SOUTH AFRICA 2021 AND BEYOND

CYCLICAL VS SECULAR OPTIMISM

MARKETS360™
Strategy & Economics
Q3 2021

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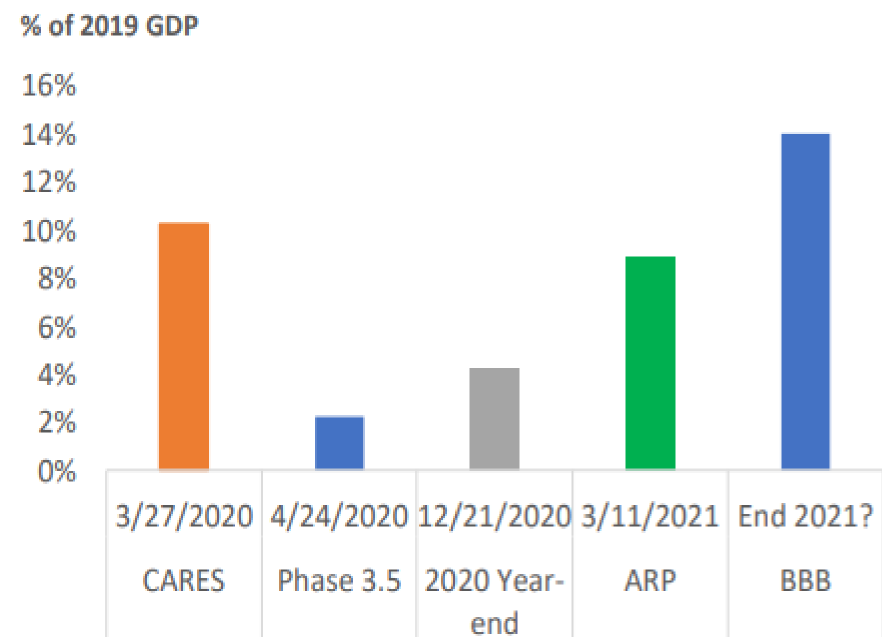
Please refer to important information at the end of this report

BNP PARIBAS

The bank for a changing world

Global – a 'Goldilocks' period for growth and activity

Unprecedented fiscal response to the Covid pandemic & beyond



The US Federal government has provided fiscal relief of 25% of GDP since the pandemic began, more in one year than all of WWII – more is coming too!

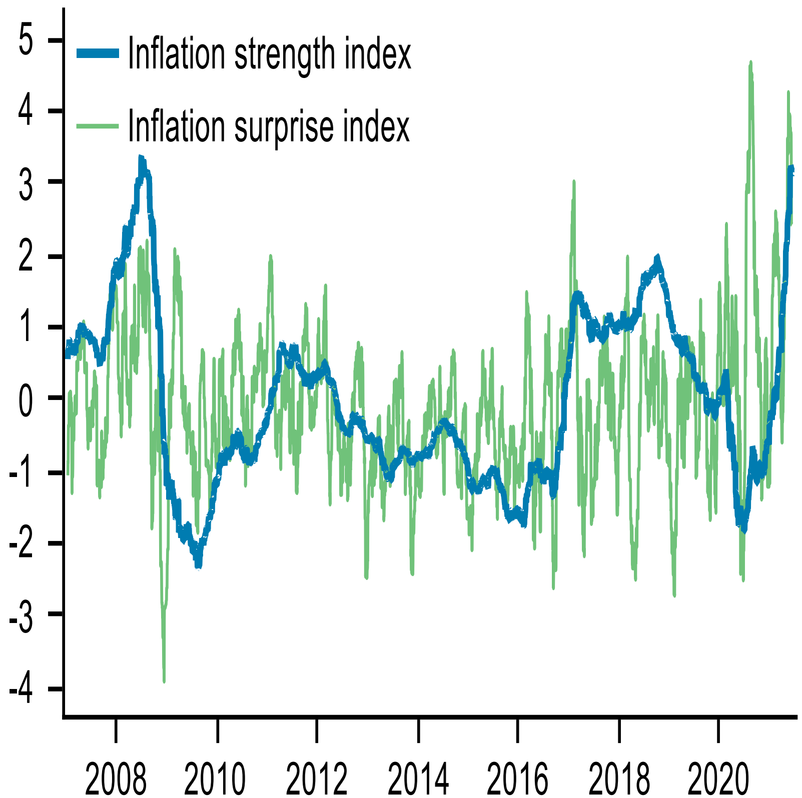
	Annual growth (% y/y)		
	2020[1]	2021	2022
Global [2]	**−3.3**	**6.0**	**4.9**
US	−3.5	6.9	4.7
Eurozone	−6.7	4.8	5.2
Germany	−5.1	3.7	5.5
France	−8.0	6.0	4.6
Italy	−8.9	5.2	4.5
Spain	−10.8	6.0	6.3
China	2.3	8.7	5.3
Japan	−4.7	2.2	3.3
UK	−9.8	7.8	5.6
EM aggregate [3]	−4.7	5.6	5.2
Latam	−6.4	5.8	2.8
Argentina	−9.9	6.0	2.0
Brazil	−4.1	5.5	3.0
Chile	−5.8	7.5	3.0
Colombia	−6.8	6.5	3.0
Mexico	−8.2	5.5	2.7
CEEMEA	−3.0	4.6	3.7
Czech Republic	−5.5	4.2	4.9
Egypt	1.5	4.6	5.6
Hungary	−5.2	7.5	4.5
Poland	−2.7	5.3	5.4
Romania	−3.7	8.2	4.7
Russia	−4.5	4.5	3.0
Saudi Arabia	−4.1	2.3	4.5
South Africa	−7.0	4.7	2.1
Turkey	1.8	7.0	3.5
EM Asia [4]	−5.3	6.3	7.3
India [5]	−7.2	8.4	9.4
Indonesia	−2.1	3.8	5.3
Malaysia	−5.7	4.4	6.3
South Korea	−1.0	4.2	3.0
Thailand	−6.2	2.0	4.3

Unprecedented policy support is likely to supercharge growth in parts of the globe

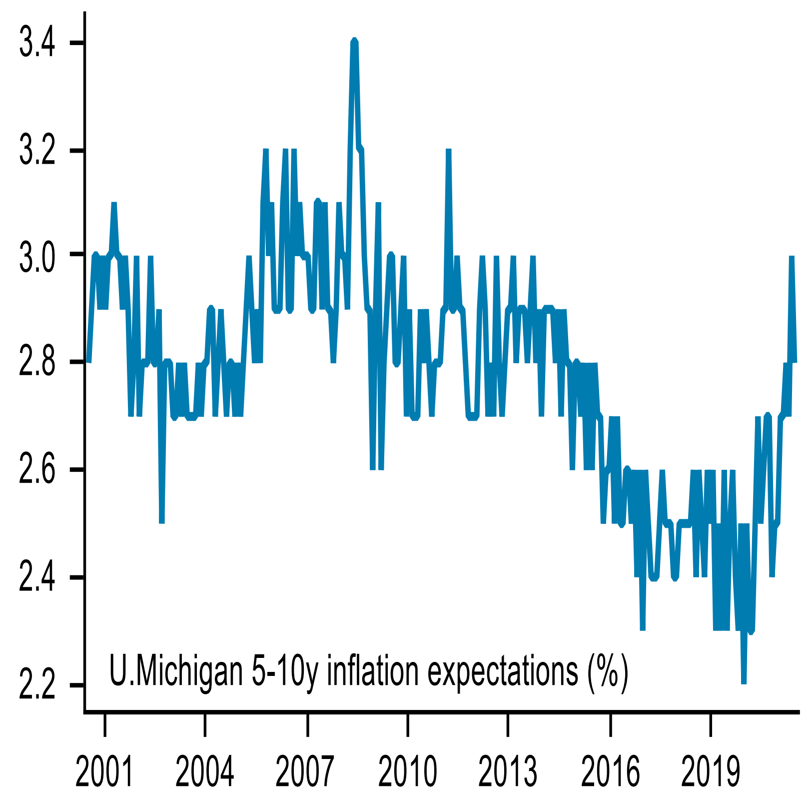
Sources: BEA, Macrobond, BNPP Markets 360

Global – inflation pressures are building

DM and EM inflation upside surprises at their highest since 2008



US inflation expectations have climbed rapidly

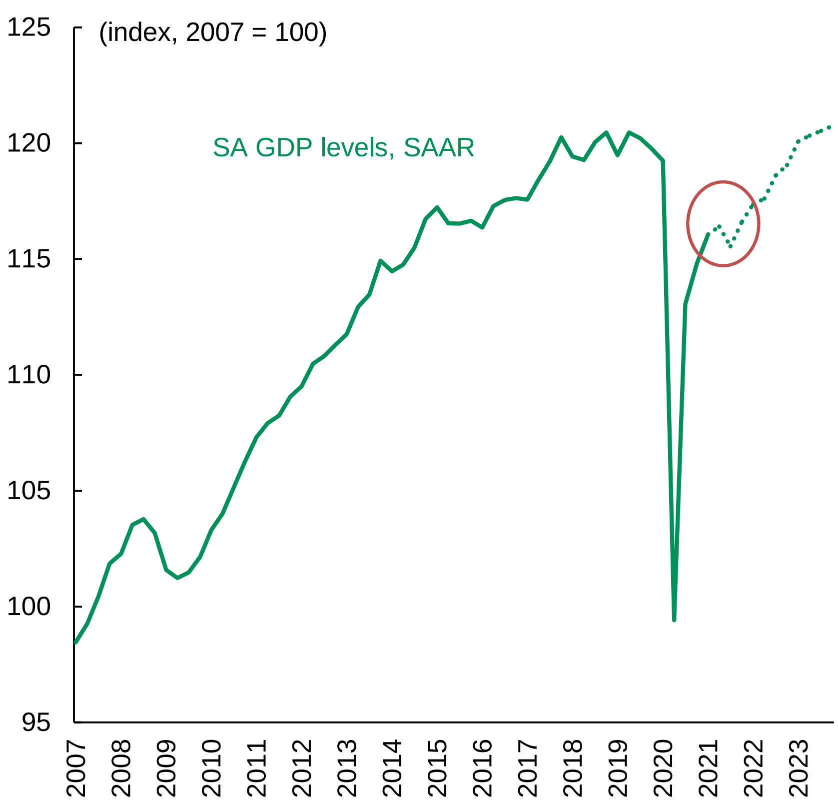


Sources: Macrobond, Bloomberg, BNP Paribas Markets 360

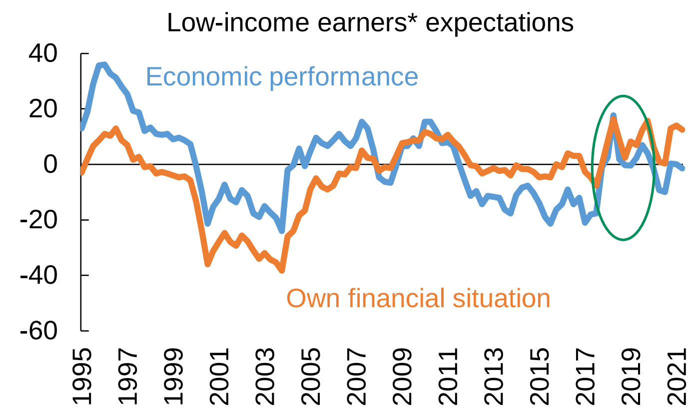
The global reflation theme continues to drive expectations

South African growth – counting the costs of recent protest action

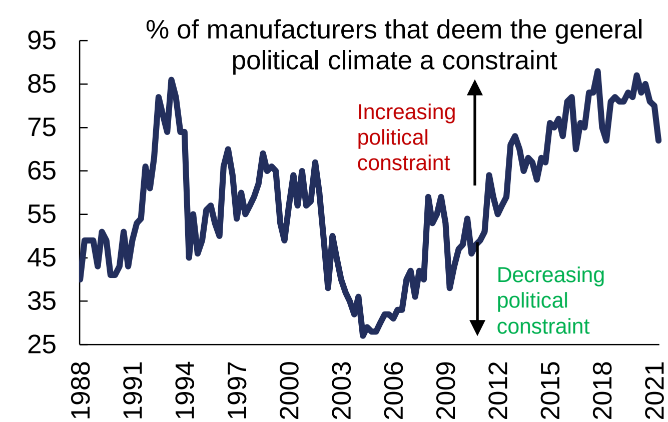
Q3 GDP could slip by as much as 2.9% q/q saar, we estimate



Expectations meet the 'poor' reality



Medium-term impact on confidence the most damaging

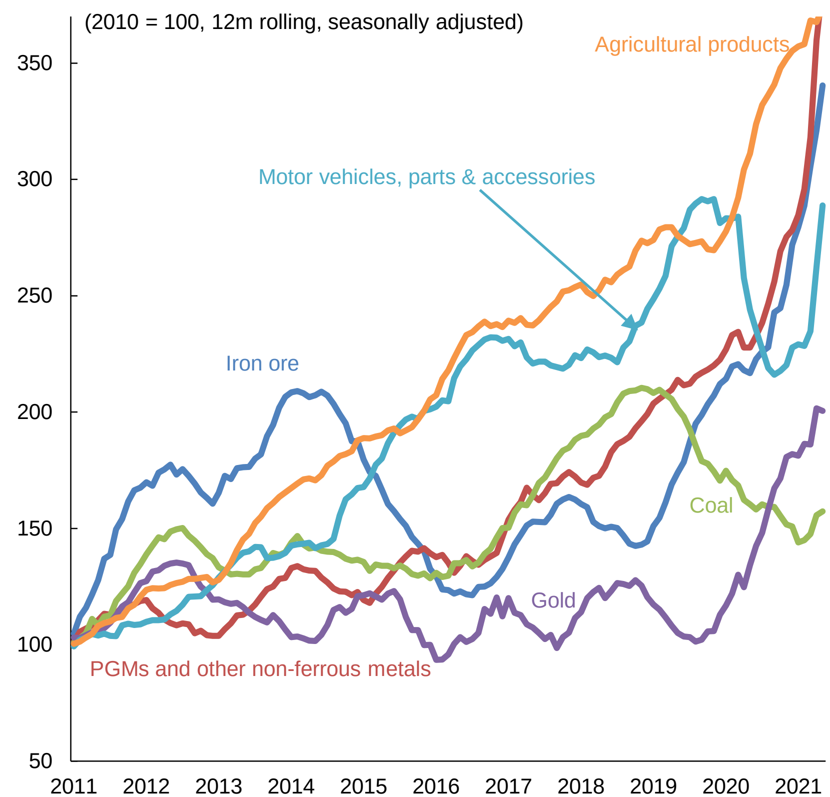


Sources: Stats SA, BER, BNP Paribas South Africa

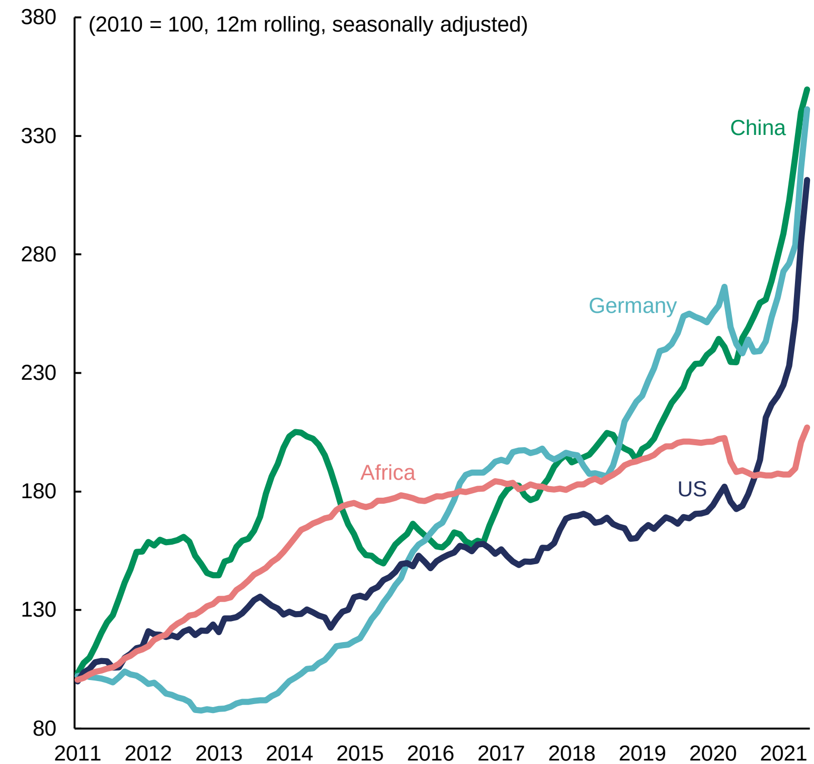
SAPOA and SASRIA indicate as much as a ZAR 50bn (1pp of GDP) hit to 2021 GDP as a result of recent riots

South African growth – external tailwinds pick up speed

The commodity price rally has legs…



Record export receipts from SA's key trading partners



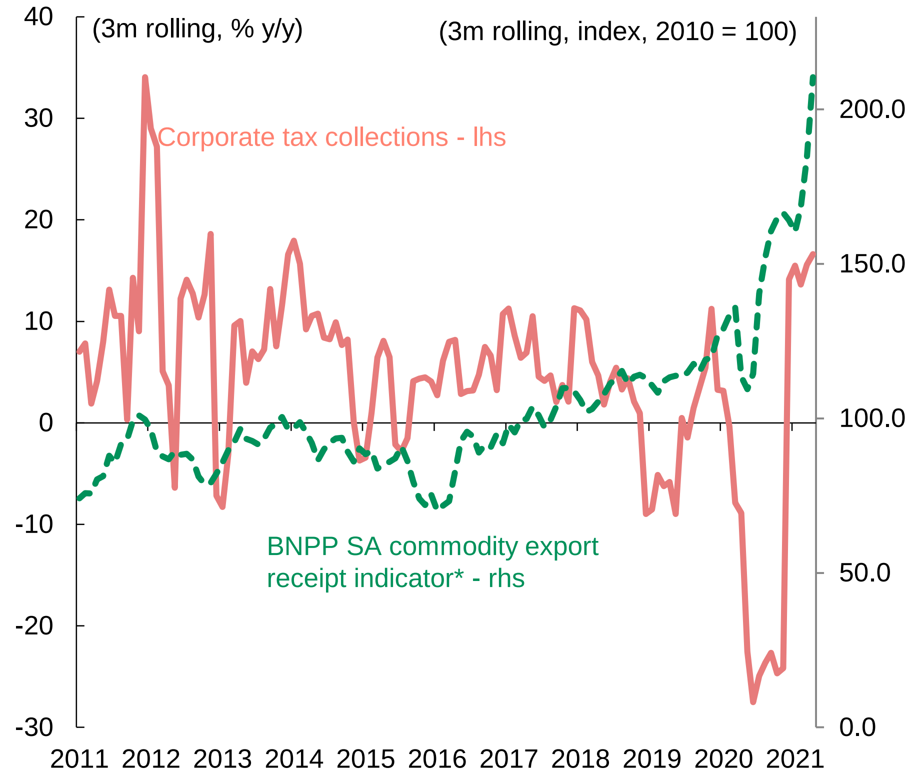
Sources: Stats SA, Global Insight, SARS, BNP Paribas South Africa

Strong terms of trade likely to be the driving force behind SA's post-Covid recovery

A 2-speed recovery – supply side benefitting the most right now

Mining & manufacturing back to pre-pandemic levels

Corporate revenues continue to benefit off commodity boom

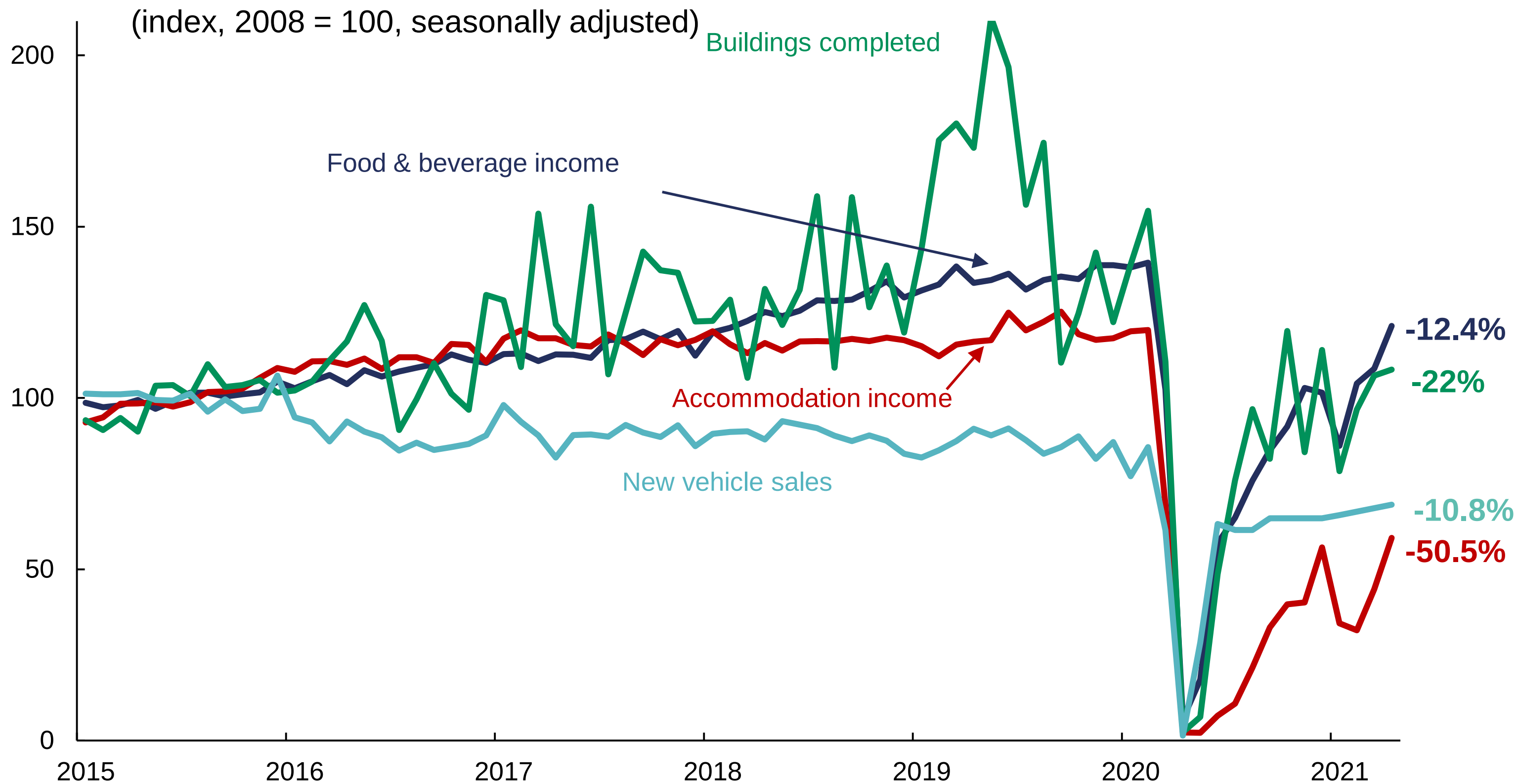


Sources: Stats SA, BNP Paribas South Africa calculations

Global commodity price rally has had strong multipliers into the supply side of the economy and tax revenues

Many sectors are still struggling – concentrated in the demand side

A number of demand-facing sectors are still showing activity far below pre-Covid levels

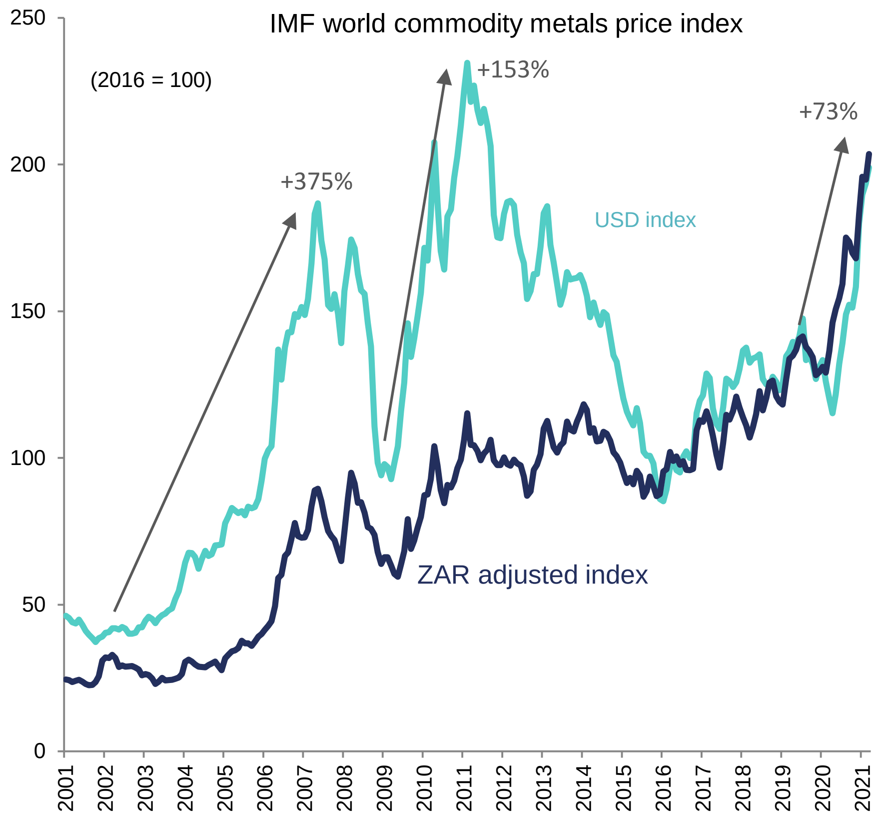


Sources: Stats SA, NAAMSA, BNP Paribas South Africa

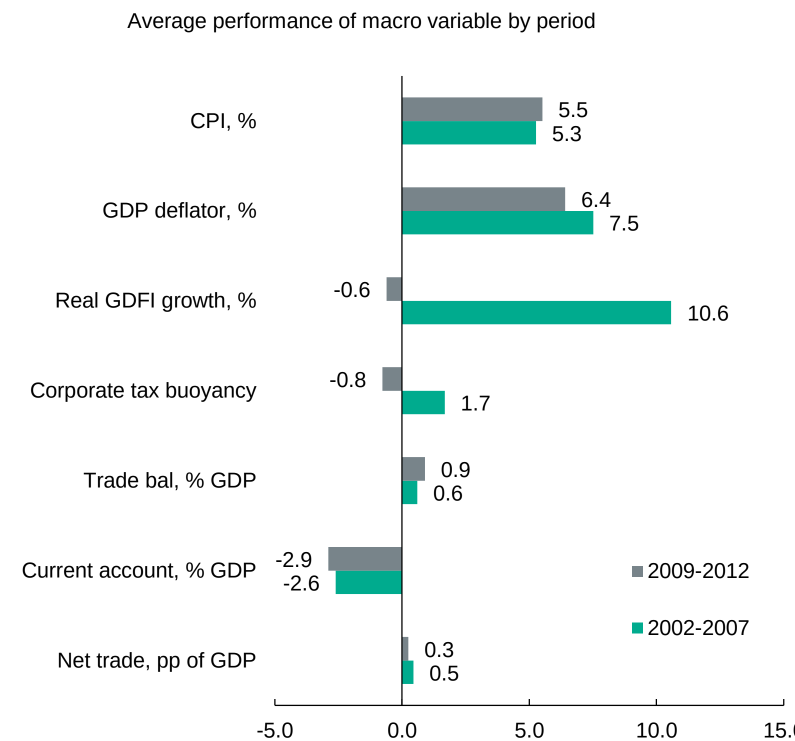
Tourism, leisure and parts of the construction sector are still struggling with depressed activity levels

What can prior commodity upcycles tell us?

Global metal prices gain in 2021 fits similar mould to 00's



Comparing commodity upcycles' macro performance



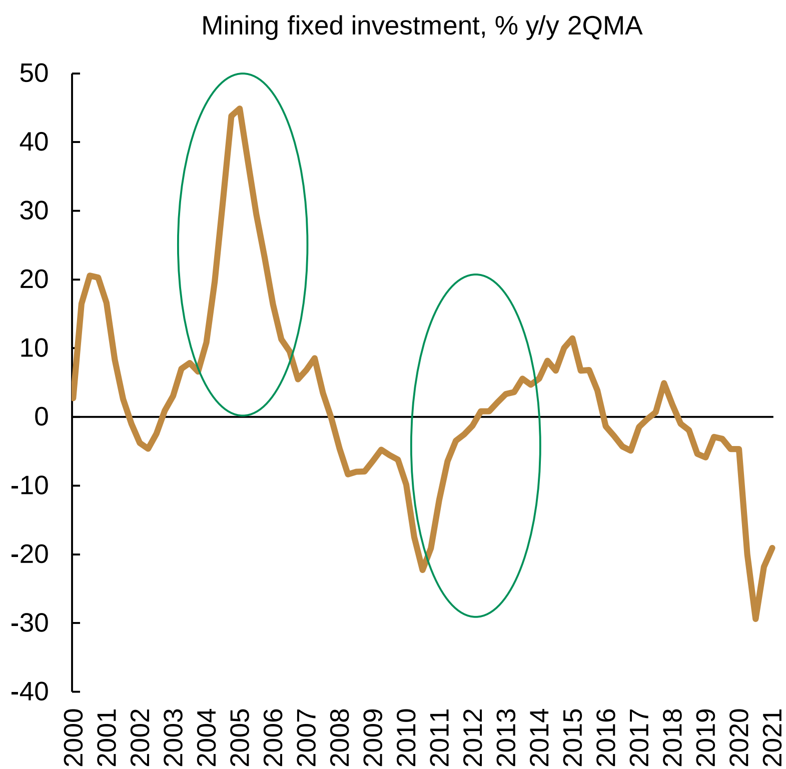
Sources: IMF, Bloomberg, BNP Paribas South Africa calculations

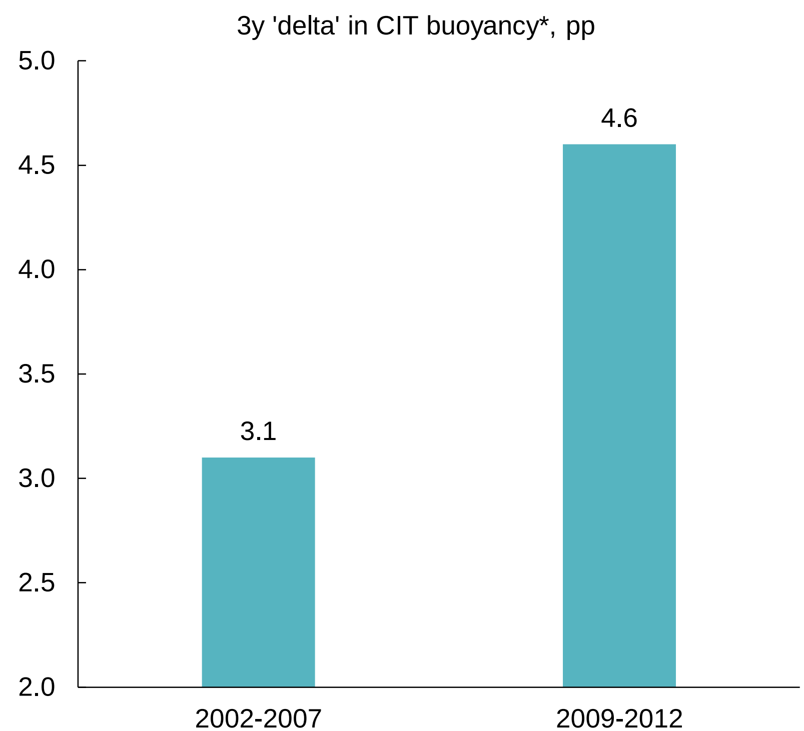
Strong multipliers of higher commodity prices into the BoP, but also in CIT and eventually fixed investment

Dividends for fixed investment and corporate tax buoyancy

Sustained high commodity prices does generally translate into higher investment

Corporate tax revenues reveal strong buoyancy gains in commodity upcycles



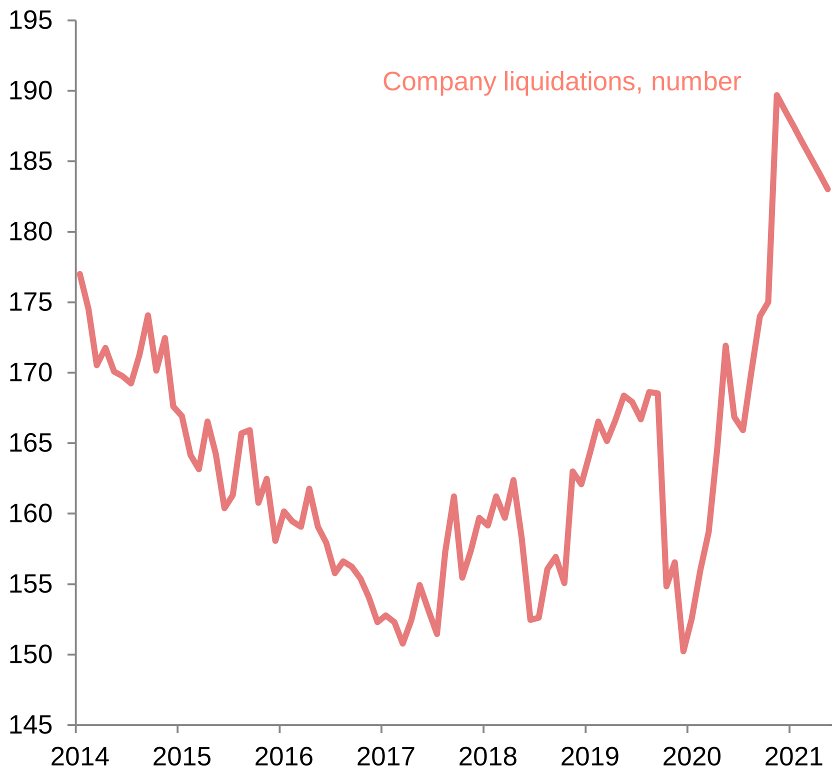


Sources: Stats SA, BNP Paribas South Africa calculations

The virtuous cycle of sustained higher commodity prices into the broad economy shouldn't be underestimated

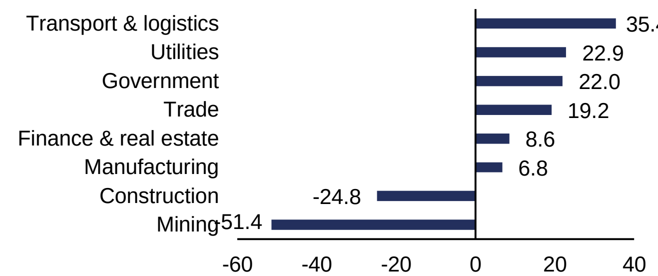
Domestic risks remain – business and consumers still feeling the pinch

Company liquidations look to have peaked, but remain very elevated

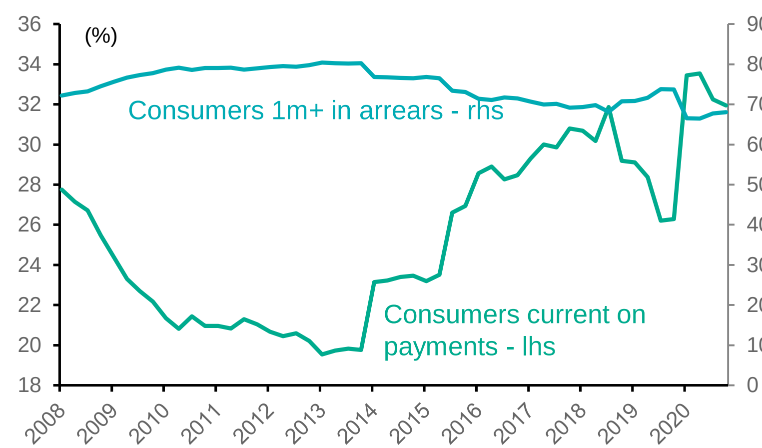


Where the pain is being felt the most

SMME liquidation stats by sector, May 2021



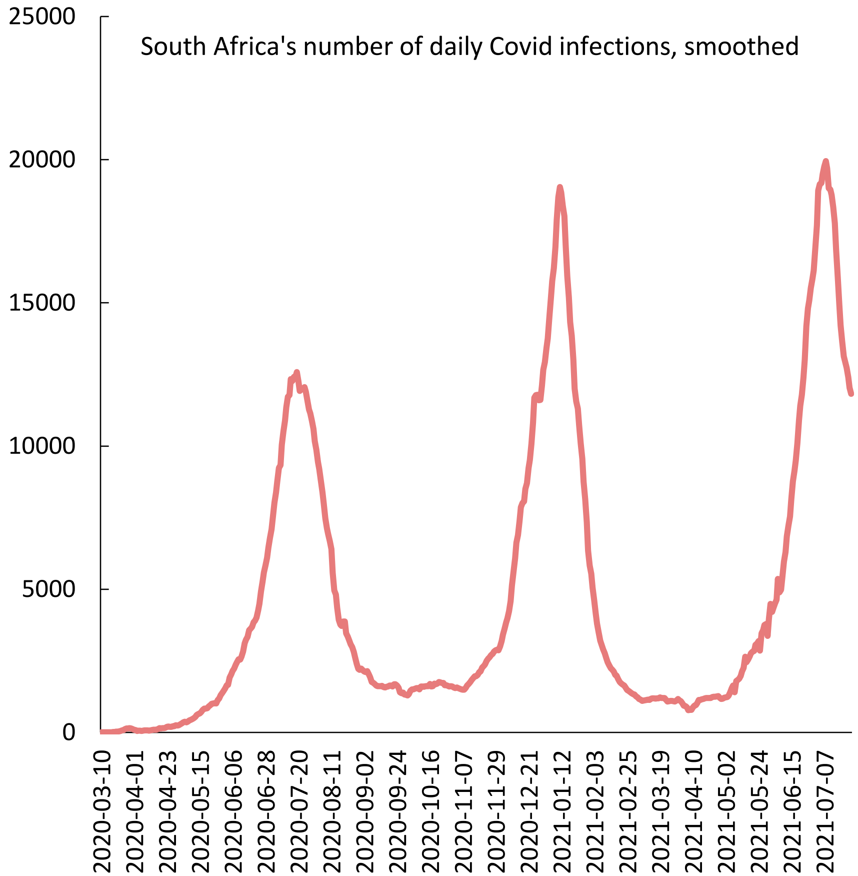
Payment holidays have helped the consumer…for now

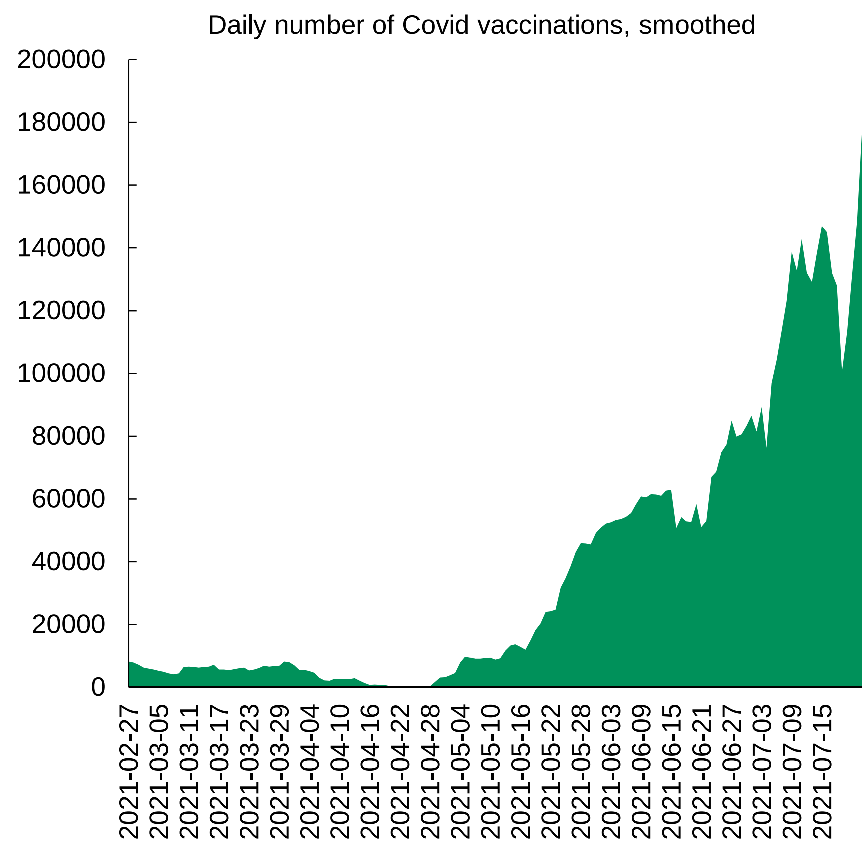


Sources: Stats SA, NCR, BNP Paribas South Africa

Trends in company liquidations are still very concerning, while extent of consumer damage still to show its face

COVID-19 – keep your seatbelts fastened





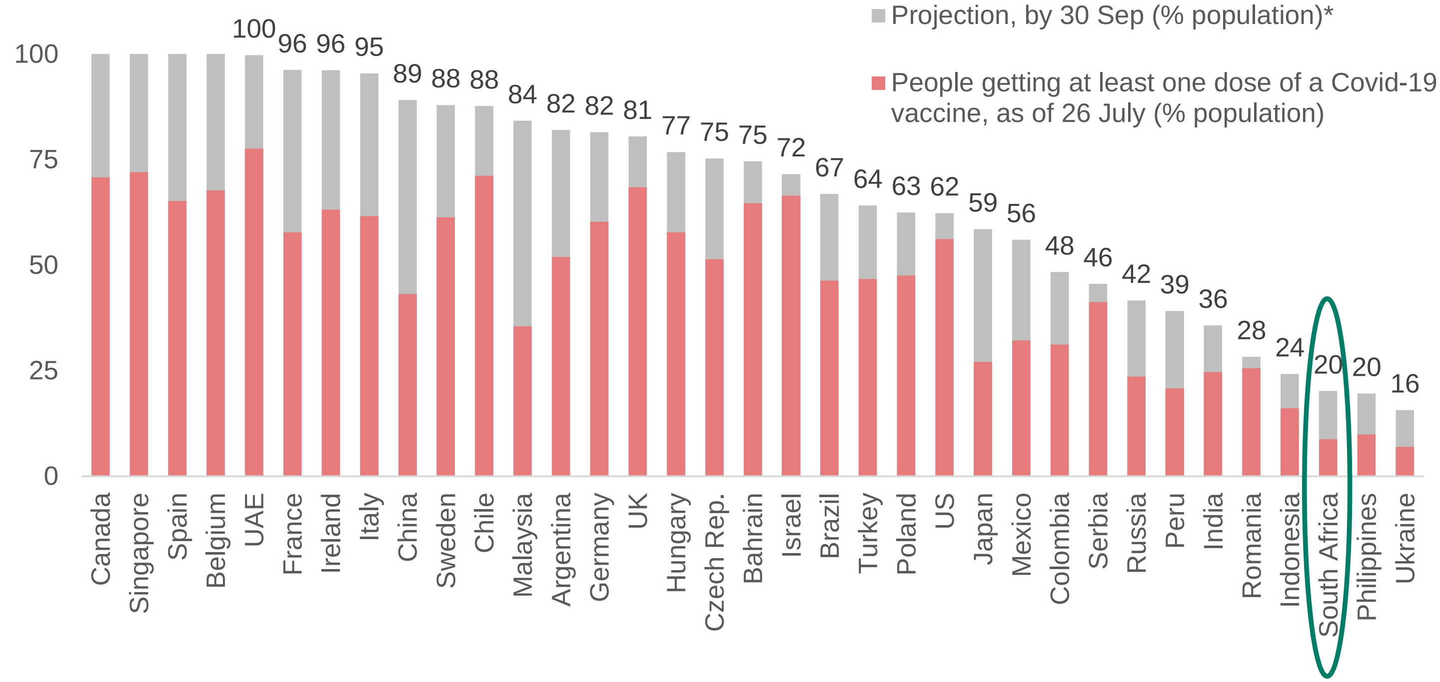
Sources: OurWorldInData.org, John Hopkins, BNP Paribas South Africa

All eyes on longevity of South Africa's '3rd wave' of infections and vaccine roll-out 'catch-up'

COVID-19 – SA still well behind in global vaccine roll-outs

The distribution of vaccine roll-outs has a very 'fat tail'

% of population vaccinated with at least one dose of a Covid-19 vaccine, plus projections by Sep-2021



*if vaccination pace, as of 26 July 2021 (7-day avg) or latest, is maintained.

Sources: OurWorldinData, BNP Paribas EM Markets 360 team estimates

SA has fallen far behind its peers in a vaccine roll-out, supply issues in H1 also haven't helped matters but have eased considerably in H2

Inflation – price momentum picks up, but not uniformly

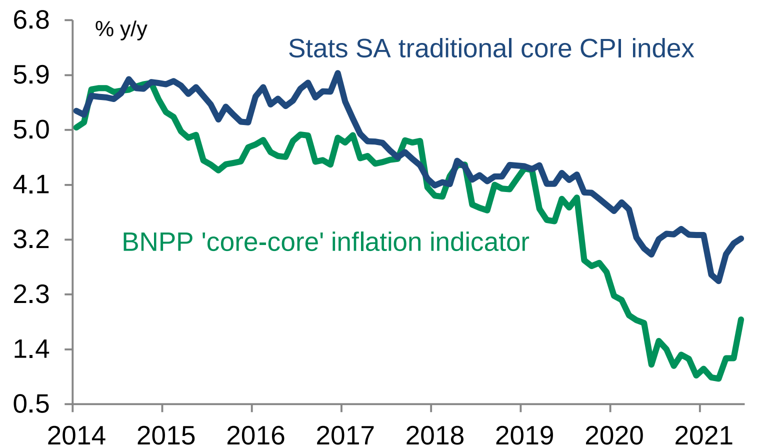
Current upside price momentum concentrated in food and non-core goods inflation

Sources: Stats SA, BNP Paribas South Africa calculations

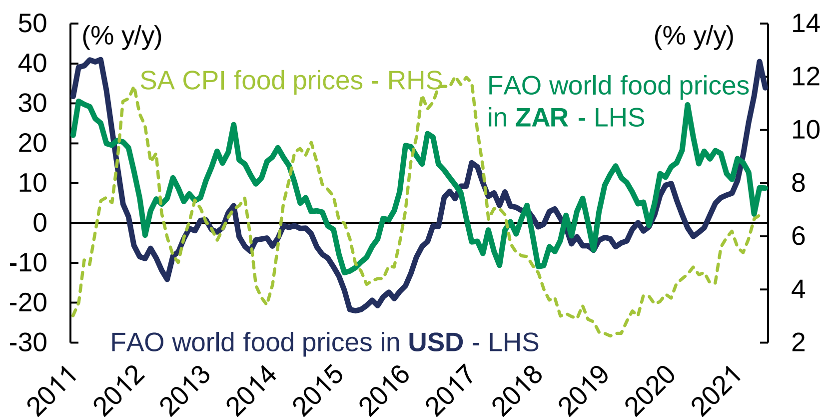
Services inflation (>50% of the price basket) is tracking <3.0% matters for how we should assess price pressures

Upside risks to inflation are rising

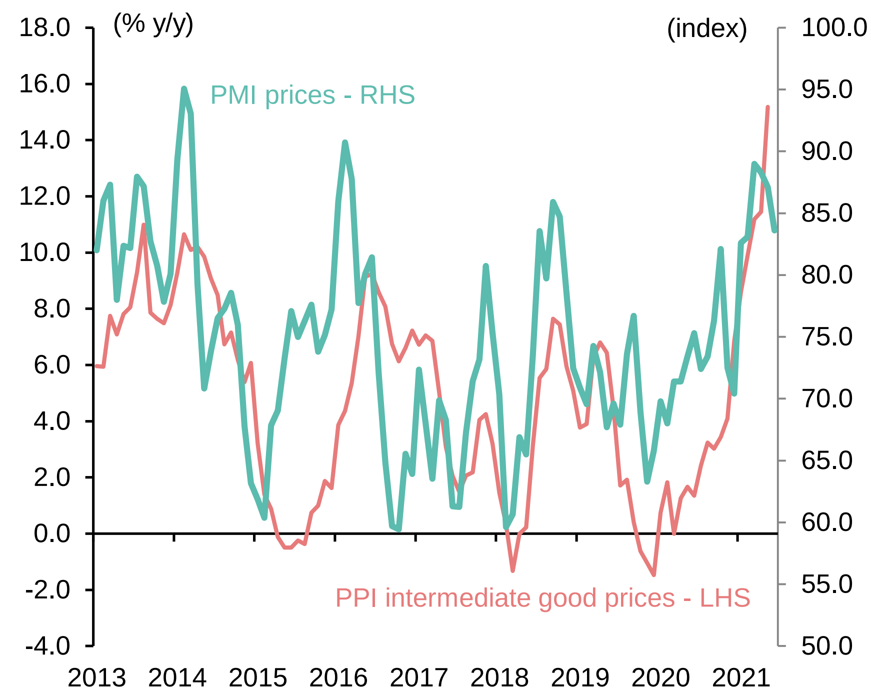
'Core-core' CPI indicator shows bottoming in prices



SA has yet to see the peak in food prices



PPI intermediate prices have spiked and suggest some near-term pressure on durable and semi-durable goods

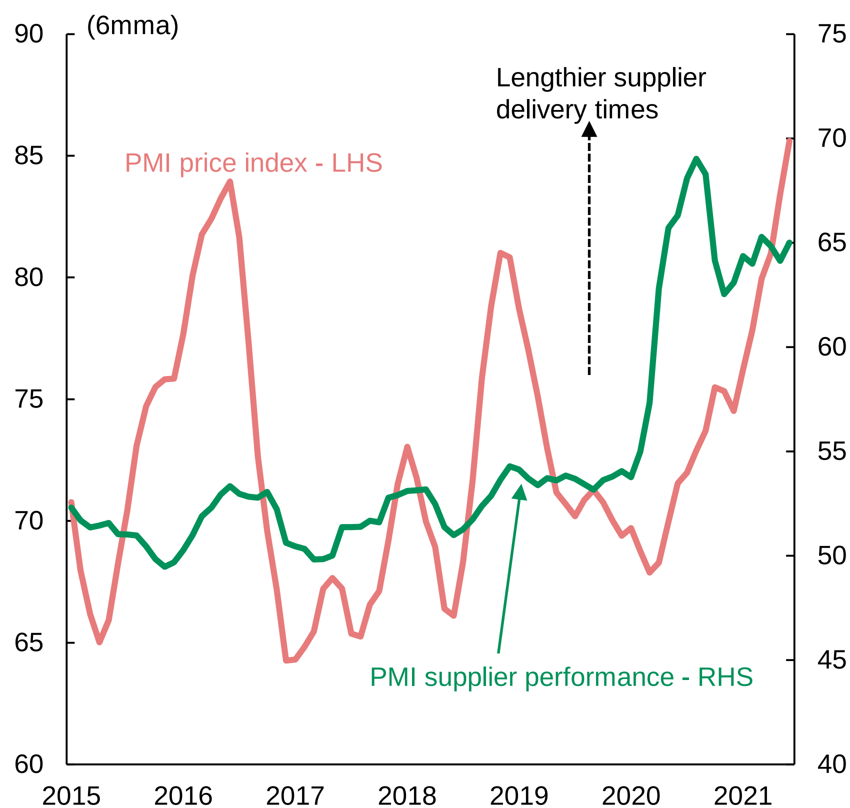


Sources: Stats SA, BER, BNP Paribas South Africa calculations

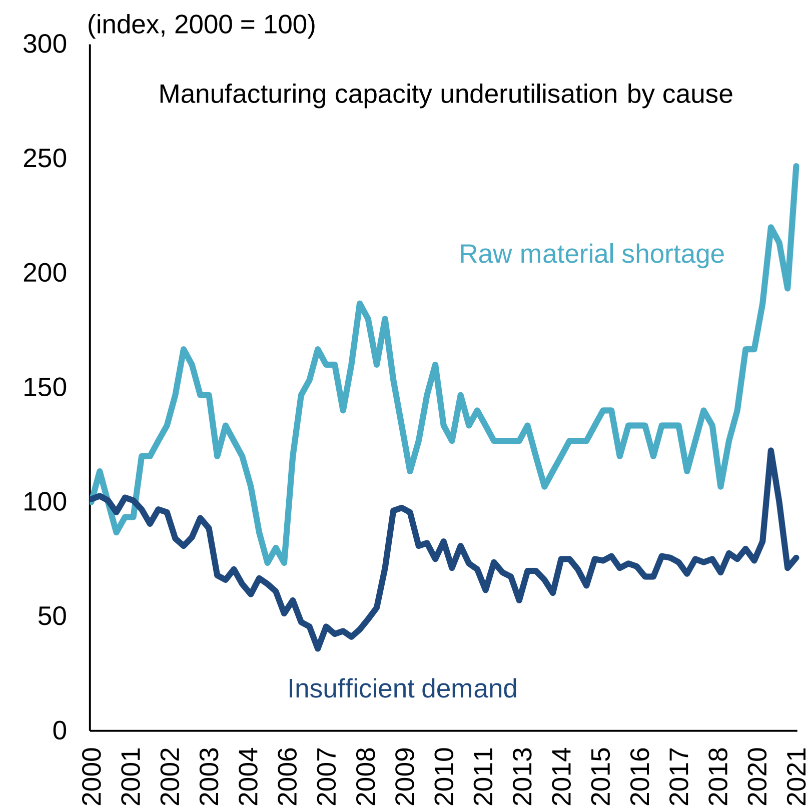
Short-term upside inflation risks are getting larger as supply-side constraints persist for longer

Inflation risks - rest on supply side channels rather than demand

SA supply chain difficulties persist…



…and continue to curtail capacity and supply dynamics

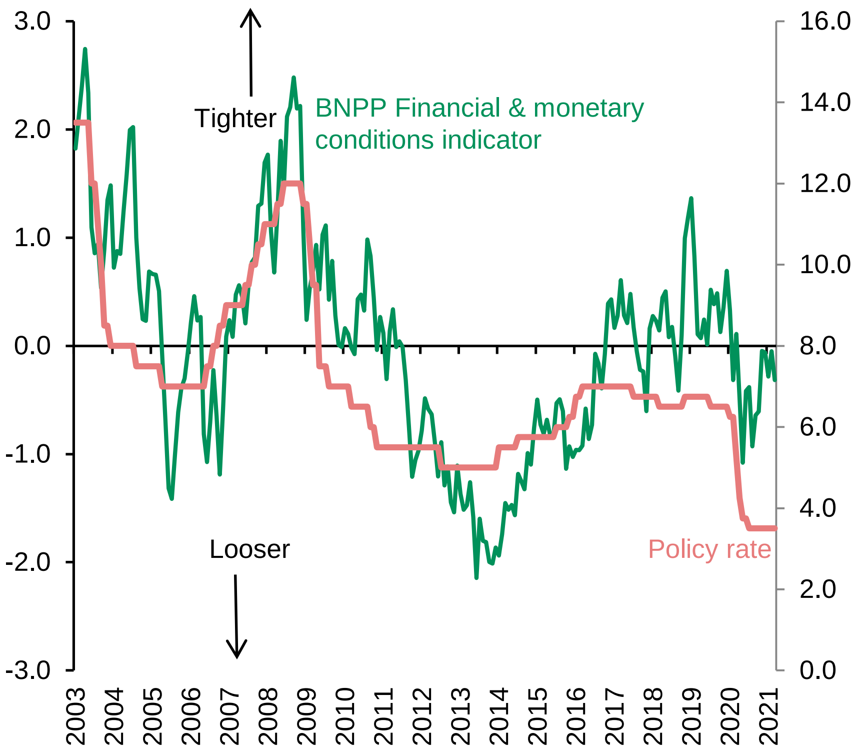


Sources: Stats SA, BER, BNP Paribas South Africa

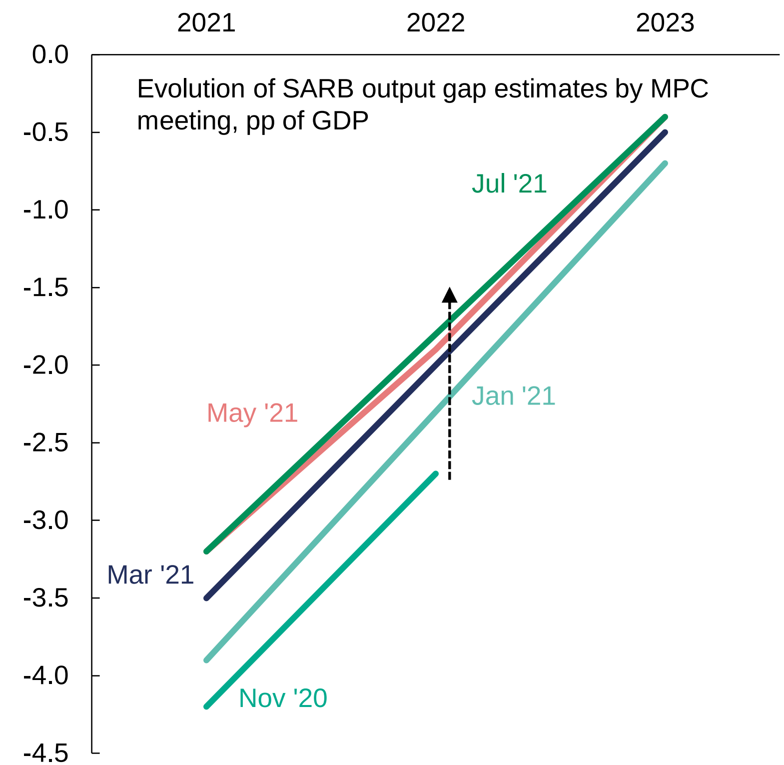
Supply side challenges means that core goods prices could rise by more and remain stickier for longer

SARB hikes likely to be teed up soon

Rates remain accommodative, but not as lax as one might expect given where policy rates are



SARB evolution of output gap estimates will be important

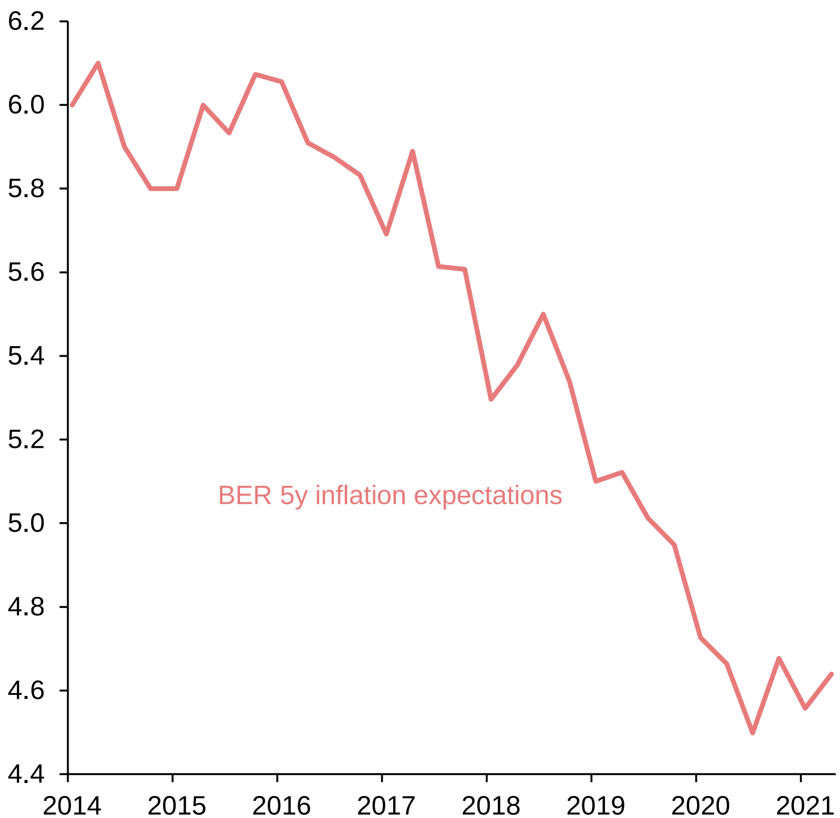


Sources: Stats SA, SARB, BNP Paribas South Africa calculations

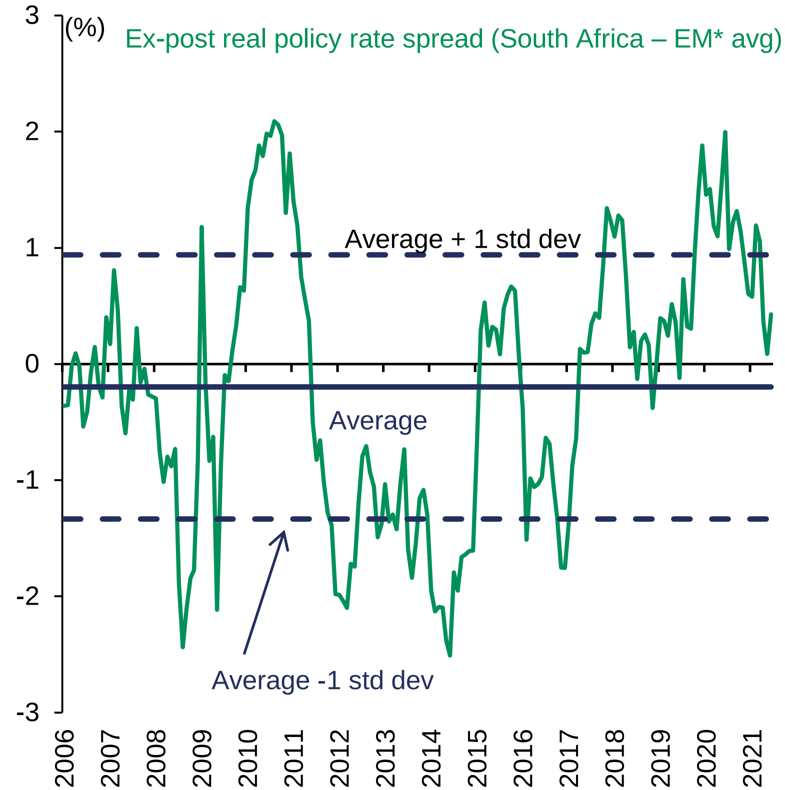
A faster closing output gap (better growth) is likely to prompt the SARB to begin hiking H2 2021

SARB will most likely want to double down on lower expectations

SARB most likely wants to see even lower medium-term inflation expectations



SA's real policy rate spread with EM peers still supportive



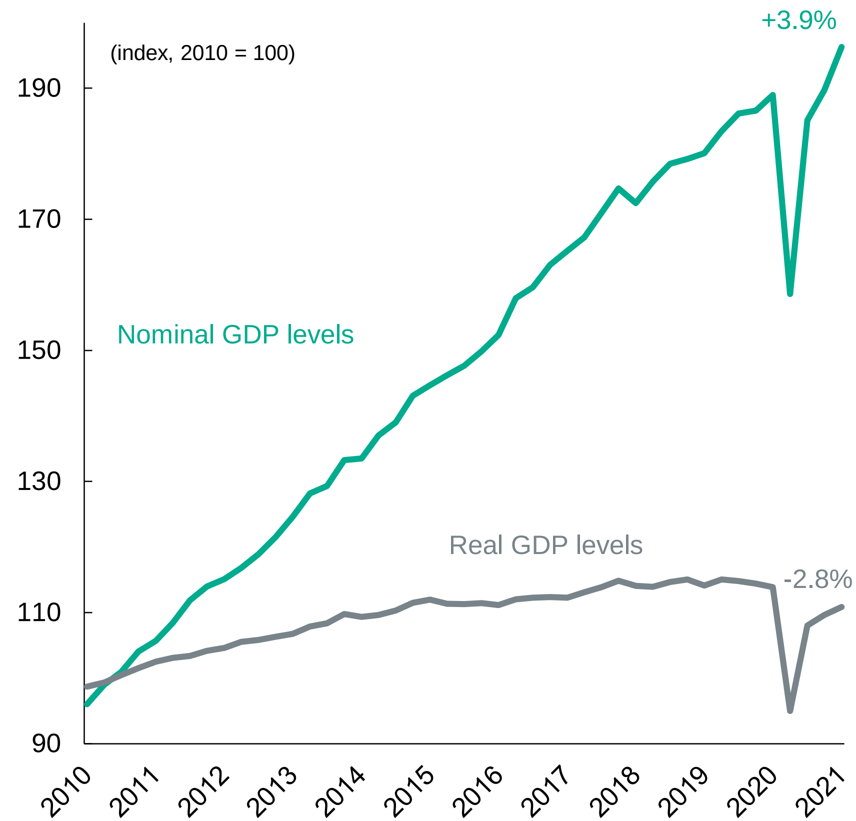
**EM real policy rate average calculated using Brazil, Mexico, Russia, Turkey, Poland, Hungary, Colombia, India, Indonesia and South Africa*

Sources: BER, Bloomberg, BNP Paribas South Africa calculations

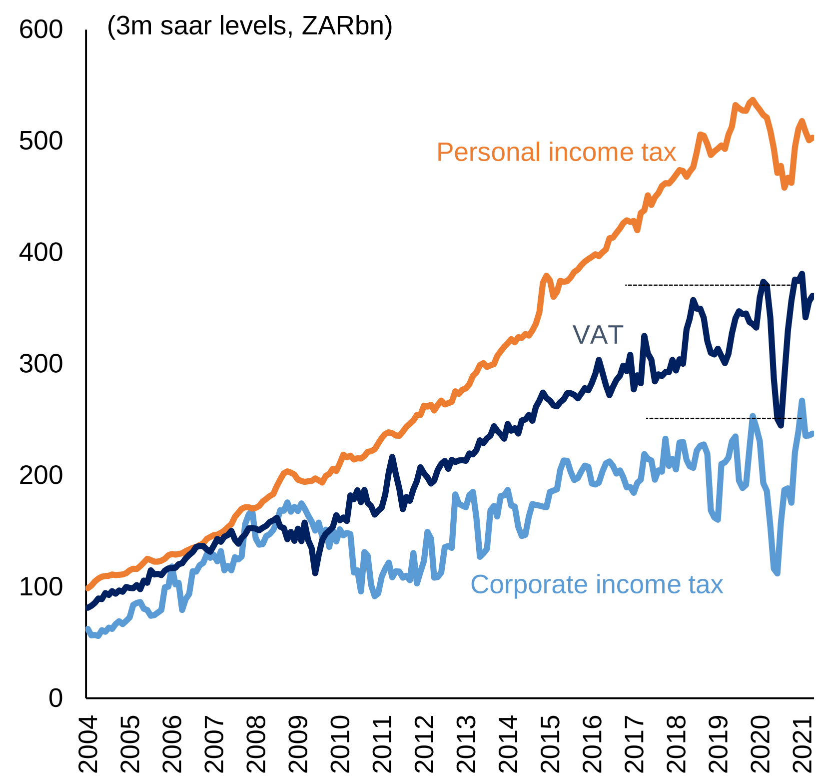
A potential lowering of the CPI target range in 2022 could already play into SARB thinking, we believe

Fiscal - the biggest risk (and opportunity) for the state

Nominal GDP levels are already above pre-pandemic levels…



…which bodes well for corporate and VAT revenue receipts



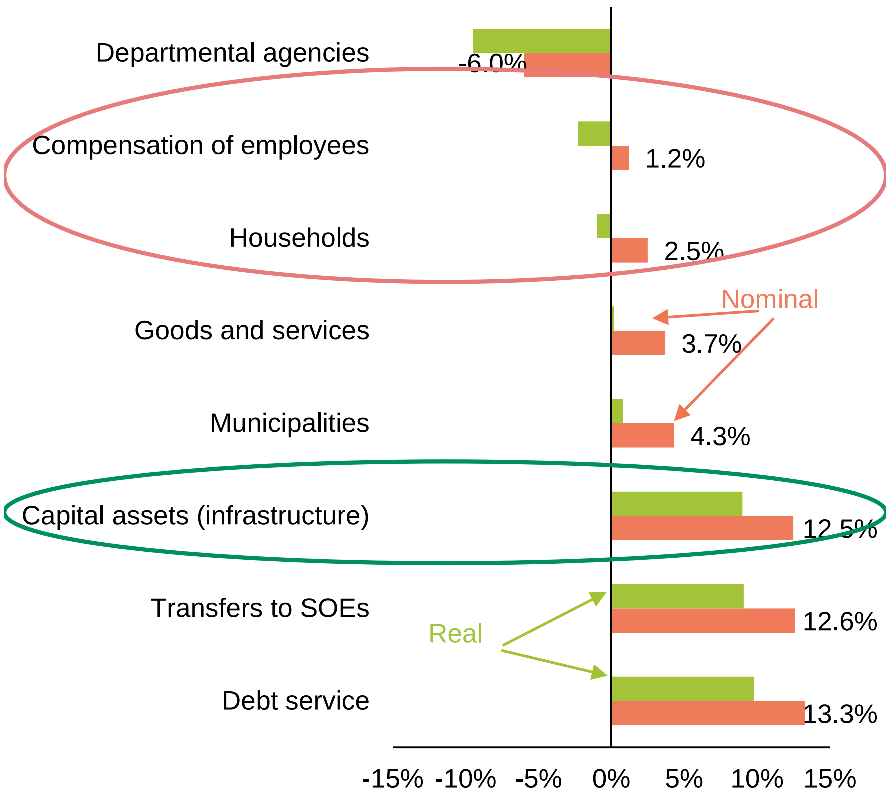
CIT and VAT collections already back to pre-pandemic levels

Sources: National Treasury, Stats SA, BNP Paribas South Africa calculations

Fiscal - the biggest risk (and opportunity) for the state

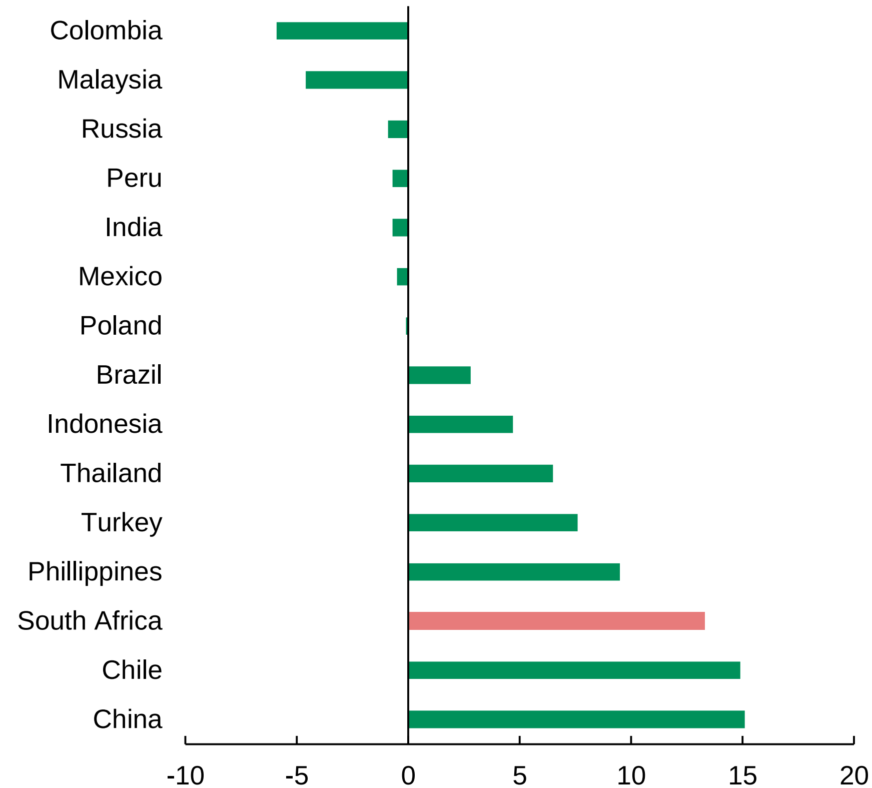
Shifting away from consumption towards investment in a local election year is risky…

Average annual spending growth by economic category, %



…but necessary given the expected large rise in the debt burden

Projected* 5y change in gross debt, % of GDP

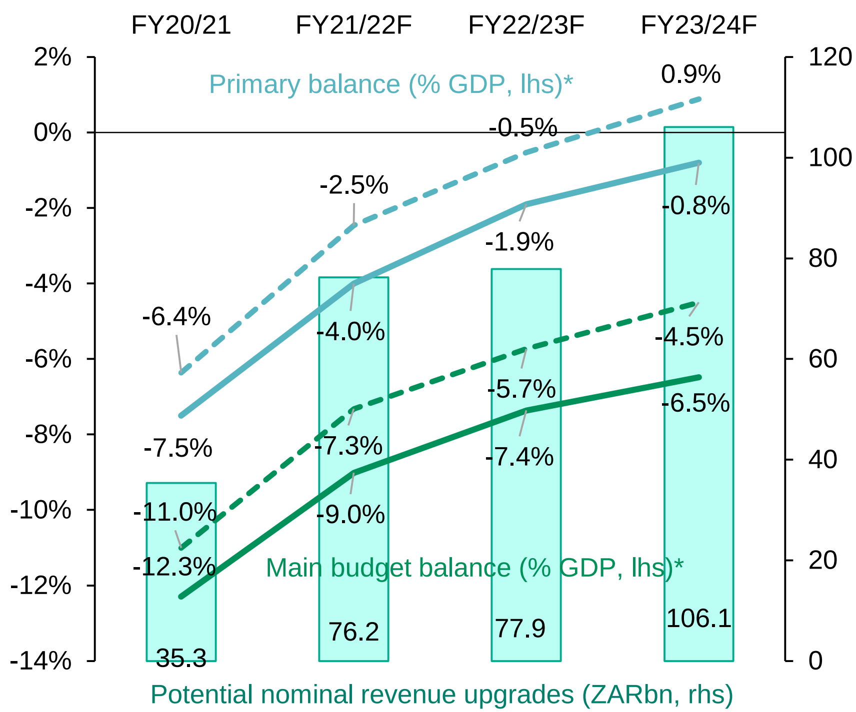


Spending restraint remains paramount, but socio-economic pressures concerns are rising fast

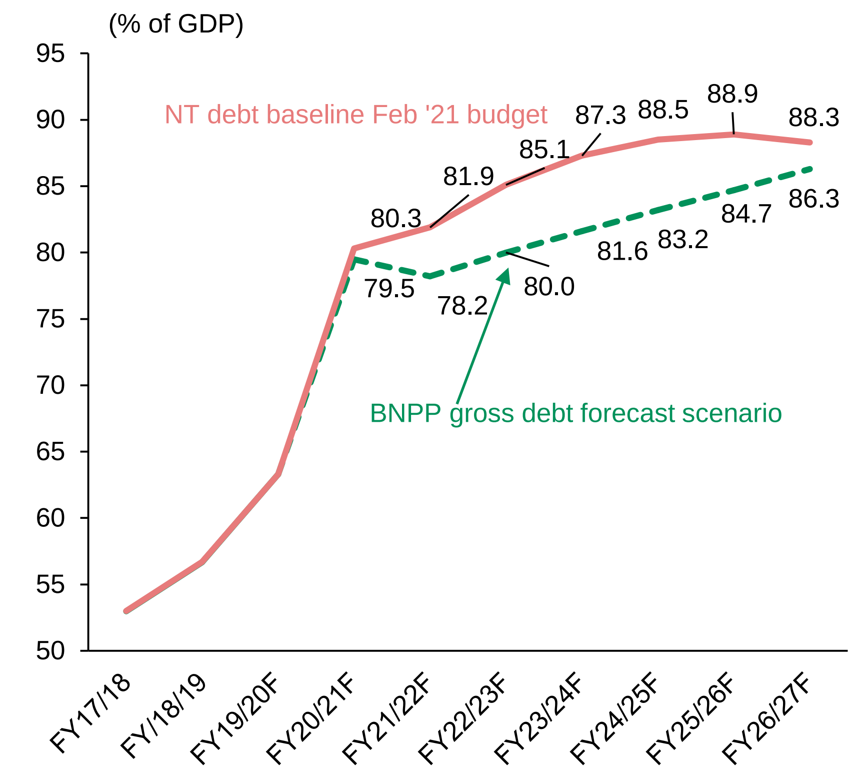
Sources: National Treasury, IMF, BNP Paribas South Africa calculations

Fiscal - the biggest and risk (and opportunity) for the state

Fiscal consolidation now looks to beat February budget estimates



…but debt will struggle to stabilise in medium-term without higher growth and employment

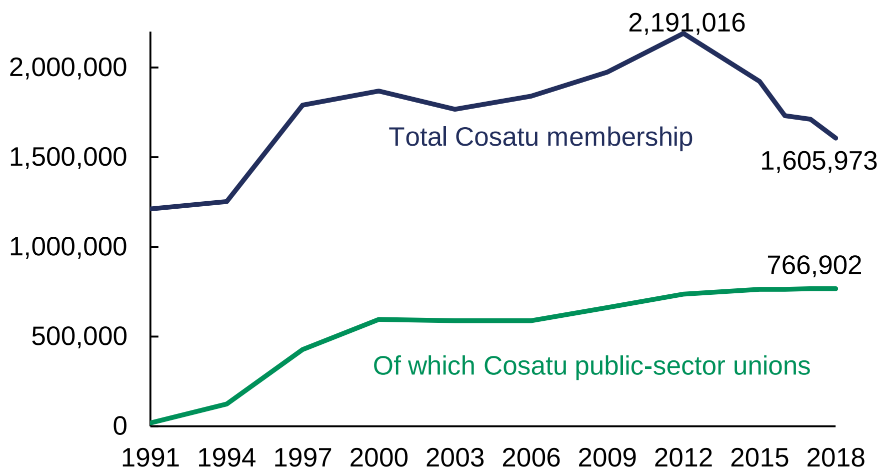


Details on how the state's revised ERRP will be funded will matter significantly for fiscal credibility – now is not the time for fiscal complacency

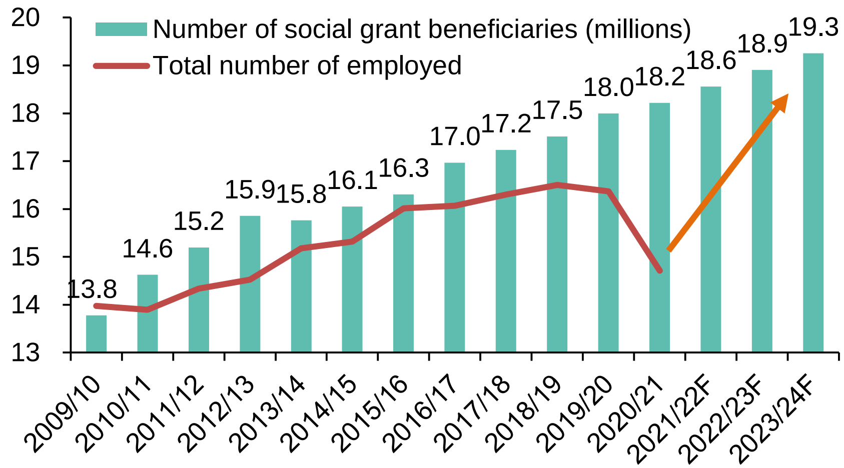
Sources: National Treasury, BNP Paribas South Africa estimates

Politics - angry unions and dented social fabric in a municipal election cycle

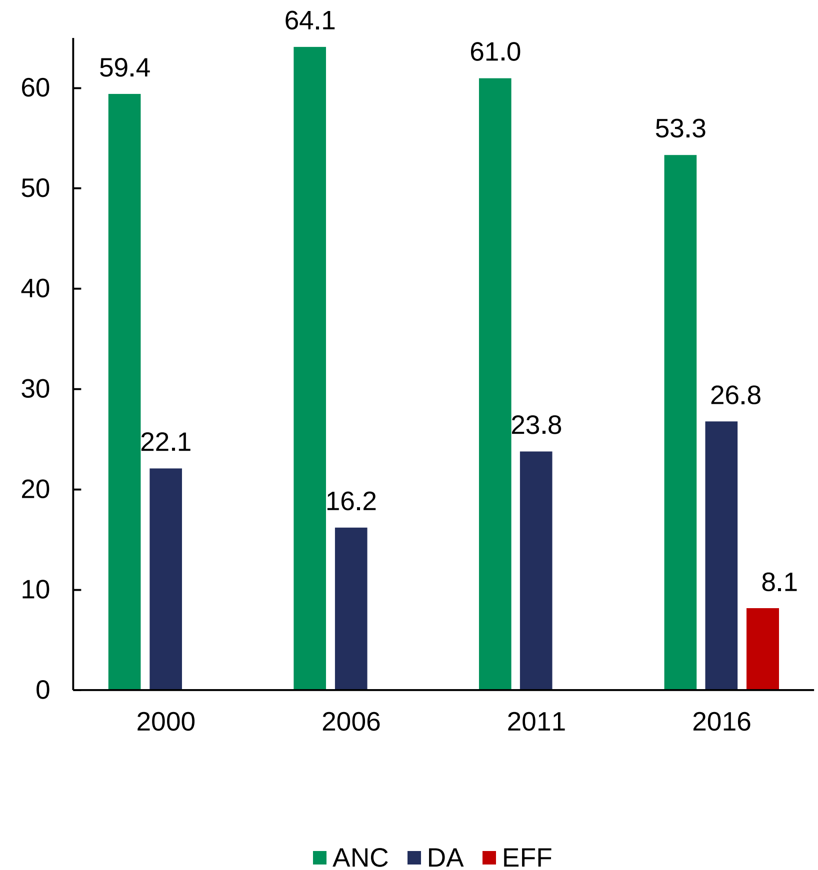
Unions remain weak



Social grants vs employment: it's a BIG deal!



ANC performance in municipal elections has been declining



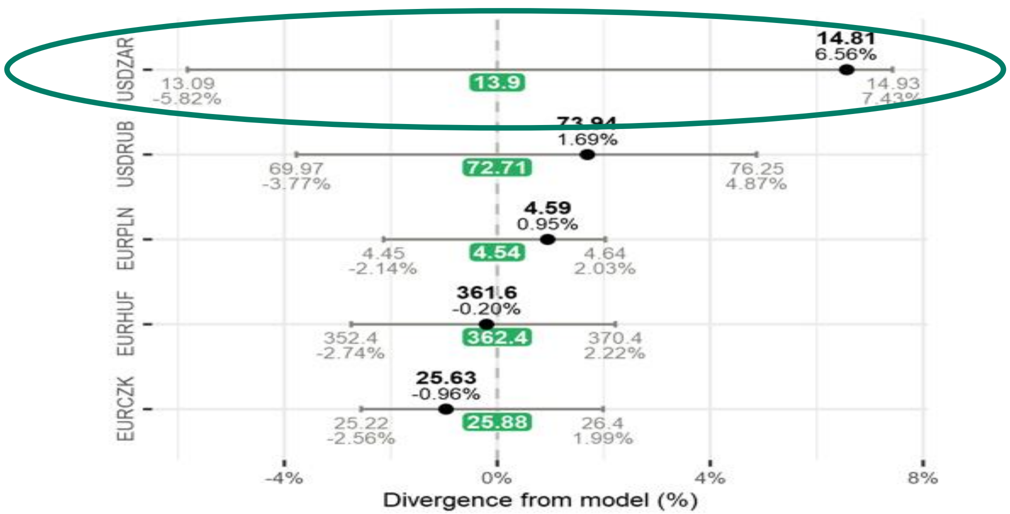
Sources: COSATU, National Treasury, IEC, BNP Paribas South Africa

ZAR assets - outperformance relative to peers set to resume

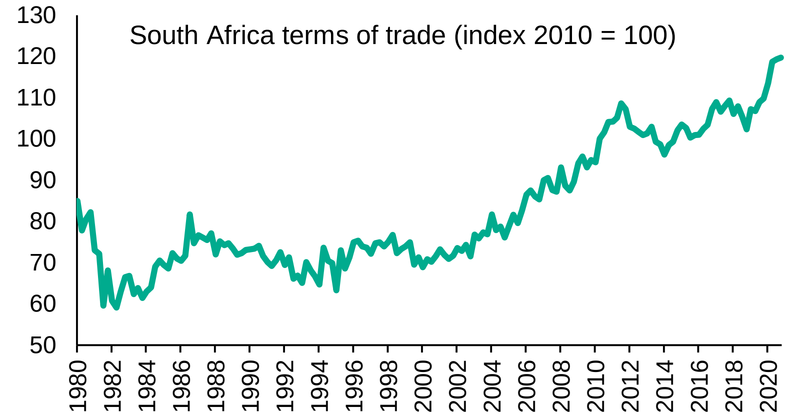
A 'Tantrum-less taper' is our base case for EM

	Public debt (% GDP)		Current account (% GDP)		Inflation (eop)		Reserves (% GDP)		Foreign owned sovereign debt (% GDP)	
	2012	2020	2012	2020	2012	2020	2012	2020	2012	2020
CEEMEA	25.4	39.0	0.9	2.5	3.0	5.8	22.9	36.4	9.6	11.9
Latam	51.1	76.0	-2.9	0.1	6.2	10.5	14.8	21.4	12.0	18.6
Asia	51.5	71.0	-2.9	-0.7	4.3	-4.7	21.1	23.4	7.9	8.3
EM	40.2	59.9	-1.6	0.4	4.3	2.5	17.8	24.6	9.3	11.6

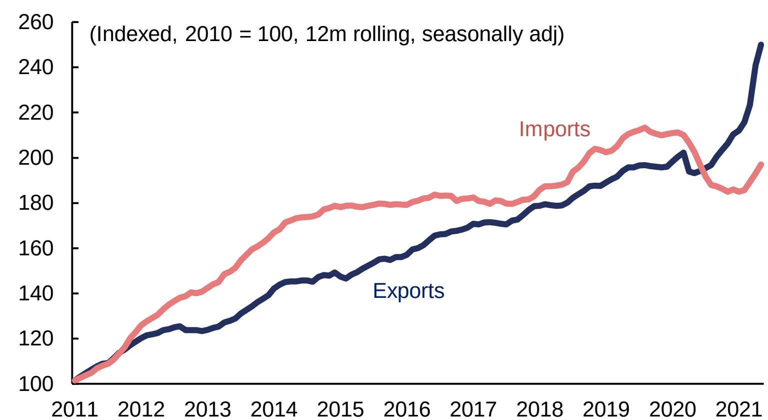
ZAR looks 'cheap' relative to our short-term fair value models



Record terms of trade is an extremely strong support for ZAR



Record exports & depressed imports drives huge trade surplus

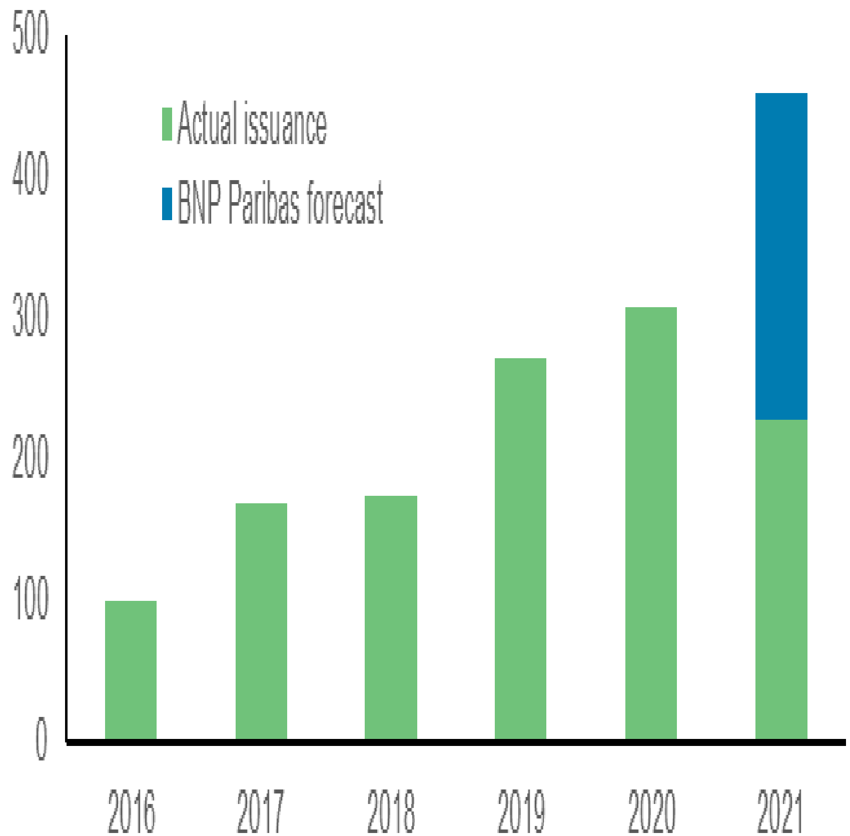


Fed tapering unlikely to be a game changer for EM FX and the ZAR, while strong commodity prices and record export activity remain very strong anchors for ZAR

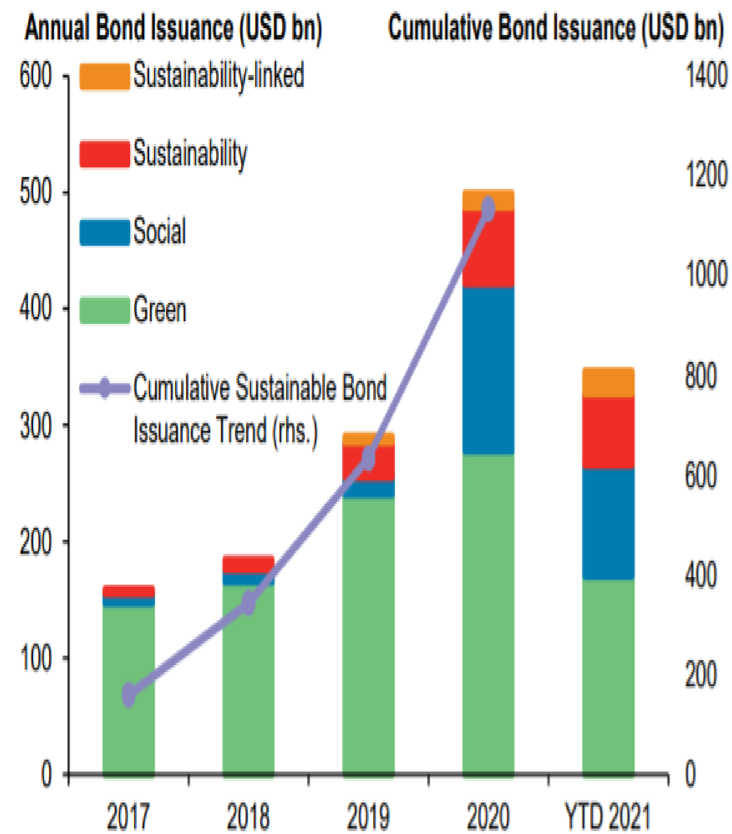
Sources: Bloomberg, SARB, SARS, BNPP EM strategy, BNP Paribas South Africa

Sustainability – more than just a 'buzz word'

Global green bond issuance alone is likely to grow to between USD430-460bn in 2021



Exponential growth in ESG investing – food for thought for SA!



Given the global asset allocation shift towards sustainability-linked assets, it makes sense to think how SA's economy and policy actions can pivot to benefit off of this shift

Sources: Bloomberg, BNP Paribas Markets 360 strategy and economics

SOUTH AFRICA KEY ECONOMIC AND FINANCIAL FORECASTS

					2019				2020				2021				2022			
	19	20	21 (1)	22 (1)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2 (1)	Q3 (1)	Q4 (1)	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Components of growth %																				
GDP	0.2	-7.0	4.4	2.1	0.0	0.9	0.1	-0.5	0.4	-17.8	-6.2	-4.2	-3.2	17.1	2.2	1.6	2.0	1.8	2.1	2.3
Private consumption	1.0	-5.5	6.1	1.5	0.5	1.5	1.3	0.9	0.9	-16.7	-3.7	-2.4	-0.9	19.4	3.9	2.2	1.7	1.4	1.4	1.6
Fixed investment	-0.9	-17.3	-1.0	1.3	-2.9	-0.5	0.9	-1.3	-5.5	-25.5	-21.6	-16.7	-13.0	8.4	1.7	-1.1	0.7	0.9	1.5	2.0
Exports	-2.3	-10.3	12.5	4.3	1.5	-0.5	-4.3	-6.1	-0.2	-28.8	-7.8	-4.2	-3.7	41.4	8.8	3.6	5.5	4.3	3.9	3.5
Imports	-0.4	-16.4	11.9	4.8	-0.2	3.3	-2.7	-2.0	-5.1	-24.9	-23.3	-12.2	-2.7	18.7	21.1	10.6	5.4	5.1	4.6	4.1

					2019				2020				2021				2022			
	19	20	21 (1)	22 (1)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2 (1)	Q3 (1)	Q4 (1)	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Inflation %																				
CPI	4.1	3.3	4.5	4.2	4.2	4.4	4.1	3.7	4.4	2.4	3.1	3.2	3.1	4.9	4.9	5.0	4.8	4.3	4.0	3.9
CPI (2)	4.0	3.1	5.1	4.0	4.5	4.5	4.1	4.0	4.1	2.2	3.0	3.1	3.2	4.9	4.9	5.1	4.7	4.3	4.0	4.0
Core CPI (2)	3.8	3.3	3.6	3.6	4.4	4.3	4.0	3.8	3.7	3.0	3.3	3.3	2.5	3.3	3.5	3.6	3.9	3.9	3.6	3.6

					2019				2020				2021				2022			
	19	20	21 (1)	22 (1)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2 (1)	Q3 (1)	Q4 (1)	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
External trade																				
Trade balance (USD bn)	2.7	17.3	20.7	4.4	0.7	-0.6	0.8	1.7	2.9	0.9	6.6	6.9	7.3	6.6	3.8	3.0	2.1	1.3	0.5	0.5
Current account (USD bn)	-10.7	6.6	8.3	-5.3	-2.6	-3.7	-3.2	-1.2	1.0	-1.9	4.3	3.2	4.5	3.0	0.5	0.2	-0.3	-1.1	-1.9	-2.0
Current account (% of GDP)	-3.0	2.2	2.3	-1.4	-3.0	-4.1	-3.7	-1.3	1.4	-3.1	5.9	3.7	5.0	3.4	0.6	0.2	-0.3	-1.2	-2.1	-2.1

					2019				2020				2021				2022			
	19	20	21 (1)	22 (1)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2 (1)	Q3 (1)	Q4 (1)	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Financial variables																				
General govt. budget (% of GDP) (3)	-5.7	-11.0	-7.3	-5.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Primary budget (% of GDP) (3)	-3.2	-6.4	-2.5	-0.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
General govt. debt (% of GDP)	63.3	79.5	78.2	80.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

					2019				2020				2021				2022			
	19	20	21 (1)	22 (1)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2 (1)	Q3 (1)	Q4 (1)	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Interest rates and bonds (2)																				
Policy rate (%)	6.50	3.50	4.00	4.75	6.75	6.75	6.50	6.50	5.25	3.75	3.50	3.50	3.50	3.50	3.75	4.00	4.50	4.75	4.75	4.75
3-month rate (%)	6.80	3.64	4.25	5.05	7.15	7.10	6.90	6.80	5.61	3.90	3.35	3.64	3.65	3.70	4.00	4.25	4.80	5.05	5.05	5.05
10-year bond (%)	9.02	8.74	9.00	9.00	9.15	8.82	9.00	9.02	11.00	9.24	9.42	8.74	9.48	8.80	9.00	9.00	9.00	9.00	9.00	9.00
FX rates (2)																				
USDZAR	14.75	14.70	13.75	14.50	14.50	14.09	14.80	14.75	17.84	17.35	16.75	14.70	14.78	14.28	13.75	13.75	13.75	14.00	14.50	14.50

Footnotes: (1) forecast, (2) end period, (3) consolidated budget balance based on National Treasury financial year

Figures are year-on-year percentage changes unless otherwise indicated

Source: BNP Paribas South Africa

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