NEDBANK CIB

FEBRUARY 2022

MONTHLY INSIGHTS CHART PACK

REEZWANA SUMAD REEZWANAS@NEDBANK.CO.ZA
WALTER DE WET, CFA WALTERD2@NEDBANK.CO.ZA

NEDBANK CIB

TABLE OF CONTENTS

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 5,0%, while the 2022 estimate is 2,0%.
- **Inflation:** SA CPI surged to 5,9% yoy in December, from 5,5% in November, worse than consensus expectations of 5,7%. Core inflation rose 10 bps to 3,4% yoy, while both goods and services inflation rose to 8,5% and 3,3% yoy, respectively (from 7,9% and 3,1% previously). Administered prices were up 15,6% yoy, from 14,1% in November. CPI is now at the highest level since March 2017 but is expected to ease marginally in 1Q22. Our CPI estimate for the year continues to tick up as a result of the rising oil price. We now estimate a 4,5% inflation rate for 2022, and 5% for 2023, with upside risks to our near-term CPI forecasts.
- **Monetary policy:** In line with our expectations, the SARB MPC raised the repo rate by 25 bps to 4,00%. This decision, with four members voting for a hike and one member voting for a hold, was less hawkish than our expectations, despite SARB raising its 2022 CPI forecast sharply (up 60 bps to 4,90%). We maintain our forecast for a cumulative 75 bps increase to the repo rate by the end of 2022, compared to a more hawkish QPM reflecting hikes of 116 bps (previously 167 bps). We believe SARB may continue with its gradual rate hike path by raising the repo rate again in March 2022.
- **Fixed income:** The SAGB yield curve bull flattened in January as yields declined across the curve apart from the R2023, which rose 22 bps as a result of expectations for a hawkish SARB MPC meeting. Yields across the nominal yield curve fell an average 15 bps during the course of the month, particularly driven by demand for long-end bonds and the R186. 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 estimate for the 10-year yield is 9,9% (R2032). We adjust our fair-value range for the R2048 50 bps higher to 10,50-11,00%. We see our fair-value as a three-month view.
- **Currency:** While we still pin the rand's fair value at 15,20, unchanged from early December, we adjust our fair-value range to 15,10-15,70 (from 14,80-15,50 previously). Although this is only a marginal change, we make this adjustment to better reflect the upside risk that is building for the USDZAR, largely through higher oil prices.

	Current price/yield	Core views	Target levels	
USDZAR	15.28	While we still pin the rand's fair value at 15,20, unchanged from early December, we adjust our fair-value range to 15,10-15,70 (from 14,80-15,50 previously). Although this is only a marginal change, we make this adjustment to better reflect the upside risk that is building for the USDZAR, largely through higher oil prices	3-month	15.00
			6-month	15.20
			12-month	16.00
Repo rate	4.00	The FRA's are projecting a repo rate that is more than 100bps higher than the SARB's own QPM forecast for 2022. We maintain the view that the SARB will probably move in tandem with the Fed, with expectations of between 2-3 more hikes of 25bps each by year-end.	12-month	4.50
SAGBs	5.36 (R2023)	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 estimate for the 10-year yield is 9,9% (R2032). We adjust our fair-value range for the R2048 50 bps higher to 10,50-11,00%. We see our fair-value as a three-month view.	3-month	5.40
			Year-end	5.10
	9.72 (R2032)		3-month	9.90
			Year-end	9.50
	10.44 (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.

GLOBAL DEVELOPMENTS

Global inflation rates remain sticky and elevated

- US CPI surged to 7% yoy in December, a 39-year high, up from 6,8% previously, in line with consensus forecasts. Core inflation, however, surged and surprised to the upside, rising to 5,5% yoy, from 4,9% in November, compared to expectations of 5,4%. The surge in core implies that demand-pull inflation is quite elevated in the US. The surge was driven by prices of food, apparel, used vehicles, medical care and other goods and services. While energy costs ease, these may rise more materially in the coming months as the oil price continues to rise.
- Eurozone CPI was finalised at 5% yoy in December, from 4,9% in November, in line with consensus. Core CPI remained unchanged at 2,6% yoy. Prices of food, alcohol and tobacco, and of non-energy industrial goods rose further in December, while services inflation eased 30 bps to 2,4% yoy. Energy prices are up 25,9% yoy, but have eased from the +27,5% yoy rate recorded in November.
- UK CPI rose to 5.4% yoy in December, from 5.1% in November, worse than estimates of 5.2%. A marked acceleration in prices of food, industrial goods, housing, medicines and vehicles drover the surge in UK CPI. Prices remain elevated due to shortages of products in the global supply chain.
- Global inflationary pressures remain elevated on the back of the rising oil price, global supply chain bottlenecks, shortages of key inputs (such as semiconductors) and widespread product shortages, as supply cannot keep up with global demand in the near term. There are now concerns that elevated inflation rates are more lasting than transitory, and we now see global central banks responding to high inflation with greater urgency.

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-Feb-22	LAST	PREV.	LAST	PREV.	LAST	PREV.	LAST	PREV.	LAST	PREV.	LAST	PREV.	LAST	PREV.
US	16.9	18.2	113.8	115.2	6.9	2.3	57.6	58.8	-0.1	0.74	-10.8	-12.2	0.25	0.25
UK	-0.9	4.3	-19	-15	1.1	1.1	57.3	57.9	0.1	0.2	-9.53	-11.1	0.25	0.25
Eurozone	7.8	1.7	-8.5	-8.4	0.3	2.3	58.7	58	-1.5	0.2	-6.24	-6.89	0	0
Japan	1.4	1.9	36.7	39.1	-3.6	2	55.4	54.3	2.7	5.1	-6.36	-9.53	-0.1	-0.1
Turkey	1.32	1.1	64.55	61.95	0.3	0.66	50.5	52.1	11.43	8.67	-1.45	-1.62	14	14
China	1.7	3.9	119.8	119.5	4	4.9	50.1	50.3	4.3	3.8	-8.3	-5.3	4.35	4.35
Brazil	-4.2	-6.8	74.1	75.5	-0.1	-0.3	47.8	49.8	-4.4	-7.8	-4.42	-4.8	9.25	9.25
Russia	3.1	4.3	68.3	71.3	4.3	10.5	51.8	51.6	7	7.4	-1.01	-2.16	8.5	8.5
India	7006	6929	47.8	46.1	8.39	20.13	54	55.5	1.4	4	-6.58	-6.83	4	4
Mexico	5.4	5.3	105.1	106.1	-0.08	-0.43	48.76	53.23	1.64	0.69	-2.84	-2.45	5.5	5.5
South Africa	3.3	1.9	-9	-10	-1.5	1.1	57.1	54.1	-0.7	-8.5	-6.56	-7.77	4	3.75

Chart 1: Global inflation trend remains elevated

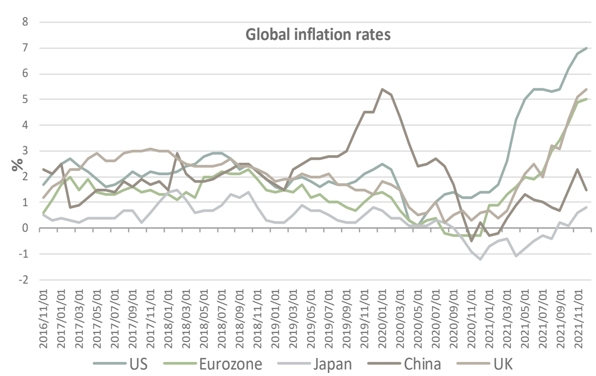


Chart 2: US export price inflation close to record high

Source: Bloomberg, Nedbank CIB Markets Research

GLOBAL DEVELOPMENTS

IMF revises 2022 global growth forecast lower due to lower advanced economy growth estimates

- After a sharp slowdown in global growth in 3Q21, early estimates point to a recovery in 4Q, with China's GDP growth rising 1,6% q/q, from 0,2% in 3Q, better than consensus expectations of 1,2%. Advanced estimates of US GDP growth show a surge to 6,9% q/q annualised, from 2,3% in 3Q21. Robust consumer spending lifted growth in both regions towards year-end. In the Eurozone, the spread of the Delta variant meant a slowdown was likely in 4Q, with advanced GDP growth estimates of 0,3% q/q, from 2,3% in 3Q.
- In January 2022, the IMF revised its estimates for global growth in its latest World Economic Outlook report. It now projects growth of 4,4% in 2022 (prev. 4,9%) and 3,8% in 2023 (prev. 3,6%). The main reason for the growth downgrade is lower growth projected for the US and China, relative to its last estimates. While US growth was revised lower due to the removal of fiscal and monetary stimulus and global supply chain disruptions, China's growth was lowered due to weaker consumption spending and real estate recovery. The IMF also noted elevated price pressures in 2022, marking up its inflation forecast for both advanced and emerging-market countries, due to the lingering supply-demand imbalances that it expects to dissipate as the year progresses. Inflation is expected to subside in 2023, closer towards central bank targets.
- The IMF continued to warn of differentiated recoveries across DM and EM countries, noting that advanced economies are expected to recover to their pre-pandemic trend this year, but EM GDP will likely remain below pre-pandemic levels into the medium term. It also stressed the importance of achieving high vaccination rates in order to aid the economic recovery, but indicated this, too, is highly differentiated across the world – advanced economies have achieved a 70% vaccination rate compared to low-income developing countries that have just 4% of their populations vaccinated. Lastly, the IMF has quantified the global economic loss due to the pandemic to be close to USD13.8tr by 2024, compared to pre-pandemic forecasts.

Chart 3: Manufacturing – major PMIs taper off

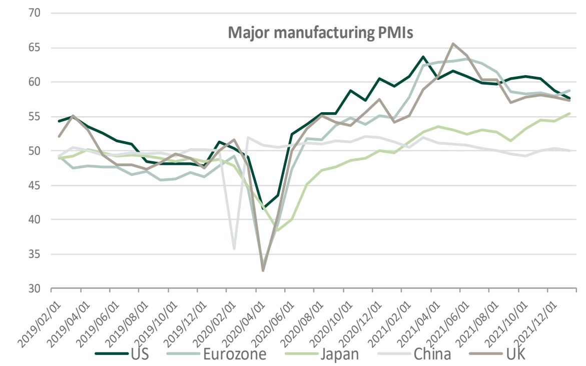


Chart 4: Global manufacturing PMIs begin to deteriorate

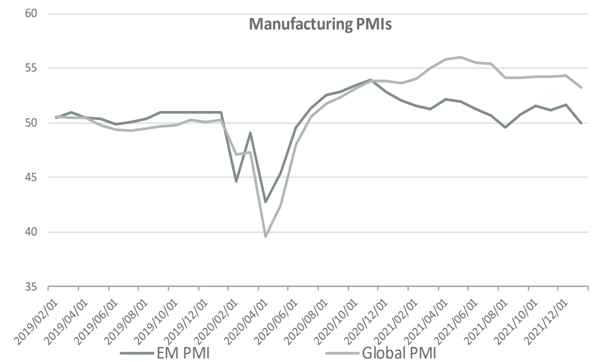


Chart 5: Global activity indicators begin to roll over – IMF

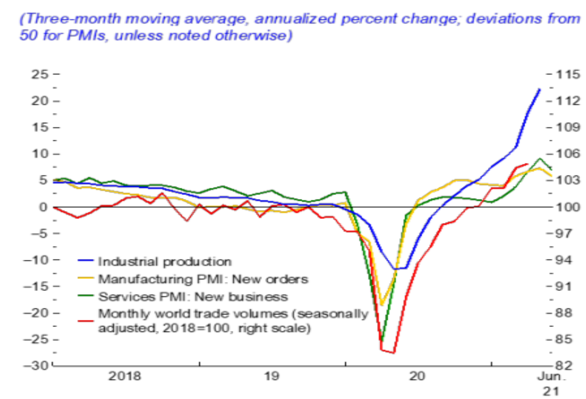
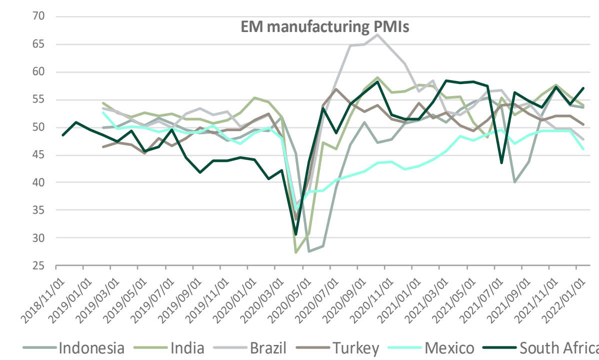


Chart 6: EM PMIs follow global trend



Source: Bloomberg, IMF, Nedbank CIB Markets Research

NEDBANK CIB

MONETARY POLICY DYNAMICS: GLOBAL

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

- EM central banks remain hawkish, with Brazil hiking the Selic rate by 150 bps in December – for the year, it raised the rate by a cumulative 725 bps. Other central banks that have hiked since December are those of Poland, Ukraine, Peru, Pakistan, Hungary, Chile, Costa Rica, Norway, the UK, Russia, Colombia, South Korea, Sri Lanka, Ghana and SA.
- The main reasons for the aggressive tightening cycle are higher inflation, upside inflation risks and a more hawkish global monetary policy rhetoric. With the Fed turning more hawkish in December, opting to end its QE programme by March, and raising rates thereafter, and the BoE having started its hiking cycle in December, EM central banks will probably remain hawkish in order to limit capital outflow and adverse effects on local-currency markets.

Chart 7: US inflation expectations elevated above 2% target

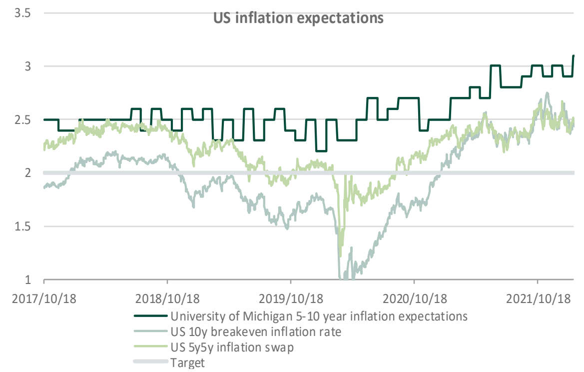
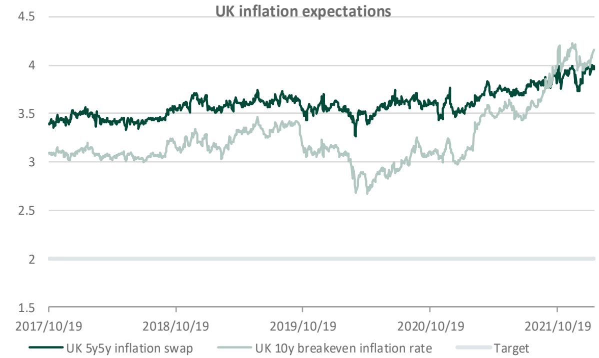


Chart 8: UK inflation remains elevated; expectations rise



	Next MPC meeting	Probability of a hike/cut/hold
US	2022/03/16 20:00:00	115.60%
UK	2022/02/03 14:00:00	97.60%
Eurozone	2022/02/03 14:45:00	99.90%
Japan	2022/03/18	97.70%
China		
India	2022/02/09 06:30:00	17.80%
Mexico	2022/02/10 21:00:00	
South Africa	2022/03/24	123.20%
Updated 01-Feb-22		

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

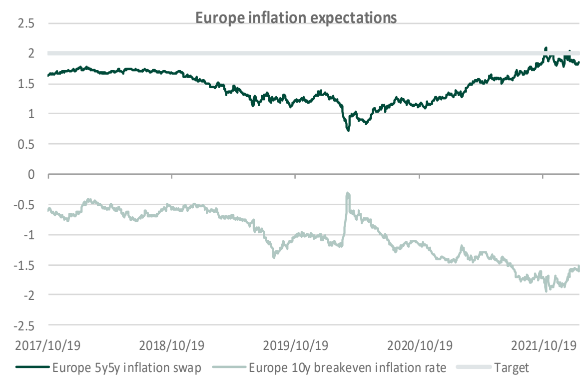
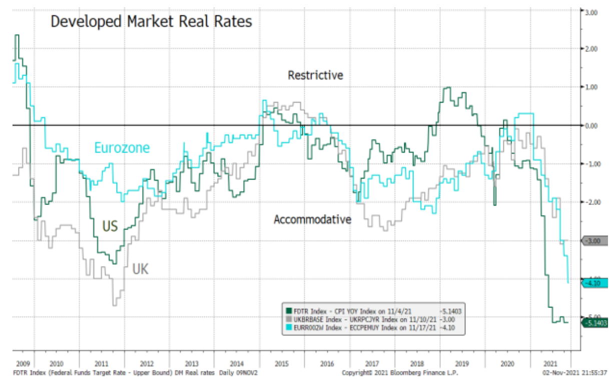


Chart 10: DM real rates remain accommodative as inflation rises



Source: Bloomberg, Nedbank CIB Markets Research

NEDBANK CIB

MONETARY POLICY DYNAMICS: GLOBAL

Fed significantly more hawkish in the past month

- As expected, the FOMC announced no change to its current benchmark interest rates, but what seemed to be a less-hawkish-than-expected statement was overshadowed by a more hawkish Chairman Powell in the Q&A session. The chair indicated that the central bank was ready to raise interest rates at its March meeting and could continue to lift them at a faster pace than it did during the previous decade. He further indicated that he felt there was “quite a bit of room to raise interest rates without threatening the labour market”. Powell also suggested that since the Fed’s last meeting, inflation probably appeared slightly worse than expected, stating that “to the extent the situation deteriorates further, our policy will have to address that.”
- He gave no indication whether the FOMC could raise rates at every subsequent meeting this year; nor did he give any insight on whether the Fed could raise by 50 bps instead of 25 bps at any of the subsequent meetings, rather suggesting that the central bank would be “humble and nimble” and “guided by the data”. The FOMC confirmed that it would wind down its bond-purchasing programme by the end of March and released a set of guiding principles on its approach to shrinking the size of its balance sheet
- The BoE raised its bank rate by 15bps in December, to 0,25%, citing a very tight labour market and more persistent inflationary pressures as the key reasons for the hike. The BoE expects CPI to rise above 6% before declining. Its inflation target is 2%; hence the more aggressive stance on clamping down on demand-pull inflation in the UK. Further hikes are likely through the course of this year, with markets pricing in a 25 bps hike in February, which, if delivered, would imply an end to its QE programme, as it would stop reinvesting its maturing bond holdings.
- 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

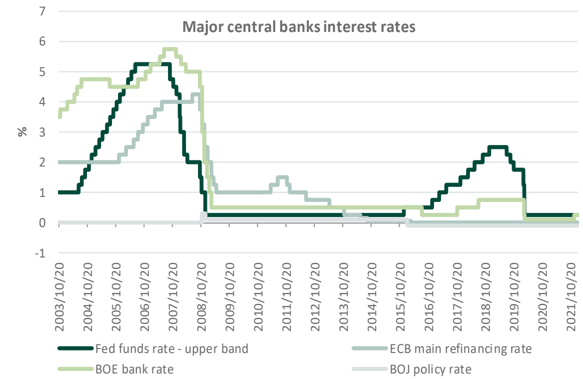


Chart 12: Global bond yields rise due to higher inflation expectations

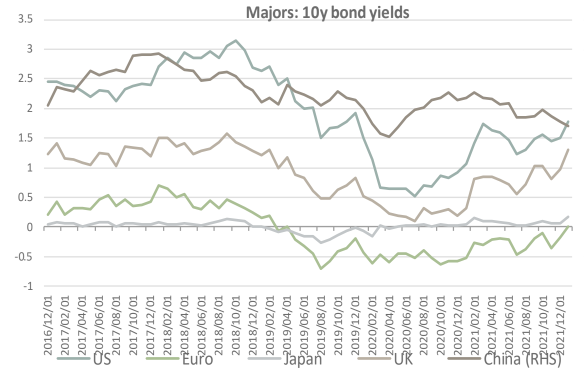


Chart 13: EM monetary policy stance broadly loose

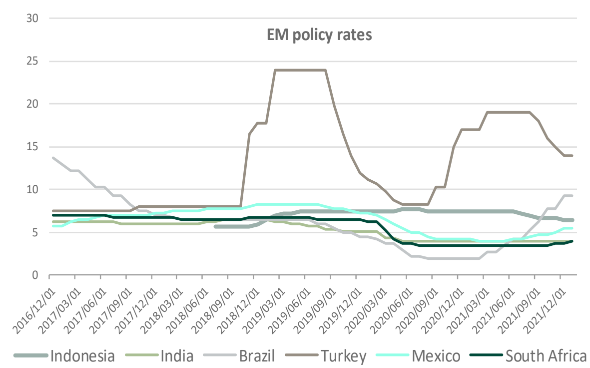
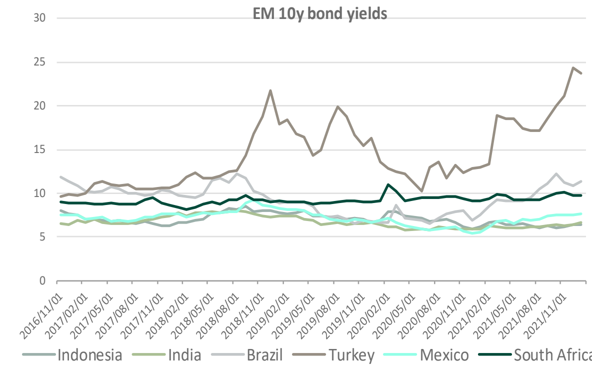


Chart 14: EM bond yields are finding some support



Source: Bloomberg, Nedbank CIB Markets Research

NEDBANK CIB

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 5,0%, while the 2022 estimate is 2,0%.
- SA retail sales growth surged to 1,9% m/m in November, from -1,3% in October. In the three months to November, sales were up 4,1%; this means household spending will likely contribute positively towards 4Q GDP growth. For the ytd, sales were up 6,9%.
- SA's manufacturing PMI typically dips in December as factories record fewer work hours and many close for the festive season holiday. SA's PMI in December 2021, therefore, fell to 54,1 points, from 57,2 points in November, slightly worse than consensus at 55,5. The PMI is still above the 50-neutral threshold, which means the manufacturing industry is still in expansion territory and likely to contribute positively to GDP growth in 4Q21.
- SA mining production contracted 2,2% m/m, from +3,1% in October, worse than forecasts of -0,5%. Output in the three months to November declined 1,6%, which suggests the industry will likely contribute negatively towards GDP growth in 4Q.
- While domestic private sector credit extension (PSCE) data showed an annualised rise to 2,6% yoy in Dec, from 2,5% in Nov, monthly data showed the opposite – on a m/m basis, PSCE growth slowed to 0,5% m/m in Dec, from +1,6% in Nov. All indications point to both consumers and corporates consuming more credit in Nov (possibly to take advantage of Black Friday sales, and corporates for working capital purposes), and reducing their credit appetite in Dec (also possibly due to consumers receiving bonuses in Dec, requiring less credit usage). Consumer spending is expected to continue recovering in 2022, especially if lockdown restrictions are eliminated and demand for services ticks up. For now, though, rising prices, interest rates and joblessness may cap some of the upside in spending in the near term.

Source: Bloomberg, Stats SA, Nedbank CIB Markets Research

Chart 15: SA confidence leads investment growth

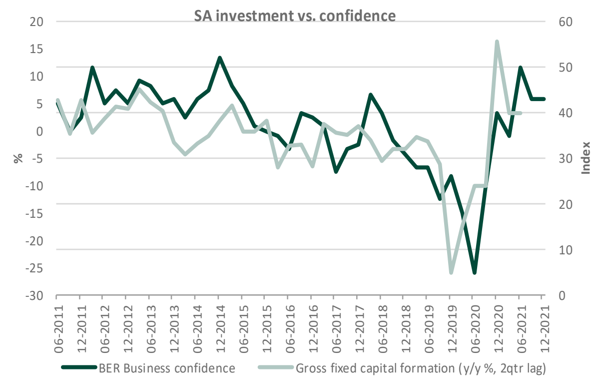


Chart 16: SARB's leading index projects a recovery in 2021

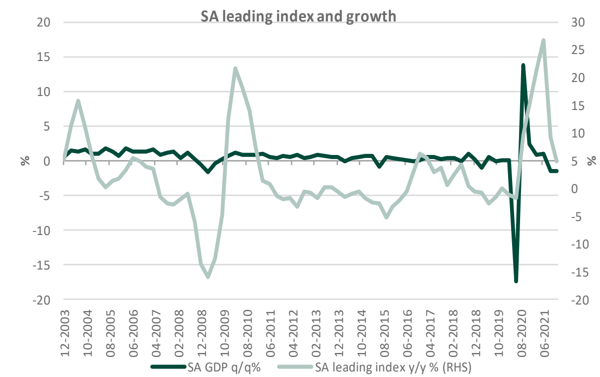


Chart 17: Downside risks to growth forecasts for SA

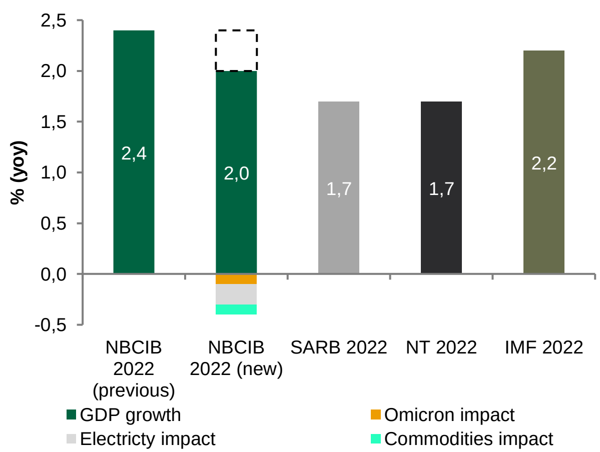
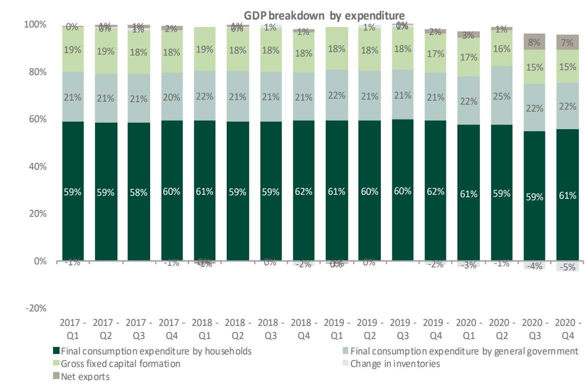


Chart 18: Spending is a key driver of economic activity



SA INFLATION TRENDS

Higher fuel costs put upward pressure on headline CPI in December

- SA CPI surged to 5,9% yoy in December, from 5,5% in November, worse than consensus expectations of 5,7%. Core inflation rose 10 bps to 3,4% yoy, while both goods and services inflation rose to 8,5% and 3,3% yoy, respectively (from 7,9% and 3,1% prev.). Administered prices were up 15,6% yoy, from 14,1% in November. CPI is now at the highest level since March 2017 but is expected to ease marginally in 1Q22.
- The main driver of the rise in inflation in December was transport inflation, rising to 16,8% yoy, from 15% in November, and contributing 2,3% towards headline CPI (from a 2,1% contribution in November). Fuel price inflation at 40,5% yoy in December (prev. 34,5% yoy) was the key driver of the surge in transport costs. The rise in the residual component added a further 20 bps to headline CPI in December, taking it to 5,9% yoy.
- Other inflationary drivers in December were marginally higher housing and utilities inflation, as CPI for rentals rose to 1,1% yoy, from 0,9% in November. Household contents and services inflation was also marginally higher due to higher domestic worker wages; prices at restaurants and hotels, and of recreational goods and services, along with miscellaneous goods and services were all a few bps higher in December, with the former driven by higher goods prices, while the latter was driven by higher motor vehicle insurance costs. These subcomponents did not contribute to headline CPI directly, but the rounding effect was captured in the residual component.
- Food inflation actually fell to 5,9% yoy, from 6% in November. The fall was driven by lower prices of processed foods, proteins and breads and cereals in December.
- Given the upside surprise in the December print above, the annual CPI rate for 2021 is finalised at 4,56%. The 4Q21 average CPI rate was 5,5% but is expected to ease to 5,1% in 1Q22. Our CPI estimate for the year continues to tick up as a result of the rising oil price. We now estimate a 4.5% inflation rate for 2022, and 5% for 2023, with upside risks to our near-term CPI forecasts.

Table 2: Nedbank CIB inflation estimates

Avg.	CPI	Food	Oil
2019a	4.14	3.42	64.60
2020a	3.28	4.53	41.63
2021a	4.56	6.11	71.49
2022f	4.51	5.82	86.86
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
3Q21a	4.83	6.73	75.95
4Q21a	5.34	6.10	75.38
1Q22f	5.10	6.15	89.28
2Q22f	4.15	6.00	88.18
3Q22f	4.56	5.72	85.99
4Q22f	4.24	5.40	84.01

Chart 19: We expect CPI to remain contained close to 4,5%

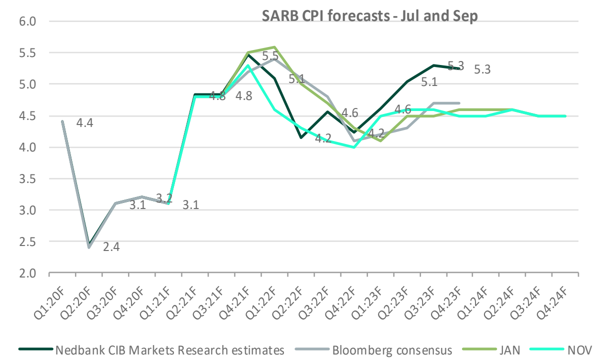


Chart 20: Breakeven inflation remains close to SARB's inflation target

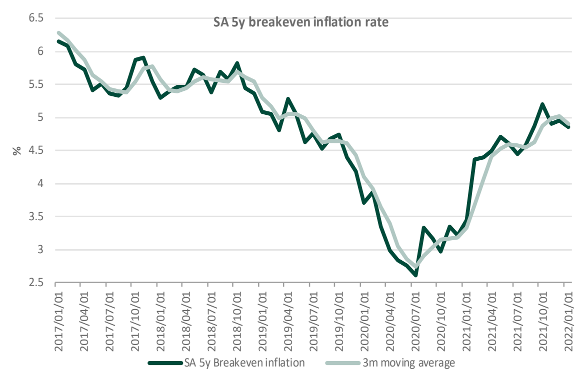


Chart 21: SA CPI and shocks to baseline

Source: Bloomberg, SARB, Nedbank CIB Markets Research

MONETARY POLICY DYNAMICS: SA

SARB raises the repo rate in January but adopts a less-hawkish tone

- In line with our expectations, the SARB MPC raised the repo rate by 25 bps to 4,00%. This decision, with four members voting for a hike and one member voting for a hold, was less hawkish than our expectations, despite SARB raising its 2022 CPI forecast sharply (up 60 bps to 4,90%). Its quarterly CPI forecast trajectory was also raised by a cumulative 220 bps until 2024, and it noted a further risk that global policy rates normalise faster than its own projections, citing a more hawkish Fed as an example. This has resulted in more pronounced currency volatility and capital flow reversal risks over the medium term.
- SARB's negative output gap widened because of a downward revision to its 2021 GDP growth estimate, while the QPM essentially removes one hike of 25 bps from its repo rate forecast trajectory. In November, the QPM was projecting a terminal repo rate of 6,75% by 2024; it is now projecting a terminal repo rate of 6,55%. The MPC now assesses the growth risk as balanced (from a downside risk previously), but the inflation risk assessment remains to the upside.
- We maintain our forecast for a cumulative 75 bps increase to the repo rate by the end of 2022, compared to a more hawkish QPM reflecting hikes of 116 bps (prev. 167 bps). We believe SARB may continue with its gradual rate hike path by raising the repo rate again in March 2022.

Chart 22: SARB's negative output gap narrows sharply

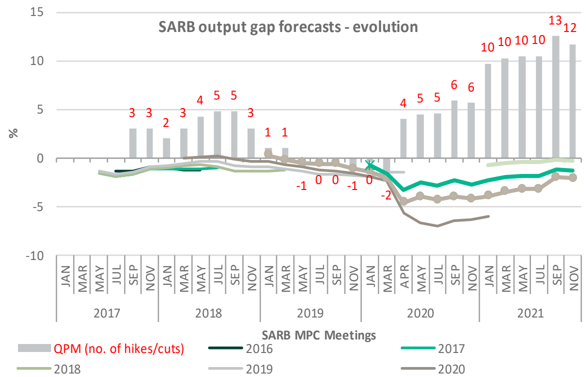


Chart 23: SARB now sees growth at 4,8% for 2021

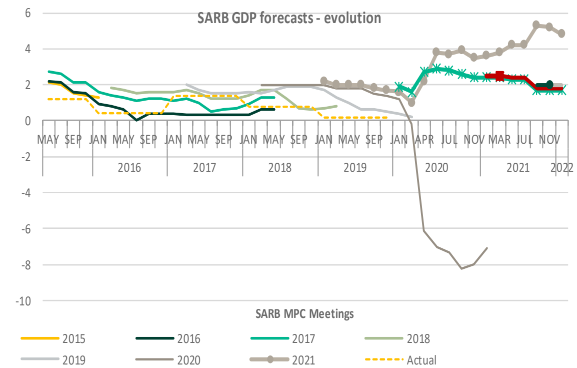


Chart 24: SARB's inflation forecasts revised higher in January 2022

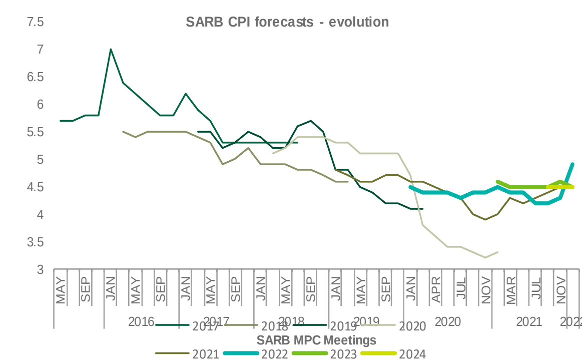
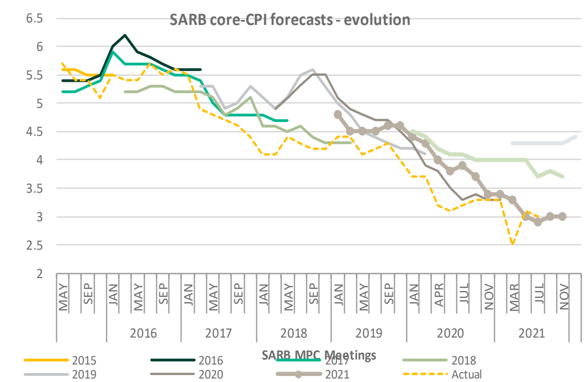


Chart 25: Core inflation estimates remain low, signalling lack of demand-pull inflation



Source: Bloomberg, SARB, Nedbank CIB Markets Research

NEDBANK CIB

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

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

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

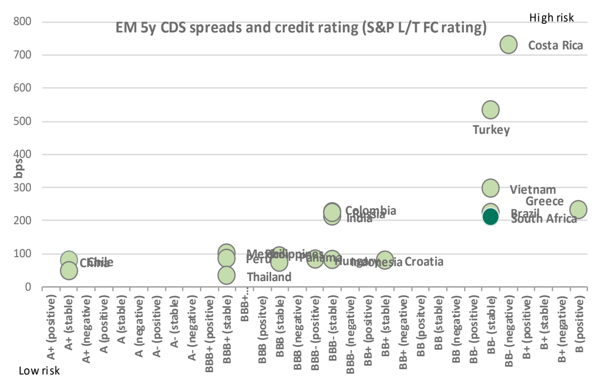
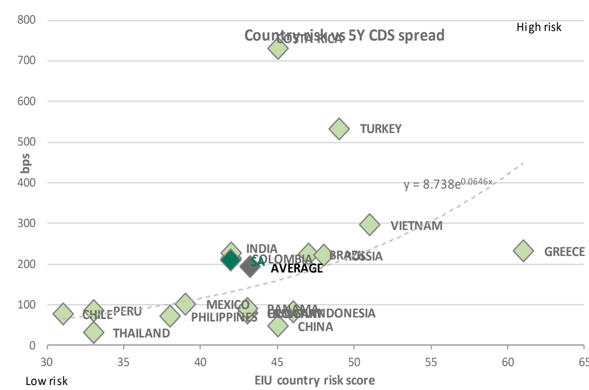


Chart 27: SA's above-trend credit risk score



SA'S BOND MARKET

SAGB steepener dominates in December, flattener takes over January

- The SAGB yield curve bull flattened in January as yields declined across the curve apart from the R2023, which rose 22 bps as a result of expectations for a hawkish SARB MPC meeting. Yields across the nominal yield curve fell an average 15 bps during the course of the month, particularly driven by demand for long-end bonds and the R186. Global risk sentiment improved despite tighter global financing conditions, and the search for yield persisted despite a more hawkish Fed. The SARB yield curve essentially took its cue from US Treasury yields, as the US curve flattened aggressively as well. This was on account of a much more hawkish Fed, which resulted in the US 10-year yield rising 74 bps in January.
- In SA, while the front end of the curve (up to the 10y point) remains steep and well above pre-pandemic levels, the back end (30v10) has flattened aggressively towards pre-pandemic levels. While we expect further flattening to persist in the run-up to the Budget Speech, we prefer to fade this move, as we expect a bull steepening to take place after the Budget. We believe SARB will hike the repo rate by 75 bps in 2022 while the FRA market is pricing in another 150 bps of hikes. If we are correct, the curve should shift lower as the market reprices by 75 bps lower in its expectations. However, our factor model also suggests the yield curve should bull steepen on the back of such repricing by about 35 bps.
- 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 estimate for the 10-year yield is 9,9% (R2032). We adjust our fair-value range for the R2048 50 bps higher to 10,50-11,00%. We see our fair-value as a three-month view.

Chart 28: FRA curve remains more hawkish than consensus and SARB

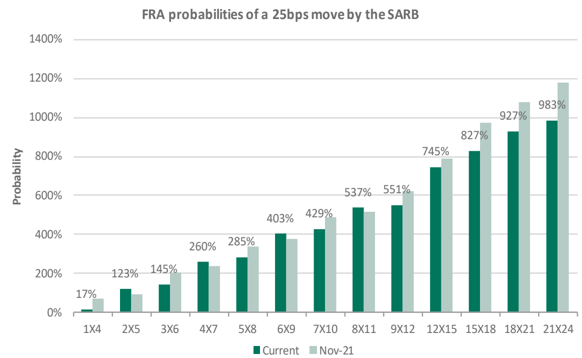


Chart 29: SAGB curve flattens, prompted by lower long-end yields

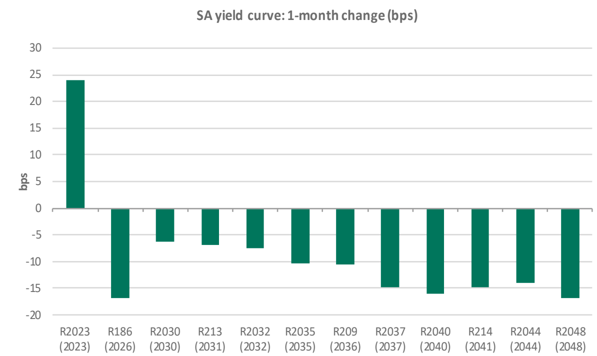
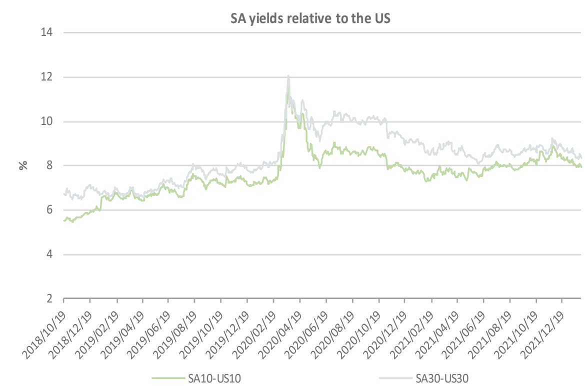


Chart 30: Short-end portion eases, better reflecting gradual SARB hikes

Chart 31: SA yields relative to the US's



Source: Bloomberg, Nedbank CIB Markets Research

THE RAND AND KEY RISKS

USDZAR fair-value range marginally weaker; hawkish Fed could keep the rand weak

- While we still pin the rand's fair value at 15,20, unchanged from early December, we adjust our fair-value range to 15,10-15,70 (from 14,80-15,50 previously). Although this is only a marginal change, we make this adjustment to better reflect the upside risk that is building for the USDZAR, largely through higher oil prices.
- A US Fed that is now seen to be hiking five times this year after the latest FOMC meeting may add upside pressure, although we still believe some depreciating pressure emanating from the Fed would be largely absorbed by SARB, which is also hiking, and favourable terms-of-trade.
- Our adjustment does imply, however, that we would turn USD buyers sooner than previously expected. If the oil price retraces closer to USD75/bbl, we would turn more bullish on the rand. Our year-end target for the USDZAR remains at 16,00.
- Currently, the oil/USDZAR relationship suggests that with oil at USD87/bbl, the rand should be close to 15,30 against the USD. Oil at USD85/bbl would be consistent with our current fair value for the USDZAR of 15,20 and within our fair-value range of 15,00-15,60. However, an oil price that goes to USD100/bbl could put the currency under substantially more pressure than what we have observed in recent months. Ultimately, the best level of the oil price for the rand (and inflation) currently seems to be in the USD65-75/bbl range, which would put the rand at USD14,70.

Chart 32: ZAR REER back within range

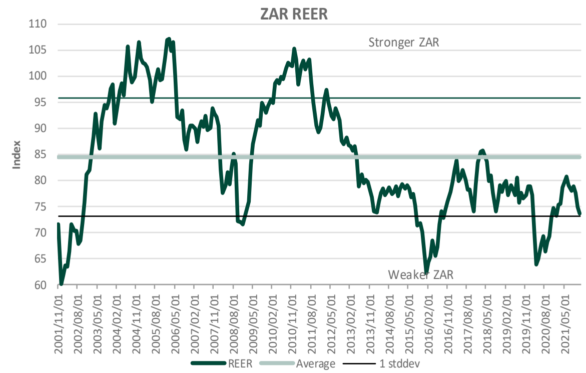


Chart 33: Short-term technical trend: ZAR bucks global trend, strengthens in Jan

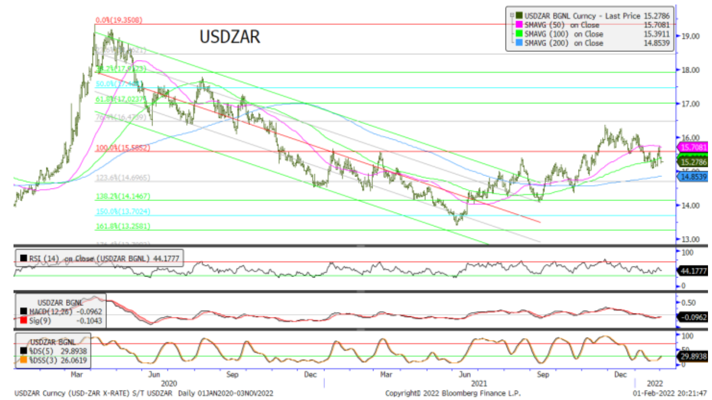


Chart 34: Lower oil price suggests a weaker rand exchange rate, vice versa for a higher oil price

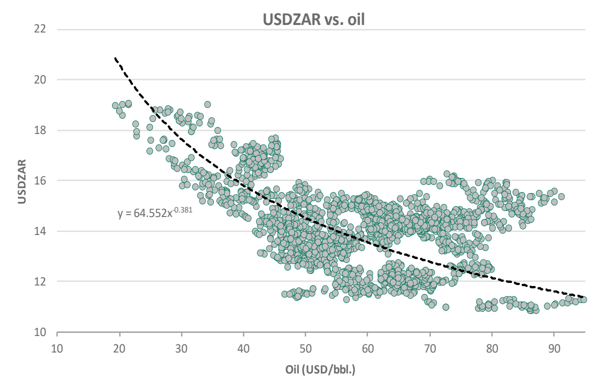
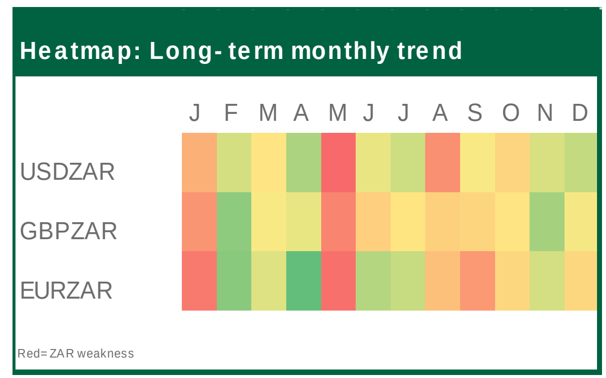


Chart 35: Heat map suggests the rand is likely to remain volatile



Source: Bloomberg, Nedbank CIB Markets Research

THE RAND AND KEY RISKS

EM FX resilient in the face of a hawkish Fed

- Since the start of the year, some EM currencies outperformed the USD, strengthening sharply during the month despite a hawkish Fed and a generally strong USD – the DXY index rose 0,7% in January, prompted by a more hawkish Fed and the potential for more frequent interest rate hikes to combat elevated inflation in the US. The JP Morgan EM FX index rose 0,65% in January, implying that EM FX has taken this shift in US monetary policy in its stride, relative to the taper tantrum episode in 2013, when the index declined sharply over a period of two years. Pre-emptive EM central bank tightening last year and an ongoing search for yield are some of the reasons supportive of EM FX in the near term.
- The USDZAR was the third best-performing currency among peers in January, having appreciated 4,6%. The USDCHP and USDBRL were the best-performing currencies, rising 6,5% and 5,5%, respectively, in January. The USDRUB was the worst performer, having depreciated 2,6% in January, following geopolitical tensions in the region that weighed on sentiment.
- The global economic recovery has lost some steam recently, which does threaten to derail commodity prices. EM FX will likely continue to be impacted by risk sentiment, which is predominantly driven 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 marginally stronger despite USD support in Jan

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

Chart 38: EM FX benefits from global tailwinds

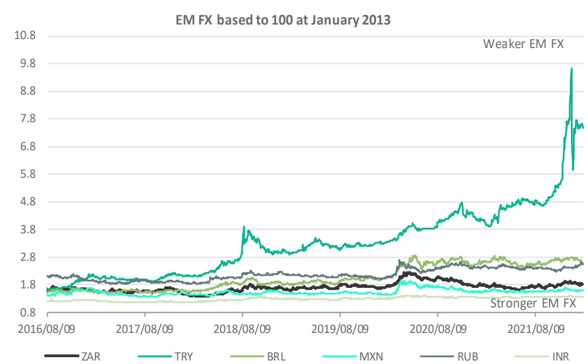
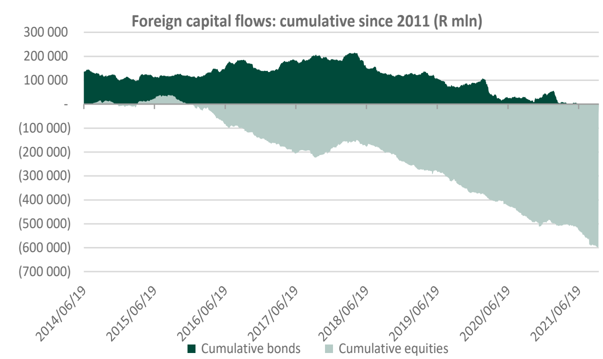


Chart 39: Foreign capital flows lacklustre



Source: Bloomberg, Nedbank CIB Markets Research

NEDBANK CIB

OTHER MARKETS

Equity indices continued to decline in response to hawkish Fed; oil rises to 7y high

- Equity markets fell sharply in January as a result of a hawkish Fed that plans on raising rates multiple times this year. The S&P 500 index ended the month down 5,3%. This was the biggest monthly decline since the March 2020 rout, and the worst January performance since 2009. Equity volatility remains elevated after the VIX Index rose to a one-year high in January.
- All major global equity indices ended the month lower in USD terms, with the Nikkei losing 7%, the Eurostoxx 50 down 4,3% and the FTSE 100 index losing 3,9%. While EM equity indices also lost some ground, the losses were more muted. The MSCI EM index was down 2% in January. The JSE All Share Index bucked the global trend, ending the month up 4,3% in USD terms.
- Looking at commodity price performance during the month, gold was down 1,8% in January as the USD strengthened, making the metal more expensive and less attractive to investors. The Brent crude price rallied sharply in January on the back of better demand conditions globally. The price was up 17,3% in January, rising to the highest since September 2014. While the oil forward curve is in backwardation (falling future prices), the forward curve has risen by USD5-10/bbl in the past month. OPEC+ plans on raising its monthly output of oil in order to stem the price increase, but many member countries have indicated that they will be unable to meet the additional supply quotas as a result of geopolitical conflict, no investment, or capacity constraints.

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

Chart 41: IIF: EM stress episodes

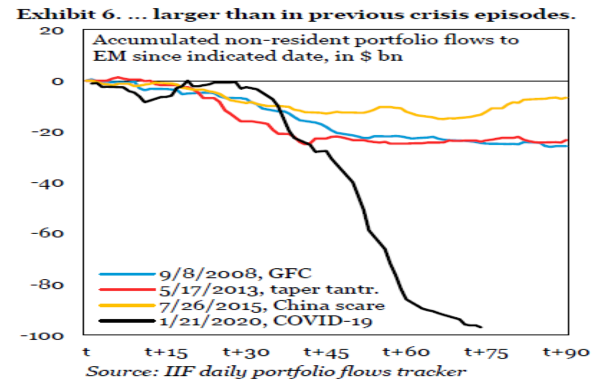


Chart 42: Global equity markets show solid recovery in 2021

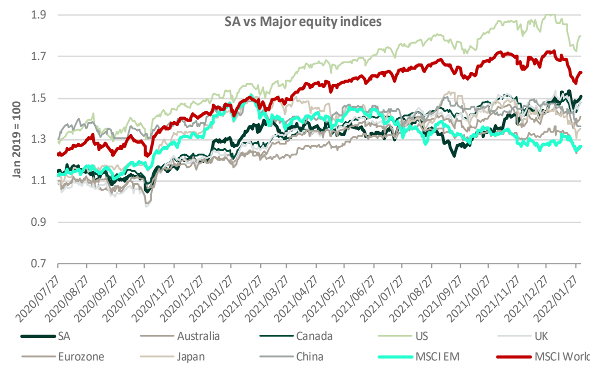
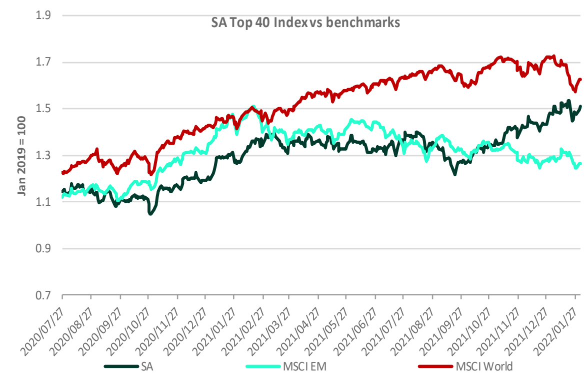


Chart 43: Equity indices dependent on post-COVID-19 economic recovery and global QE



Source: Bloomberg, IIF, Nedbank CIB Markets Research

APPENDICES

Upcoming economic data releases

Economic data releases

Date	Time	Indicator	Period	Previous
02/01/2022	11:00	Absa Manufacturing PMI	Jan	54.1
02/01/2022		Naamsa Vehicle Sales YoY	Jan	-3.50%
02/03/2022	09:15	Standard Bank South Africa PMI	Jan	4840.00%
02/03/2022	13:00	Electricity Production YoY	Dec	-3.70%
02/03/2022	13:00	Electricity Consumption YoY	Dec	-0.024
02/07/2022	08:00	Gross Reserves	Jan	$57.59b
02/07/2022	08:00	Net Reserves	Jan	$55.31b
02/09/2022	11:30	SACCI Business Confidence	Jan	9280.00%
02/10/2022	11:30	Mining Production MoM	Dec	-2.20%
02/10/2022	11:30	Mining Production YoY	Dec	0.052
02/10/2022	11:30	Gold Production YoY	Dec	-0.70%
02/10/2022	11:30	Platinum Production YoY	Dec	38.10%
02/10/2022	13:00	Manufacturing Prod SA MoM	Dec	0.037
02/10/2022	13:00	Manufacturing Prod NSA YoY	Dec	-0.70%
02/16/2022	10:00	CPI MoM	Jan	0.60%
02/16/2022	10:00	CPI YoY	Jan	5.90%
02/16/2022	10:00	CPI Core MoM	Jan	0.30%
02/16/2022	10:00	CPI Core YoY	Jan	3.40%
02/16/2022	13:00	Retail Sales MoM	Dec	0.019
02/16/2022	13:00	Retail Sales Constant YoY	Dec	0.033
02/22/2022	09:00	Leading Indicator	Dec	12590.00%
02/24/2022	11:30	PPI YoY	Jan	10.80%
02/24/2022	11:30	PPI MoM	Jan	1.30%
02/24/2022	00:00	South Africa Unemployment	4Q	34.90%
02/28/2022	08:00	Money Supply M3 YoY	Jan	5.71%
02/28/2022	08:00	Private Sector Credit YoY	Jan	2.58%
02/28/2022	14:00	Trade Balance Rand	Jan	30.1b
02/28/2022	14:00	Monthly Budget Balance	Jan	41.9b

Source: Nedbank, Bloomberg

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 4.00% (previously 3.75%) following the January 2022 MPC meeting

Source: SARB

APPENDICES

Calendar of event risks – 2022

- The following is a list of planned local and global events as well as dates of significance. This is a non-exhaustive list, which excludes unscheduled one-off events and unplanned meetings such as Cabinet changes, court cases, leadership changes, other political developments and any sort of Constitutional changes/reform.

January	February	March
08 Jan – ANC 8 Jan statement 13 Jan – US earnings season begins 18 Jan – BoJ policy meeting 20 Jan – PBoC meeting 26 Jan – Fed FOMC rate decision 27 Jan – SARB interest rate decision 30 Jan – Portugal legislative election	3 Feb – BoE interest rate decision 3 Feb – ECB interest rate decision 10 Feb – SA State of the Nation Address 16 Feb – SA CPI rebasing 21 Feb – PBoC meeting 23 Feb – SA February budget speech*	08 Mar – SA 4Q21 GDP data 10 Mar – ECB interest rate decision 16 Mar – Fed FOMC rate decision 17 Mar – BoE interest rate decision 18 Mar – BoJ policy meeting 21 Mar – PBoC meeting 24 Mar – SARB interest rate decision Mar – ANC regional and provincial conferences begin Mar – Fed QE tapering ends
April	**May**	**June**
01 Apr – Moody's sovereign rating review SA 03 Apr – Hungary parliamentary election 14 Apr – ECB interest rate decision 10-24 Apr – France presidential election 20 Apr – PBoC meeting 22-24 Apr – World Bank/IMF spring meetings 28 Apr – BoJ policy meeting	04 May – Fed FOMC rate decision 05 May – BoE interest rate decision 05 May – Northern Ireland Assembly Election 19 May – SARB interest rate decision 20 May – PBoC meeting 20 May – S&P SA sovereign rating review	09 Jun – ECB interest rate decision 12-19 Jun – France legislative election 15 Jun – Fed FOMC rate decision 16 Jun – BoE interest rate decision 17 Jun – BoJ policy meeting 20 Jun – PBoC meeting
July	**August**	**September**
20 Jul – PBoC meeting 21 Jul – SARB interest rate decision 21 Jul – ECB interest rate decision 21 Jul – BoJ policy meeting 27 Jul – Fed FOMC rate decision	04 Aug – BoE interest rate decision 22 Aug – PBoC meeting Aug – Fed Jackson Hole Symposium	08 Sep – ECB interest rate decision 15 Sep – BoE interest rate decision 20 Sep – PBoC meeting 21 Sep – Fed FOMC rate decision 22 Sep – SARB interest rate decision 22 Sep – BoJ policy meeting
October	**November**	**December**
02 Oct – Brazil general election 14-16 Oct – IMF annual meetings 20 Oct – PBoC meeting 26 Oct – SA MTBPS* 27 Oct – ECB interest rate decision 28 Oct – BoJ policy meeting	02 Nov – Fed FOMC rate decision 08 Nov – US elections 18 Nov – Moody's and S&P SA sovereign rating review 21 Nov – PBoC meeting 24 Nov – SARB interest rate decision	12 Dec – BoJ policy meeting 14 Dec – Fed FOMC rate decision 15 Dec – BOE interest rate decision 20 Dec – PBoC meeting Dec – ANC National Elective Conference

**Indicative*

Source: Media reports, Bloomberg

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
Q4:21	1.17	1.35	0.92	1.37	15.44	17.7	20.8	16.8	11.2
Q1:22F	1.14	1.30	0.95	1.38	15.50	17.7	20.2	16.3	11.2
Q2:22F	1.14	1.30	0.95	1.40	15.50	17.7	20.2	16.3	11.1
Q3:22F	1.15	1.30	0.95	1.40	15.80	18.2	20.5	16.6	11.3
Q4:22F	1.16	1.30	0.96	1.40	16.00	18.6	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	1.17	1.35	0.92	1.37	15.44	17.7	20.8	16.8	11.2
Q3:24F	1.14	1.30	0.95	1.38	15.50	17.7	20.2	16.3	11.2
Q4:24F	1.14	1.30	0.95	1.40	15.50	17.7	20.2	16.3	11.1

Source: Bloomberg, Nedbank CIB Markets Research

NEDBANK CIB

APPENDICES

Other SA charts

Chart 44: SACCI Consumer Confidence Index (monthly)

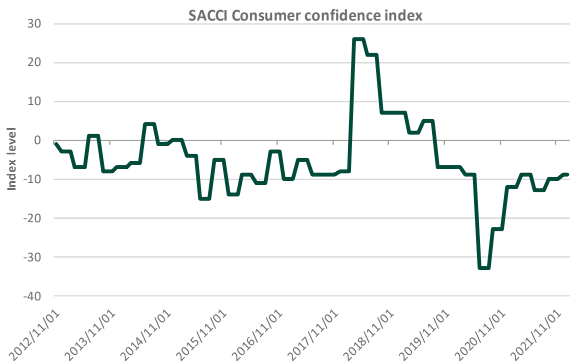


Chart 45: BER Manufacturing PMI (monthly)

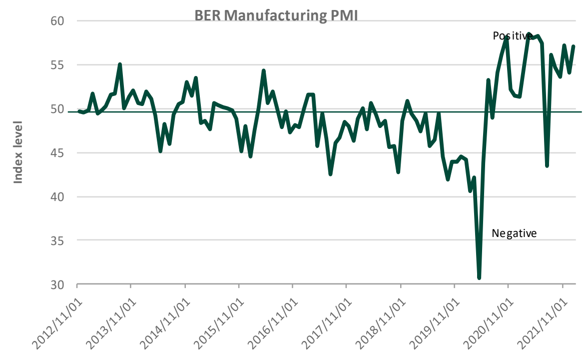


Chart 46: SA CPI yoy percentage (monthly)

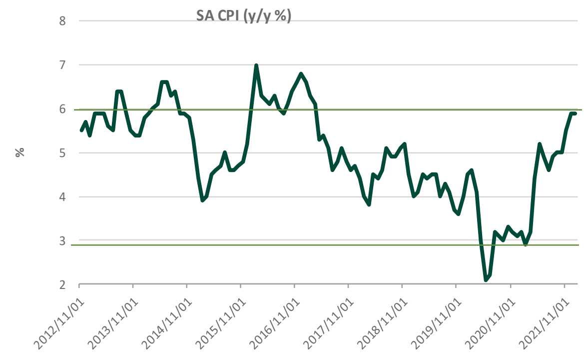


Chart 47: SA repo rate (monthly)

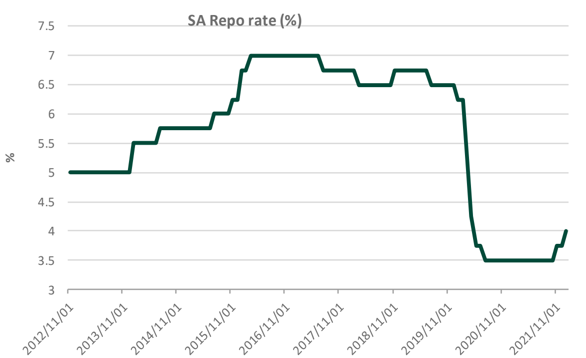


Chart 48: SA 10yr generic bond yield (monthly)

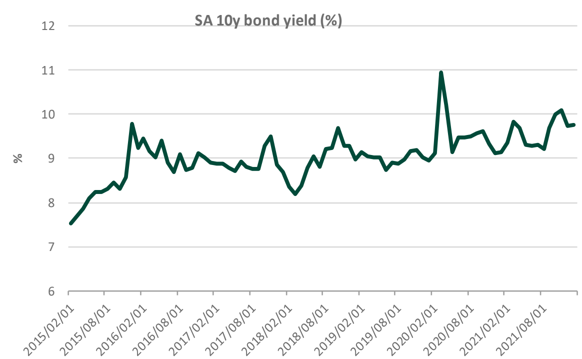
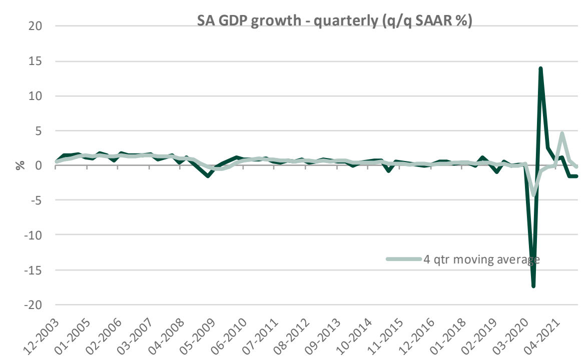


Chart 49: SA GDP growth q/q % SAAR (quarterly)



Source: Bloomberg, Nedbank CIB Markets Research

NEDBANK CIB