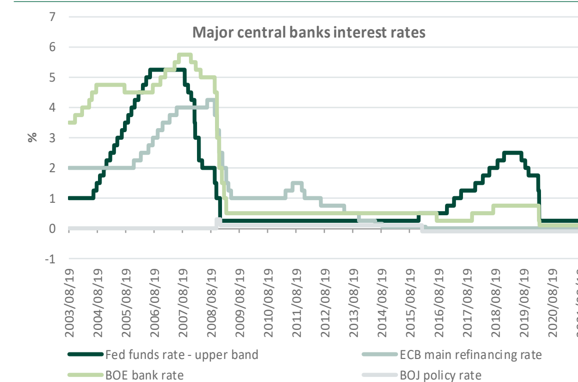


Chart 12: Global bond yields rise due to higher inflation expectations

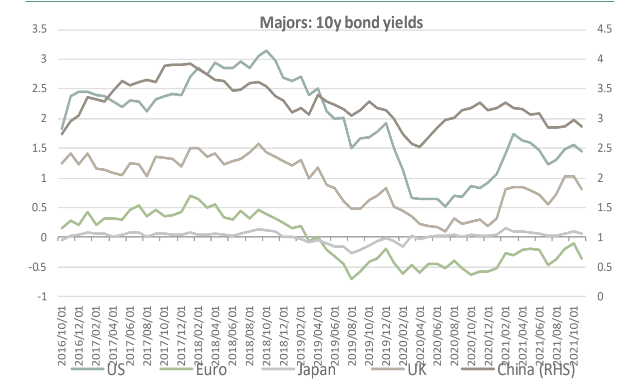


Chart 13: EM monetary policy stance broadly loose

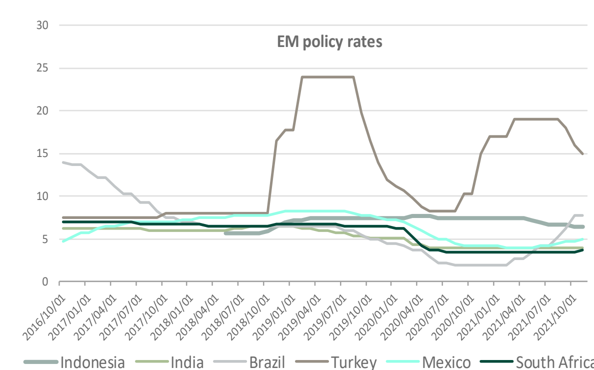
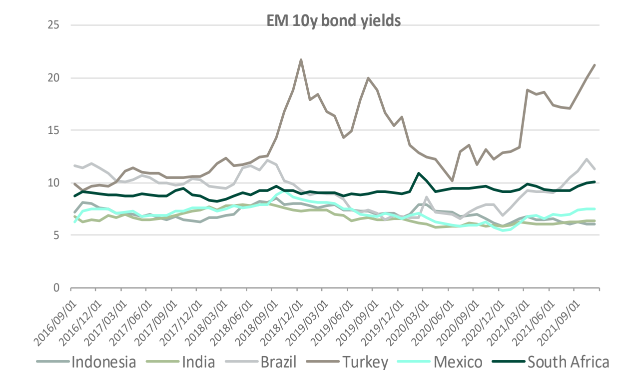


Chart 14: EM bond yields are finding some support



Source: Bloomberg, Nedbank CIB Markets Research

SA'S REAL ECONOMY

Load shedding and COVID-19-related restrictions pose downside risk to SA's growth

- We now see downside risks to growth in SA, prompted by the onset of the fourth COVID-19 wave of infections, the discovery and spread of the new Omicron strain and more frequent occurrences of stage 3 and 4 load shedding. Demand and output may be curtailed if there are further lockdown restrictions imposed. Our forecast for real GDP growth in 2021 is 5,1%, while the 2022 estimate is 2,0%. Further details on the downward revisions to growth will be provided in our Quarterly Outlook report.
- SA retail sales surprised to the upside in September, rising 5,1% m/m and 2,1% yoy, from 4,9% m/m and -1,5% yoy in August. For the ytd, retail sales are up 8%. Despite the sharp improvement in sales in September, retail sales were still down 5,4% in 3Q, with household spending likely to be the main contributor to the quarterly contraction in real GDP in 3Q.
- SA private-sector credit extension data (PSCE) disappointed yet again in October, with growth slowing to 1,3% yoy, from 1,6% in September, worse than consensus estimates of 1,75%. Over the month, credit growth was +0,2% m/m, up from the -0,3% drop in September, but still too weak to inspire confidence in a broad-based recovery in spending.
- While there are some positives seen in credit demand lately, the overall picture is still one that reflects subdued credit extension, a still-cautious consumer and corporates that are not confident about spending in the economy just yet. Pockets of spending are erratic in nature and will probably continue this way for as long as further COVID-19 waves are expected. We could see a more robust recovery in demand being postponed into 2022 should lockdown restrictions tighten this month. High and rising levels of joblessness, with the SA unemployment rate rising to 34,9% in 3Q, with 660k job losses during the quarter and a further rise in the youth unemployment rate to 46% (from 44,2% in 2Q), may curtail spending in the near term.
- The BER business confidence index remained unchanged at 43 points in 4Q21, after falling from 50 points in 2Q. Confidence levels were kept weak by frequent bouts of load shedding, the NUMSA strike in the steel and engineering industry and further supply chain disruptions raising input costs or resulting in product shortages.

Chart 15: SA confidence leads investment growth

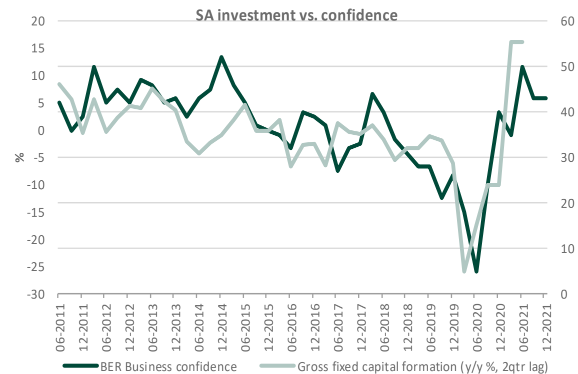


Chart 16: SARB's leading index projects a recovery in 2021

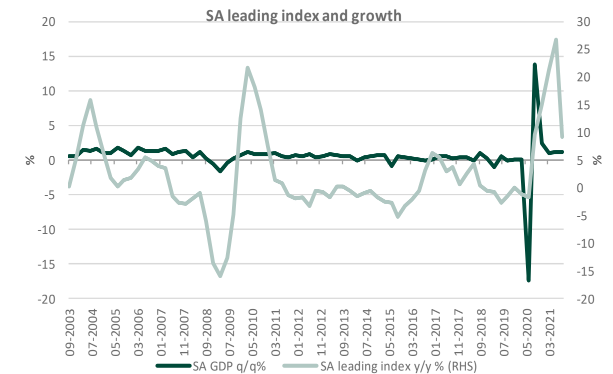


Chart 17: Downside risks to growth forecasts for SA

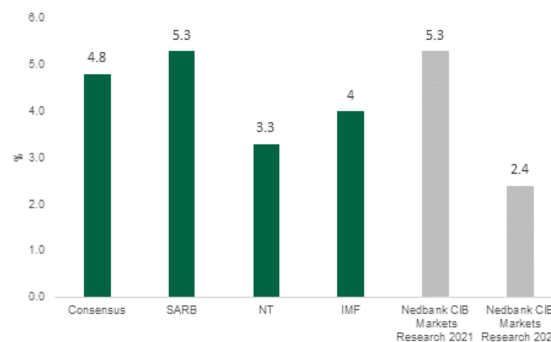
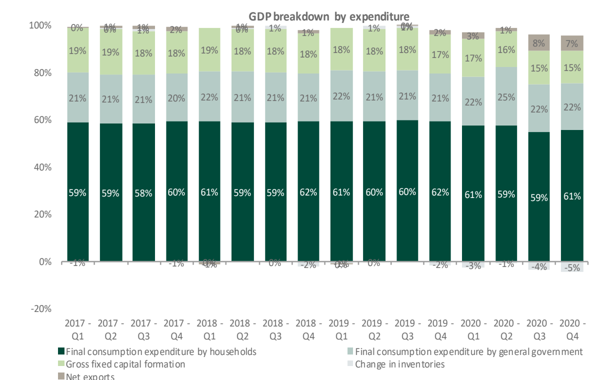


Chart 18: Spending is a key driver of economic activity



Source: Bloomberg, Stats SA, Nedbank CIB Markets Research

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SA INFLATION TRENDS

Higher fuel costs put upward pressure on headline CPI in November and December

- SA CPI remained unchanged and in line with consensus at 5% yoy in October, slightly below our estimate of 5,1%. Core inflation also remained unchanged at 3,2% yoy. While goods price inflation remained unchanged at 7,1% yoy in October, services inflation ticked up 10 bps to 3% yoy. Administered price inflation rose a further 60 bps, to 11,2% yoy in October.
- In October, while price inflation of alcoholic beverages eased to 4% yoy from 4,2% in September, higher transport inflation fully offset this decline. Transport inflation rose to 10,9% yoy, from 10,1% in September. Higher transportation costs were driven by higher fuel inflation and prices of new vehicles.
- While the following subcomponents did not affect the headline inflation print in October, it is worthwhile to mention the changes – food and NAB inflation eased to 6,1% yoy, from 6,6% in September, driven down by all food subcomponents apart from vegetables. On the other hand, price inflation at restaurants and hotels has begun to climb ahead of the festive season, rising to 4,1% yoy, from 3,2% in September.
- In the final two months of the year, we expect a sharper rise in headline CPI, driven predominantly by fuel costs, but also supported by higher prices of discretionary goods and services. In November, the local petrol price went up by 6,6% m/m (and 34% yoy). In December, the fuel price has risen by a further 3,8% m/m, taking the annualised inflation rate for petrol to 40,3% yoy. This will likely raise SA CPI to 5,4% and 5,6% yoy, respectively, in November and December 2021 (with an annual average of 4,5%). Our CPI forecast for 2022 remains unchanged at 4,3%, but the risk to this estimate is to the upside, particularly in light of the new COVID-19 variant and supply chain disruptions this may result in.

Table 2: Nedbank CIB inflation estimates

Avg.	CPI	Food	Oil
2019a	4.14	3.42	64.60
2020a	3.28	4.53	41.63
2021f	4.50	6.21	70.94
2022f	4.30	5.64	77.30
1Q20a	4.40	4.03	43.81
2Q20a	2.43	4.33	33.92
3Q20a	2.83	4.13	43.24
4Q20a	3.20	5.73	45.62
1Q21a	3.10	5.43	61.85
2Q21a	4.83	6.57	70.57
3Q21f	4.83	6.73	75.95
4Q21f	5.34	6.10	75.38
1Q22f	5.06	6.05	80.38
2Q22f	3.79	6.00	77.94
3Q22f	4.28	5.37	76.14
4Q22f	3.98	5.15	74.75

Chart 19: We expect CPI to remain contained close to 4,5% at least until 2022

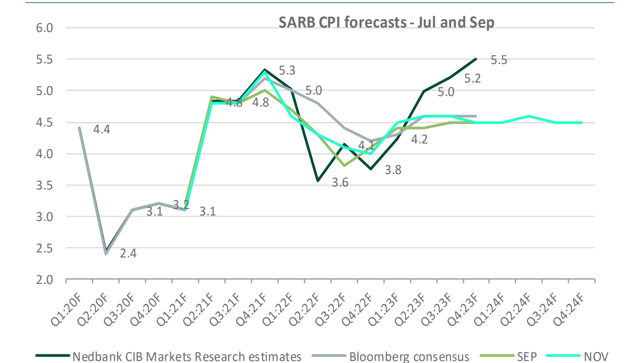

Chart 20: Breakeven inflation remains close to SARB's inflation target

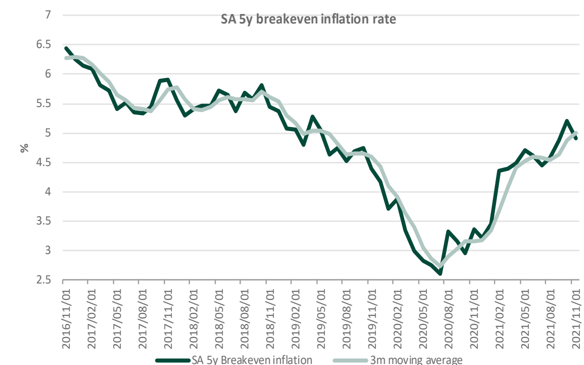

Chart 21: SA CPI and shocks to baseline

Source: Bloomberg, SARB, Nedbank CIB Markets Research

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MONETARY POLICY DYNAMICS: SA

Upside inflation risks saw SARB initiating its hiking cycle in November

- In line with our expectations, the SARB MPC raised the repo rate by 25 bps to 3,75%. This decision, with three members voting for a hike and two members voting for a hold, was the first split decision since January 2021. We believe the upward adjustments to its CPI input assumptions and headline CPI estimates itself (quarterly CPI forecasts revised up by a cumulative 60 bps until 2023), and a more pronounced upside risk assessment for CPI, warranted the hawkish statement it delivered.
- SARB now sees downside risks to its growth forecast, relative to a balanced risk assessment previously. The MPC, however, qualified the hike by noting that monetary policy remains highly accommodative, even on a forward-looking basis, with a gradual rate hike path expected to keep inflation expectations anchored. This, in a sense, provides some reassurance that its policy stance is still supportive of economic activity, despite its need to raise interest rates to ensure price stability. Due to the marginal downside to its growth estimate, the negative output gap has widened, and the QPM is slightly less hawkish – the QPM now projects a repo rate of 6,04% by 2023, compared to 6,36% in September. SARB has included estimates for 2024, in which the QPM projects a repo rate of 6,75%, which is its terminal neutral repo rate.
- SARB's inflation forecast was raised to 4,5% for 2021 (from 4,4% in September), while its forecast was raised by 10 bps to 4,3% and 4,6% for 2022 and 2023, respectively. It projects an inflation rate of 4,5% in 2024. This is now in line with our own estimates. SARB revised its key input assumptions higher – its Brent crude price forecast was raised USD6 to USD73/bbl for 2022 and was USD3/bbl higher for 2023 at USD68/bbl. The electricity tariff assumption was sharply higher at 14,5% for 2022 and 12,3% for 2023, from 11,8% and 10%, respectively, previously. It continued to stress that risks to the inflation outlook remain squarely to the upside, emanating from higher short-term global producer price inflation, local fuel and electricity costs (administered prices), higher domestic import tariffs, rising wage demands and a weaker currency.
- We maintain our forecast for a cumulative 100 bps increase to the repo rate by the end of 2022, compared to a more hawkish QPM reflecting hikes of 167 bps instead. We believe SARB may continue with its gradual rate hike path by raising the repo rate again in 1Q22.

Chart 22: SARB's negative output gap narrows sharply

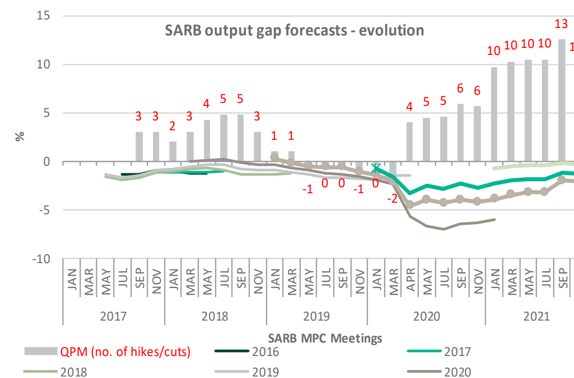


Chart 23: SARB now sees growth at 5,3% for 2021

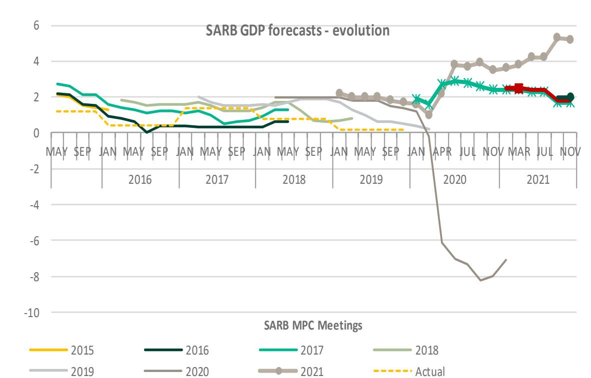


Chart 24: SARB's inflation forecasts revised higher in November 2021

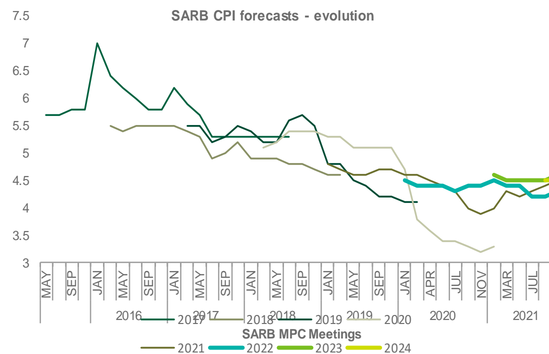
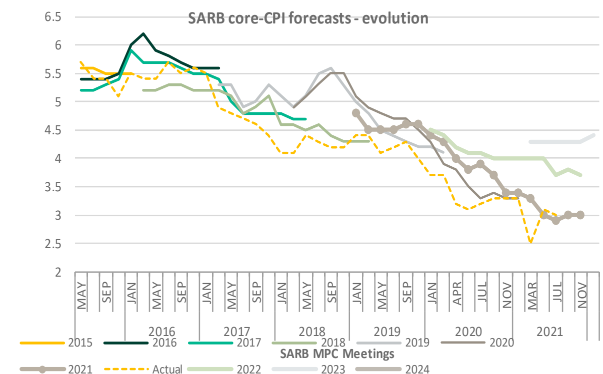


Chart 25: Core inflation estimates remain low, signalling lack of demand-pull inflation



Source: Bloomberg, SARB, Nedbank CIB Markets Research

CREDIT RISK COMPARISON

Credit rating agencies warn of credit-negative headwinds over the medium run

- The commodity price boom uplifted SA's tax take and buttressed its GDP growth recovery beyond the initial COVID-19-related lockdown woes. Moreover, SA's fiscal deficit and debt burden were alleviated by the GDP rebasing. Overall, we think these trends (albeit transitory) have been sufficient to avert any negative credit rating action in the near term. However, the medium-run outlook remains negative, should the cycle turn, mainly because structural constraints to GDP growth remain entrenched, the pace of reform is slow, state-owned companies (SOCs) are in financial distress and rely on ongoing sovereign support to operate and sociopolitical imperatives (following the civil unrest in July 2021) could weigh on the government's ability to contain expenditure and its debt burden. In our view, credit and social risks are tilted to the downside over the next 12-18 months. However, there are some greenshoots of substantive and imminent reform measures taking root. For instance, the Just Energy Transition, liberalisation of embedded power generation up to 100MW in scale, the spectrum auction and the infrastructure investment drive could cumulatively catalyse marginal gains that could stabilise the credit trajectory over a longer horizon (18-36 months). We think the political will is now in place, but the institutional arrangement and capabilities hamstring the state's capacity to act faster and coherently, denting policy certainty and policy consistency.
- We expect Fitch and S&P Global Ratings to affirm their BB-/Negative and BB-/Stable ratings, respectively, while Moody's should also affirm its Ba2/Negative rating (one notch above its peers). Rating downgrade triggers include a return to unsustainable fiscal balances including a sustained primary budget deficit over the forecast period coupled with debt accumulation and interest costs rising at a pace greater than nominal GDP). This could happen if SA's economic reform and recovery effort wane; financial conditions tighten considerably, raising external vulnerability risk via the current account; or fiscal balances blow out due to public-sector wages, social transfers or SOC contingent liabilities (namely Eskom) crystallising. We expect the 2021 MTBPS to be a rating-neutral event, and we think any rerating will either be event-driven or otherwise deferred to FY22/23.
- By Jones Gondo

Table 3: A summary of SA's credit ratings

Moody's		S&P		Fitch		<SA Credit rating>
Long-term	Short-term	Long-term	Short-term	Long-term	Short-term	
Aaa	P-1	AAA	A-1+	AAA	F1+	Prime
Aa1		AA+		AA+		High grade
Aa2		AA		AA		
Aa3		AA-		AA-		
A1		A+	A-1	A+	F1	Upper medium grade
A2		A		A		
A3	P-2	A-	A-2	A-	F2	
Baa1		BBB+		BBB+		Lower medium grade
Baa2	P-3	BBB	A-3	BBB	F3	
Baa3		BBB-		BBB-		
Ba1		BB+	B	BB+	B	Non-investment grade
Ba2 (neg) FC+LC		BB (stable) LC		BB		
Ba3	Not prime	BB- (stable) FC		BB- (neg)		speculative
B1		B+		B+		Highly speculative
B2		B		B		
B3		B-		B-		

Source: Fitch, S&P ratings, Moody's, Nedbank

Chart 26: SA is among the high-risk EMs

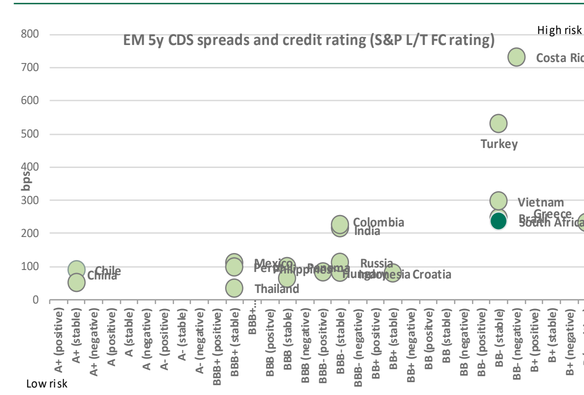
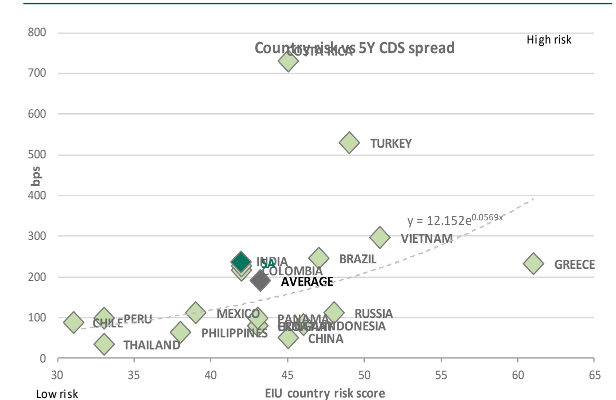


Chart 27: SA's above-trend credit risk score



Source: Bloomberg, credit rating agencies, Nedbank CIB Markets Research

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SA'S BOND MARKET

SAGB yield curve bull-steepens in November

- The SAGB yield curve bull-steepened in November, with front-end yields sharply lower as the market digested SARB's recent rate hike in the context of further gradual interest rate increases expected. The short-dated R2023 bond yield ended the month 55 bps lower, while the R186 bond yield declined 13 bps. Increased supply of debt around the belly of the curve resulted in slightly higher yields here, with the benchmark R2030 yield up 13 bps. The 2021 MTBPS reflected an improved fiscal trajectory, with the debt-to-GDP ratio revised 10% (of GDP) lower over the MTEF, 7% of which is attributable to the GDP base revision. The lower deficit and debt ratios resulted in long-end bond yields remaining anchored during the month.
- The bond market assessed SARB's November MPC statement as dovish, but the lack of liquidity during the month kept FRA rates elevated. Before the meeting, the FRAs were pricing in a terminal repo rate (by end-2023) of 6,74%; after the meeting, this rose to 6,88%. The FRAs are currently projecting a repo rate of 6,6% in two years' time, which is still well above SARB's own QPM forecast of 6%. The US Treasury yield curve, in contrast, flattened in November, with the 30y and 10y bond yields down 15 bps and 10 bps, respectively, by month-end. A more hawkish Fed has kept front-end yields anchored.
- The combination of a more hawkish MPC and improved fiscal outlook will likely raise short-end yields and reduce long-end bond yields to offer a flattening bias to the yield curve in the near term. Global factors including a tighter monetary policy stance, higher global inflation rates, and a higher risk-free rate (UST yields) have raised fair-value yields since our last update:
- Our fair-value range for the R2030 rises to 9,00-9,50% (previously 8,50-9,00%), with a point target of 9,22% (prev. 8,70%). This is made up of a US 10y yield of 1,80% (as the "risk-free" rate) (prev. 1,50%), a credit risk premium of 3,72% to account for SA-specific country risk (prev. 3,50%) and an inflation risk premium of 3,70% (the difference between long-run SA and US CPI). We adjust our fair-value range for the R2048 50 bps higher to 10,50-11,00%. The key changes come from the higher US 30y bond yield embedded in our fair value (up 30 bps) and a higher country risk premium (up 40 bps) relative to our prior estimate. We see our fair value as a three-month view.

Chart 28: FRA curve turns significantly more hawkish

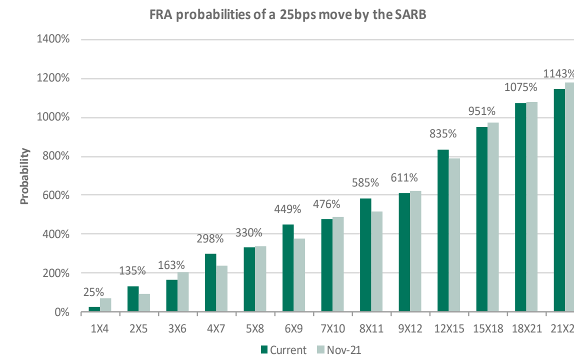


Chart 29: SAGB curve flattens, prompted by higher front-end yields

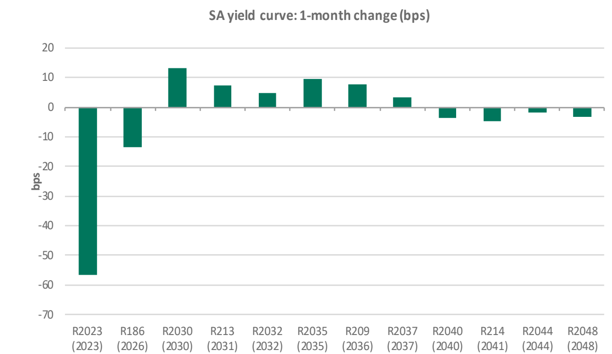


Chart 30: Short-end portion starts to rise, pricing in hikes by SARB

Chart 31: SA yields relative to the US's

Source: Bloomberg, Nedbank CIB Markets Research

THE RAND AND KEY RISKS

USDZAR fair-value range unchanged, but a more hawkish Fed could keep the rand weak

- We update our model estimates for the USDZAR. Although our fair-value estimates remain unchanged in our latest update, they do confirm our call made last month to move our rand view weaker.
- With the USDZAR now above our fair-value level of 15,10, we are by extension neutral on the currency. As before, we will again turn better buyers of USD with the USDZAR below 14,80.
- US Fed Chair Powell indicated that elevated inflation rates may not be transitory and that this could necessitate a faster tapering of its asset purchase programme and an earlier start to its hiking cycle. A more hawkish Fed would favour the USD and keep EM FX on the back foot. The discovery of a new COVID-19 variant and the restrictions that may follow could keep the rand on the back foot until more certainty around the new variant is obtained. That said, we do see the rand's sharp depreciation in November as an overshoot, as opposed to a fundamental shift in the currency's fair value. Sizeable trade surpluses should confirm support for the currency from real trade flows, along with a hawkish SARB, which is expected to persist with its hiking cycle in 2022.
- We have already seen in the past week fears about inflation in general and central banks that will tighten policy sooner rather than later adversely effecting EM currencies including the rand. As a result, we will continue to be better buyers of USD when the USDZAR falls below our neutral range of 14,80-15,50.

Chart 32: ZAR REER back within range

Chart 33: Short-term technical trend: ZAR under pressure

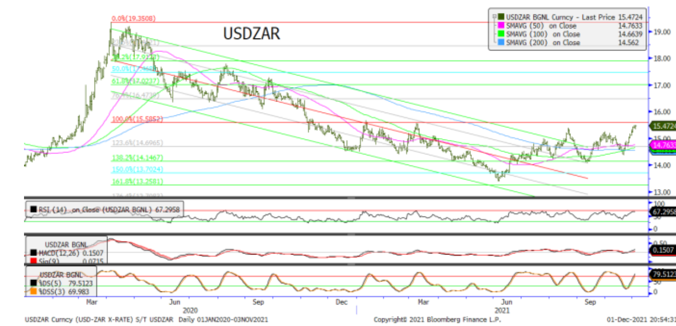


Chart 34: Lower oil price suggests a weaker rand exchange rate, vice versa for a higher oil price

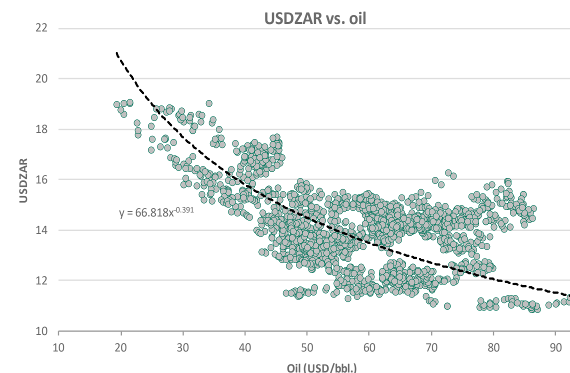
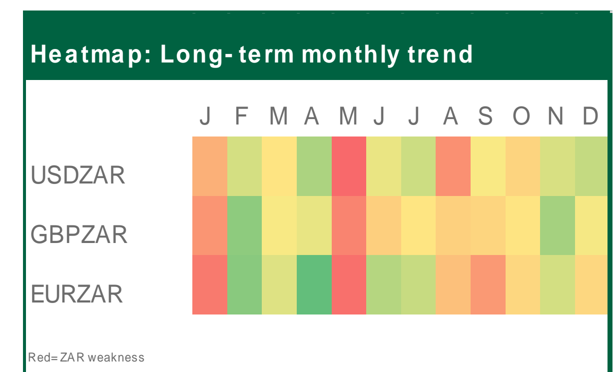


Chart 35: Heat map suggests the rand is likely to remain volatile



Source: Bloomberg, Nedbank CIB Markets Research

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THE RAND AND KEY RISKS

EM FX continues to weaken as USD support persists amid a hawkish Fed

- In November, EM FX lost further ground due to a few factors. The Fed turned more hawkish, and this supported the USD. Global growth concerns resurfaced after the discovery of a new COVID-19 variant, Omicron, which further supported safe-haven buying of the USD. Global inflation rates continued to rise, and although EM central banks were quick to respond to elevated price pressures, concerns over the longevity of high inflation, the adequacy of global monetary policy and the impact that these hikes may have on growth all acted to maintain support for the USD.
- The worst-performing EM peer was the Turkish lira, after the central bank resumed with its unconventional monetary policy stance, opting to reduce the interest rate by 100 bps in November despite facing an inflation rate of 20% yoy in October, which is well above the target of 5%. President Erdogan shared his unorthodox monetary policy stance, saying that rates will continue to be lowered in order to support economic activity and job creation. The lira depreciated 28,2% against the USD in November, and the Turkish central bank had to intervene and purchase foreign currency in order to avoid a further freefall in the currency.
- The USDZAR was the fourth worst-performing currency relative to its peers, after the Colombian peso and Russian ruble, depreciating 3,4% in November as a result of global risk-off sentiment and a sell-off across EM currencies. The JP Morgan EM FX index declined 4,4% in November, which is a reflection of the broad-based sell-off among EM currencies.
- While EM central banks have turned more hawkish this year, the Fed has also begun to consider tapering its asset purchases with a view to raising interest rates when its QE programme is fully wound down (around mid-2022). The global economic recovery has lost some steam recently, and along with it went commodity prices. EM FX will continue to be impacted by risk sentiment, which is driven predominantly by global growth and monetary (and fiscal) policies of advanced economies. EMs with access to cheaper funding, comparatively lower twin deficits, higher potential growth and are commodity exporters will benefit the most from this global recovery, in our view. Highly indebted EMs with weak growth prospects will likely remain laggards.

Chart 36: EM FX loses ground amid risk-off

Chart 37: SA's terms of trade remain commodity-dependent

Chart 38: EM FX benefits from global tailwinds

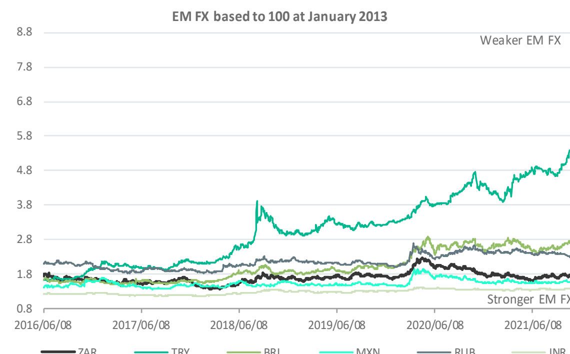
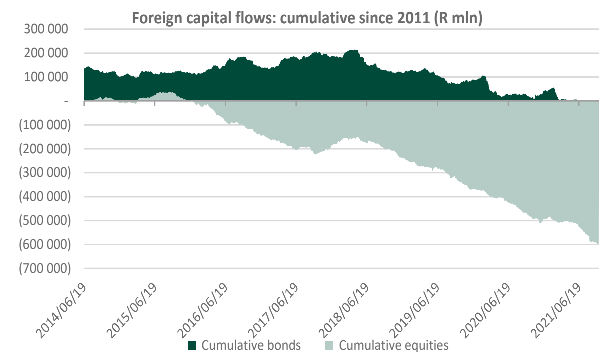


Chart 39: Foreign capital flows lacklustre



Source: Bloomberg, Nedbank CIB Markets Research

OTHER MARKETS

Equity indices slump in response to a hawkish Fed and Omicron discovery

- Equity markets fell sharply from mid-November as reality set in that inflation may not be transitory and that the Fed may react to this by ending its QE programme earlier than forecast and begin raising interest rates thereafter. Towards month-end, the discovery of a new COVID-19 variant sent markets even lower as investors watched countries impose travel restrictions and global growth risks were set squarely to the downside.
- The FTSE 100 was the biggest loser among the major equity indices, declining 7,5% during the month, followed by the Euro Stoxx 50, which was down 7,4% (both in USD terms). The Nikkei 225 lost 5,3% while the MSCI EM index shed 4,1% during the month. However, the JSE All Share Index bucked the trend, albeit marginally, rising 0,4% in USD terms and supported by rand-hedge stocks amid a sharp depreciation in the rand.
- Looking at commodity price performance during the month, Brent fell sharply in November with global demand threatened due to the spread of the virus and related lockdown restrictions risk hampering economic activity. Brent declined 16,4% in November, the sharpest monthly decline since the start of the pandemic in March 2020. OPEC is projecting an oversupply of oil in 1Q22 as demand for oil subsides.

Chart 40: Fuel costs rise sharply following rally in Brent price

Chart 41: IIF: EM stress episodes

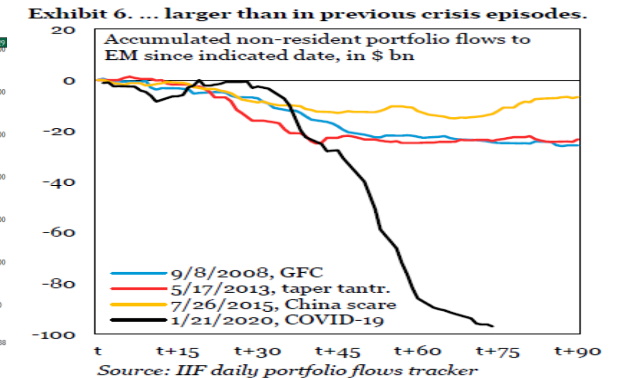


Chart 42: Global equity markets show solid recovery in 2021

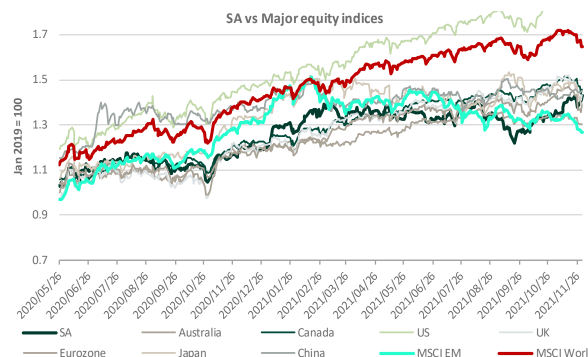
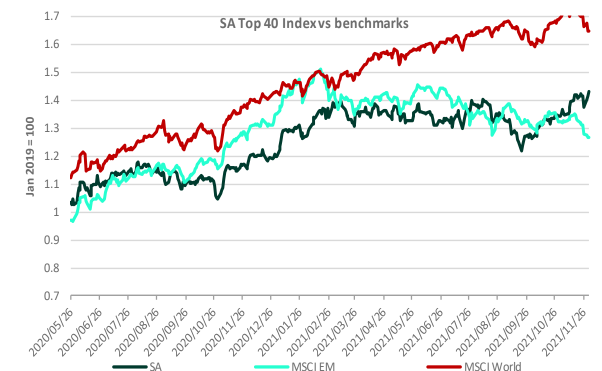


Chart 43: Equity indices dependent on post-COVID-19 economic recovery and global QE



Source: Bloomberg, IIF, Nedbank CIB Markets Research

APPENDICES

Upcoming economic data releases

Economic data releases

Date	Time	Indicator	Period	Previous
12/01/2021	11:00	Absa Manufacturing PMI	Nov	53.6
12/01/2021	15:07	Naamsa Vehicle Sales YoY	Nov	6.10%
12/02/2021	13:00	Electricity Production YoY	Oct	0.00%
12/02/2021	13:00	Electricity Consumption YoY	Oct	0.10%
12/03/2021	09:15	Standard Bank South Africa PMI	Nov	48.6
12/07/2021	08:00	Gross Reserves	Nov	$57.52b
12/07/2021	08:00	Net Reserves	Nov	$55.43b
12/07/2021	11:30	GDP YoY	3Q	19.30%
12/07/2021	11:30	GDP s.a. QoQ	3Q	1.20%
12/08/2021	11:30	SACCI Business Confidence	Nov	--
12/08/2021	13:00	Retail Sales MoM	Oct	5.10%
12/08/2021	13:00	Retail Sales Constant YoY	Oct	2.10%
12/09/2021	11:00	Current Account Balance	3Q	343b
12/09/2021	11:00	Current Account as a % GDP	3Q	5.60%
12/09/2021	11:30	Mining Production MoM	Oct	-3.70%
12/09/2021	11:30	Mining Production YoY	Oct	-3.40%
12/09/2021	13:00	Manufacturing Prod SA MoM	Oct	3.80%
12/09/2021	13:00	Manufacturing Prod NSA YoY	Oct	1.30%
12/14/2021	09:00	Leading Indicator	Oct	125
12/14/2021	10:00	BER Consumer Confidence	4Q	-10
12/15/2021	10:00	CPI MoM	Nov	0.20%
12/15/2021	10:00	CPI YoY	Nov	5.00%
12/15/2021	10:00	CPI Core MoM	Nov	0.20%
12/15/2021	10:00	CPI Core YoY	Nov	3.20%
12/15/2021	11:30	PPI MoM	Nov	0.70%
12/15/2021	11:30	PPI YoY	Nov	8.10%
12/30/2021	14:00	Monthly Budget Balance	Nov	-36.8b
12/31/2021	08:00	Money Supply M3 YoY	Nov	3.19%
12/31/2021	08:00	Private Sector Credit YoY	Nov	1.29%
12/31/2021	14:00	Trade Balance Rand	Nov	19.8b

SARB MPC meeting dates – 2021
27 January 2022
24 March 2022
19 May 2022
21 July 2022
22 September 2022
24 November 2022
SARB Governor Kganyago typically addresses the market on the third day of the MPC meeting from 15:00 to announce the repo rate decision, which was raised to 3.75% (previously 3.50%) following the November 2021 MPC meeting

Source: SARB

APPENDICES

FX forecasts (period average)

	EUR	GBP	CHF	AUD	USDZAR	EURZAR	GBPZAR	CHFZAR	AUDZAR
Q1:19	1.14	1.30	1.00	1.40	14.02	15.9	18.3	14.1	10.0
Q2:19	1.12	1.29	1.00	1.43	14.38	16.2	18.5	14.3	10.1
Q3:19	1.11	1.23	0.99	1.46	14.69	16.3	18.1	14.9	10.1
Q4:19	1.11	1.29	0.99	1.46	14.70	16.3	18.9	14.9	10.1
Q1:20	1.10	1.28	0.97	1.52	15.38	17.0	19.6	15.9	10.1
Q2:20	1.10	1.24	0.96	1.52	17.95	19.8	22.3	18.6	11.8
Q3:20	1.17	1.29	0.92	1.40	16.91	19.8	21.8	18.4	12.1
Q4:20	1.19	1.32	0.90	1.37	15.60	18.6	20.6	17.3	11.4
Q1:21	1.20	1.38	0.91	1.29	14.96	18.0	20.6	16.5	11.6
Q2:21	1.19	1.40	0.91	1.30	14.13	17.0	19.8	15.5	10.9
Q3:21	1.19	1.38	0.92	1.36	14.63	17.2	20.2	15.9	10.8
Q4:21F	1.17	1.36	0.92	1.35	15.30	17.9	20.8	16.6	11.3
Q1:22F	1.17	1.30	0.95	1.35	15.00	17.6	19.5	15.8	11.1
Q2:22F	1.18	1.30	0.95	1.40	15.20	17.9	19.8	16.0	10.9
Q3:22F	1.18	1.30	0.95	1.40	15.50	18.3	20.2	16.3	11.1
Q4:22F	1.18	1.30	0.96	1.40	16.00	18.9	20.8	16.7	11.4
Q1:23F	1.18	1.30	0.98	1.40	16.50	19.5	21.5	16.8	11.8
Q2:23F	1.18	1.26	0.97	1.45	16.50	19.5	20.8	17.0	11.4
Q3:23F	1.18	1.24	0.95	1.50	17.00	20.1	21.1	17.9	11.3
Q4:23F	1.18	1.24	0.95	1.50	17.00	20.1	21.1	17.9	11.3
Q1:24F	1.18	1.24	0.95	1.50	17.00	20.1	21.1	17.9	11.3
Q2:24F	1.16	1.22	0.92	1.50	17.20	20.0	21.0	15.8	25.8
Q3:24F	1.16	1.22	0.92	1.50	17.20	20.0	21.0	15.8	25.8
Q4:24F	1.16	1.22	0.92	1.50	17.20	20.0	21.0	15.8	25.8

Source: Bloomberg, Nedbank CIB Markets Research

APPENDICES

Other SA charts

Chart 44: SACCI Consumer Confidence Index (monthly)

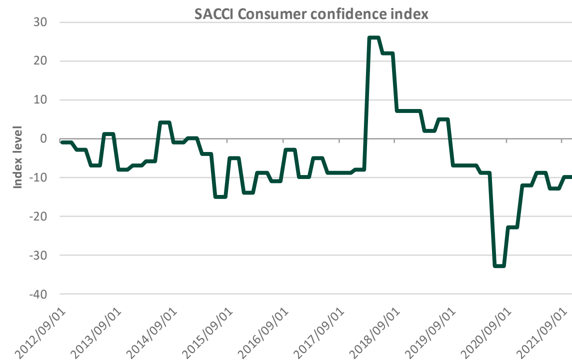


Chart 45: BER Manufacturing PMI (monthly)

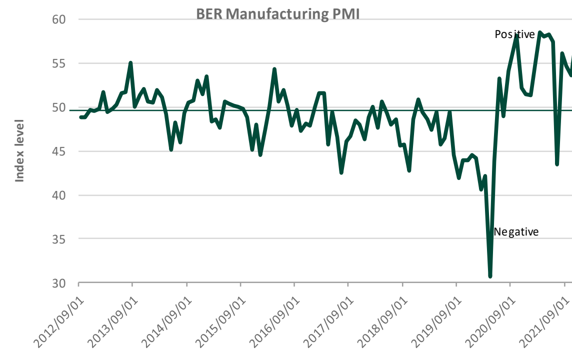


Chart 46: SA CPI yoy percentage (monthly)

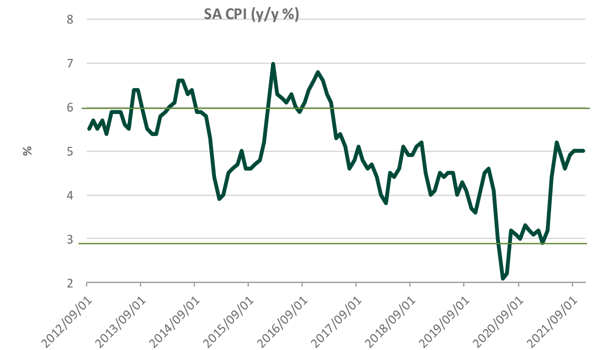


Chart 47: SA repo rate (monthly)

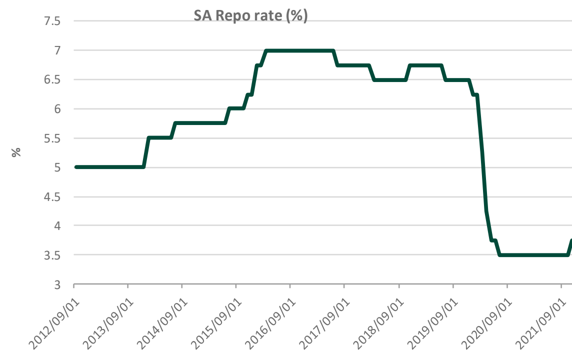


Chart 48: SA 10yr generic bond yield (monthly)

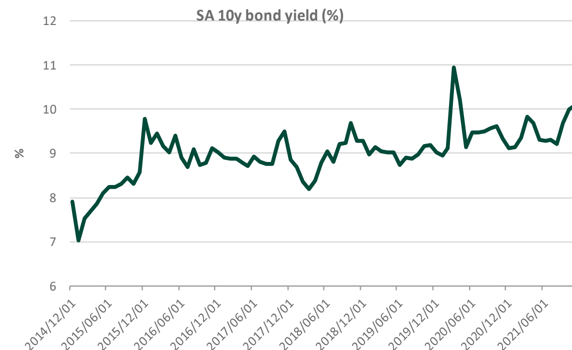
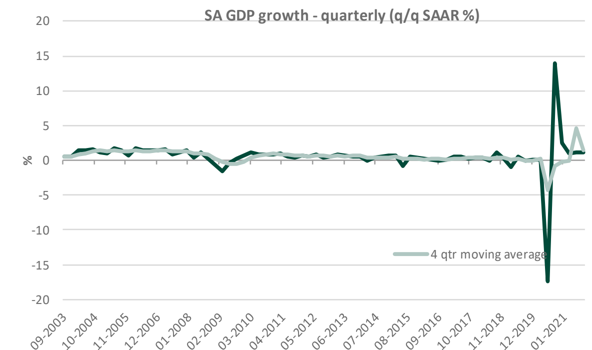


Chart 49: SA GDP growth q/q % SAAR (quarterly)



Source: Bloomberg, Nedbank CIB Markets Research