

BDO IN SOUTH AFRICA | FINANCIAL SERVICES

SPECIALISED VALUATIONS GROUP

MARKET UPDATE | SEPTEMBER 2020



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INFLATION

EXCHANGE RATES

CURRENT ACCOUNT

GDP

CREDIT RISK

GOVERNMENT DEBT

INFLATION

Statistical Release P0141

Main Contributors to 3.1%:

- Food and non-alcoholic beverages increased by 3.9% year-on-year
- Housing and utilities increased by 3,1%
- Miscellaneous goods and services increased by 6,6% year-on-year

INFLATION

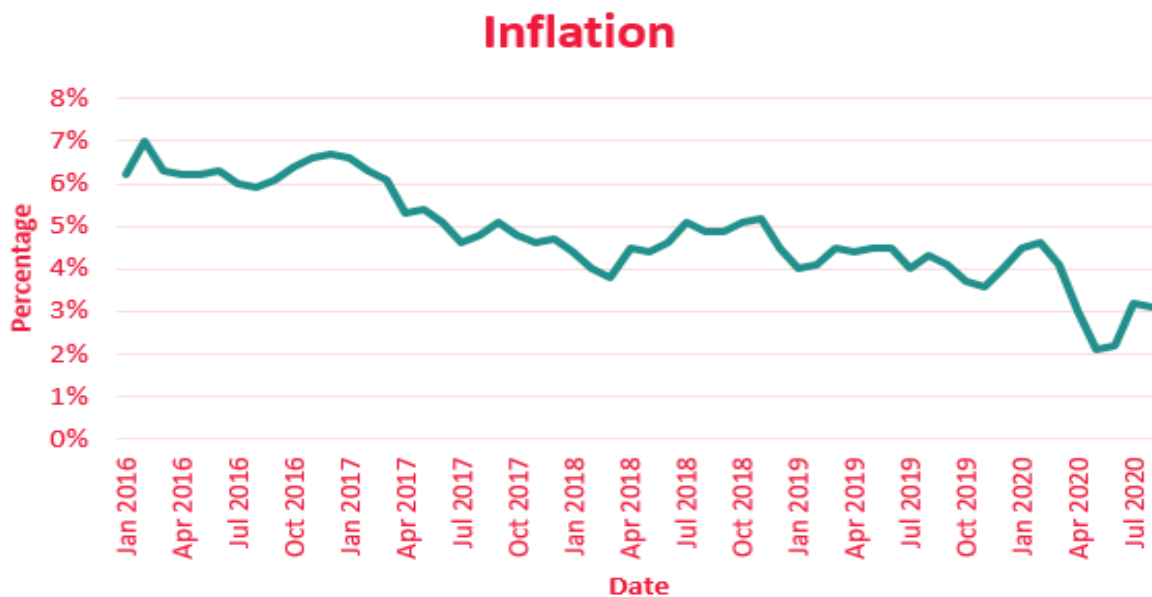
EXCHANGE RATES

CURRENT ACCOUNT

GDP

CREDIT RISK

GOVERNMENT DEBT



Source: Refinitiv



EXCHANGE RATES – PERSPECTIVE FROM THE WEST

USDZAR

INFLATION

EXCHANGE RATES

CURRENT ACCOUNT

GDP

CREDIT RISK

GOVERNMENT DEBT

USD Exchange Rate



Source: Refinitiv

Rand strengthened against all major currencies mid September due to the announcement that SA will move to a national state of disaster level 1. This improved foreign investor sentiment toward the Rand. The Rand is expected to remain volatile due to uncertainty around emerging market recoveries from lockdown restrictions as well as uncertainty around the US elections.

EXCHANGE RATES – PERSPECTIVE FROM THE WEST CONTINUED

CNYZAR

CNY Exchange Rate



Source: Refinitiv

Similar to the previous graphic September saw a general strengthening of the rand given easing of restrictions announced by the government.

INFLATION

EXCHANGE RATES

CURRENT ACCOUNT

GDP

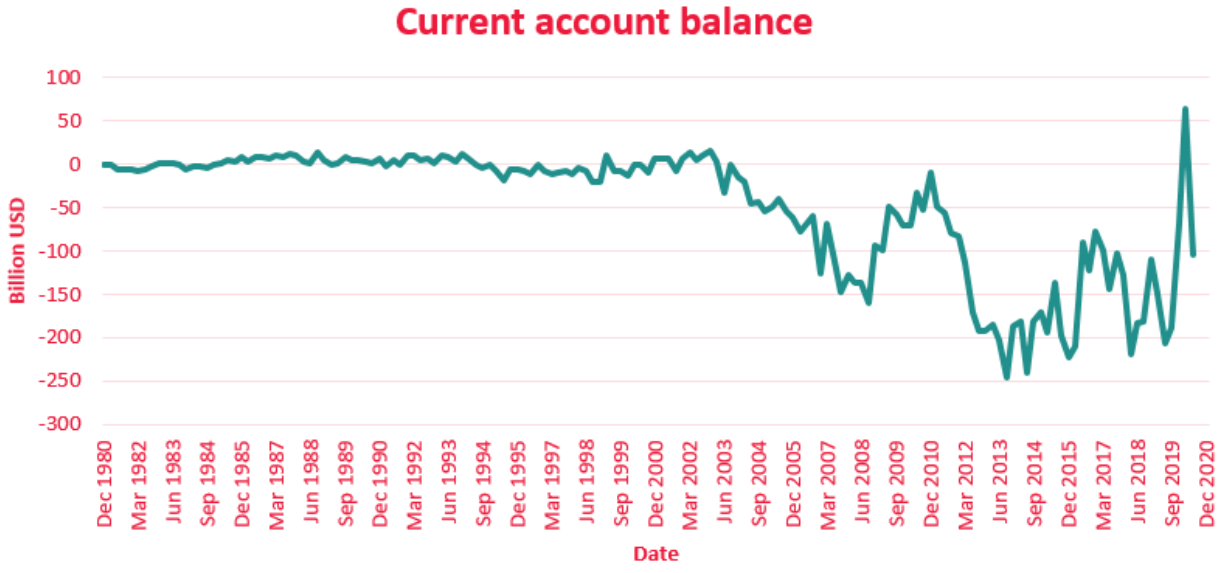
CREDIT RISK

GOVERNMENT DEBT

CURRENT ACCOUNT

Current Account Balance

- INFLATION
- EXCHANGE RATES
- CURRENT ACCOUNT**
- GDP
- CREDIT RISK
- GOVERNMENT DEBT



Source: Refinitiv

Despite the positive impacts of an improved gold price and weakened oil price, South Africa's current account balance moved to a deficit from a surplus in the second quarter of 2020 as the trade surplus halved due to the impact of the Covid-19 pandemic. This decrease was almost entirely attributable to the lockdown restrictions imposed on exports, forcing SA to become a net-importer. Going forward, the next quarter is expected to improve as lockdown restrictions have been eased.



GDP

GDP contraction

- INFLATION
- EXCHANGE RATES
- CURRENT ACCOUNT
- GDP
- CREDIT RISK
- GOVERNMENT DEBT

Figure 1 – Growth in GDP (%)

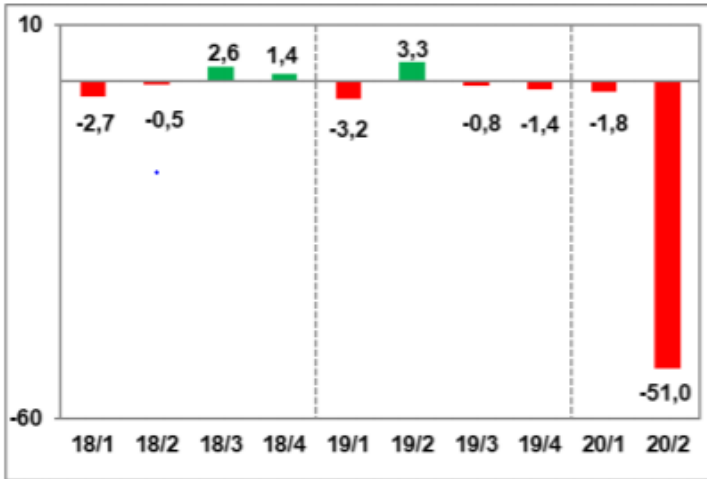
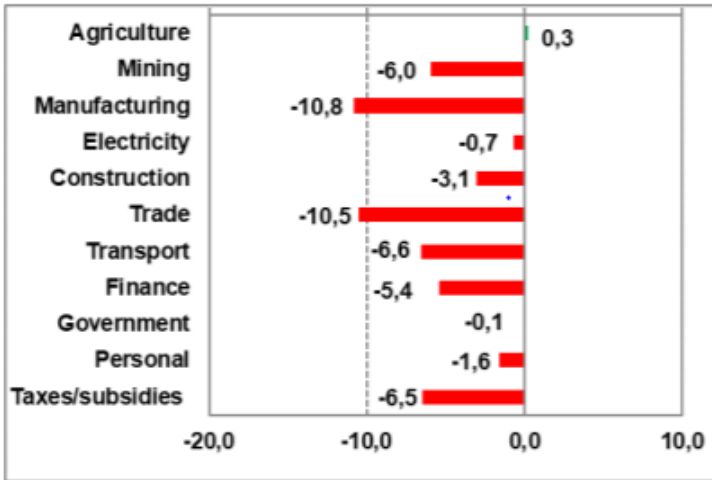


Figure 2 – Contributions to growth in GDP, Q2 2020 (% points)



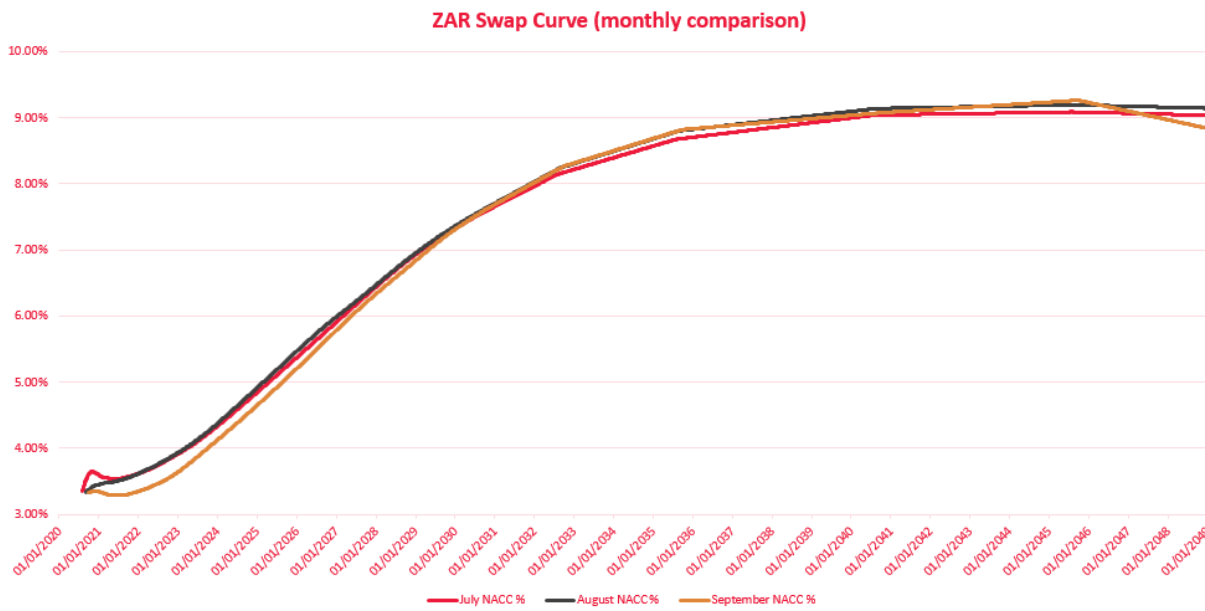
Source: Stats SA

September saw the release of Q2 GDP results which came with a -51% decrease in GDP. This was primarily attributable to the lockdown restrictions. As can be seen from the above, the Agricultural sector was the only sector with a positive contribution to GDP figures.



CREDIT RISK

Previous 3 months credit spreads



Source: JSE

With no changes to the repo rate, the September curve remained relatively flat with the long end declining slightly as market sentiment improved due to lockdown restrictions easing.

INFLATION

EXCHANGE RATES

CURRENT ACCOUNT

GDP

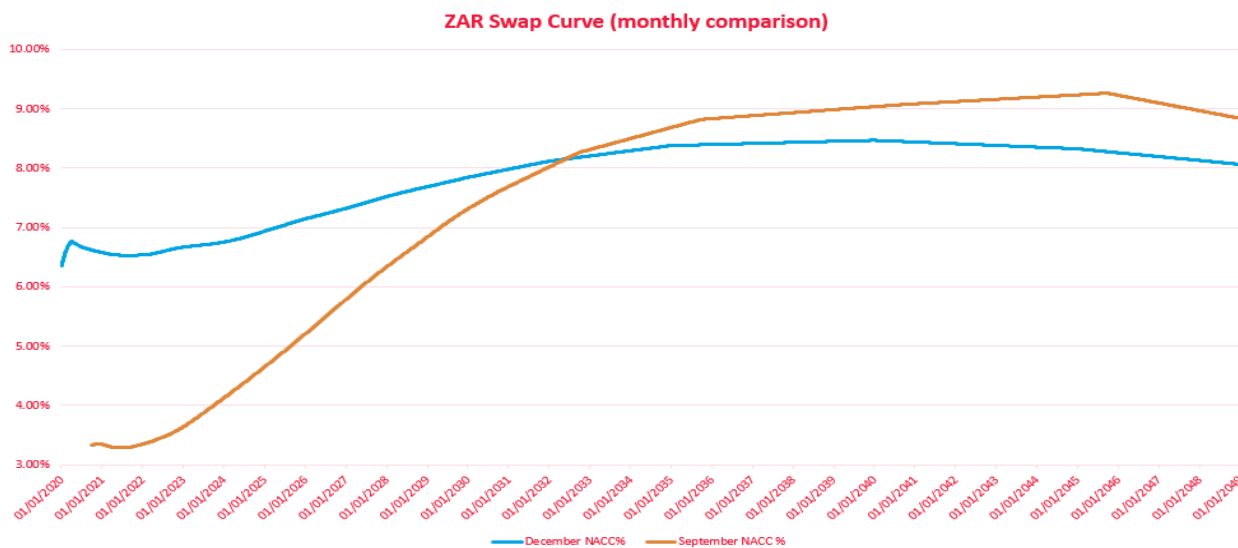
CREDIT RISK

GOVERNMENT DEBT



CREDIT RISK CONTINUED

Credit spread year to date comparison



Source: JSE

The graph above comparing Dec 2019 and Sep 2020 swap curve indicates the significant increase in credit risk in the South African economy. The immediate drop in the short end is largely driven by repo rate cuts to assist in combating the economic impacts of the COVID 19 pandemic, however the steep upward trajectory is indicative of the fundamental economic concerns in South Africa. These include weak growth forecasts, increasing debt levels and unemployment forecasts for the country.

INFLATION

EXCHANGE RATES

CURRENT ACCOUNT

GDP

CREDIT RISK

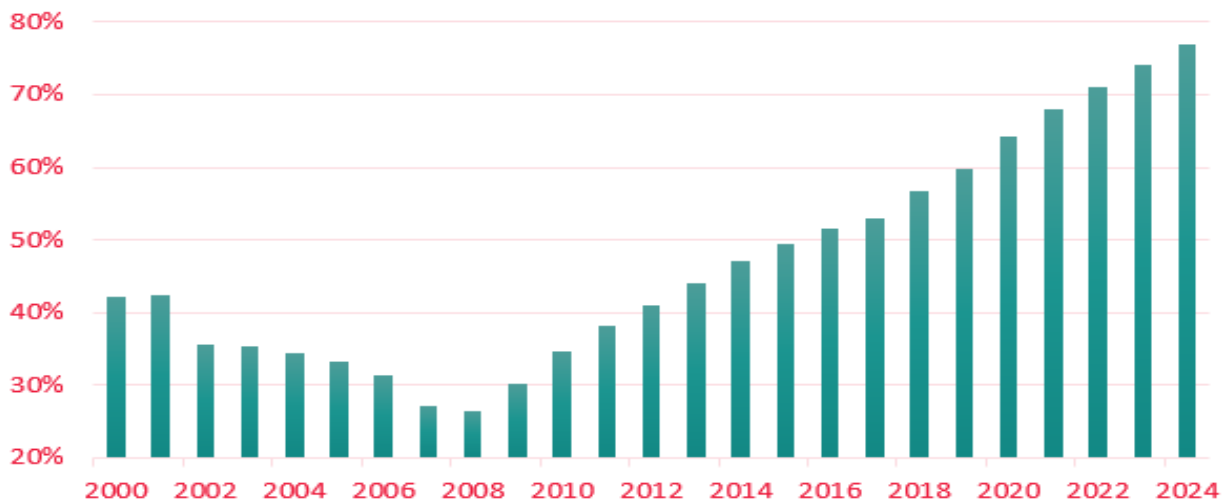
GOVERNMENT DEBT



GOVERNMENT DEBT

Gross Government debt (% of GDP)

Gross Government Debt (% of GDP)



Source: Refinitiv

Debt levels as a % of GDP is on an upward trajectory, increasing concerns around governments capacity to meet debt obligations and ultimately impacting rates of return required for additional investment. The increasing debt accompanied by poor growth forecasts will impact the yields on offer in the local debt markets.

INFLATION

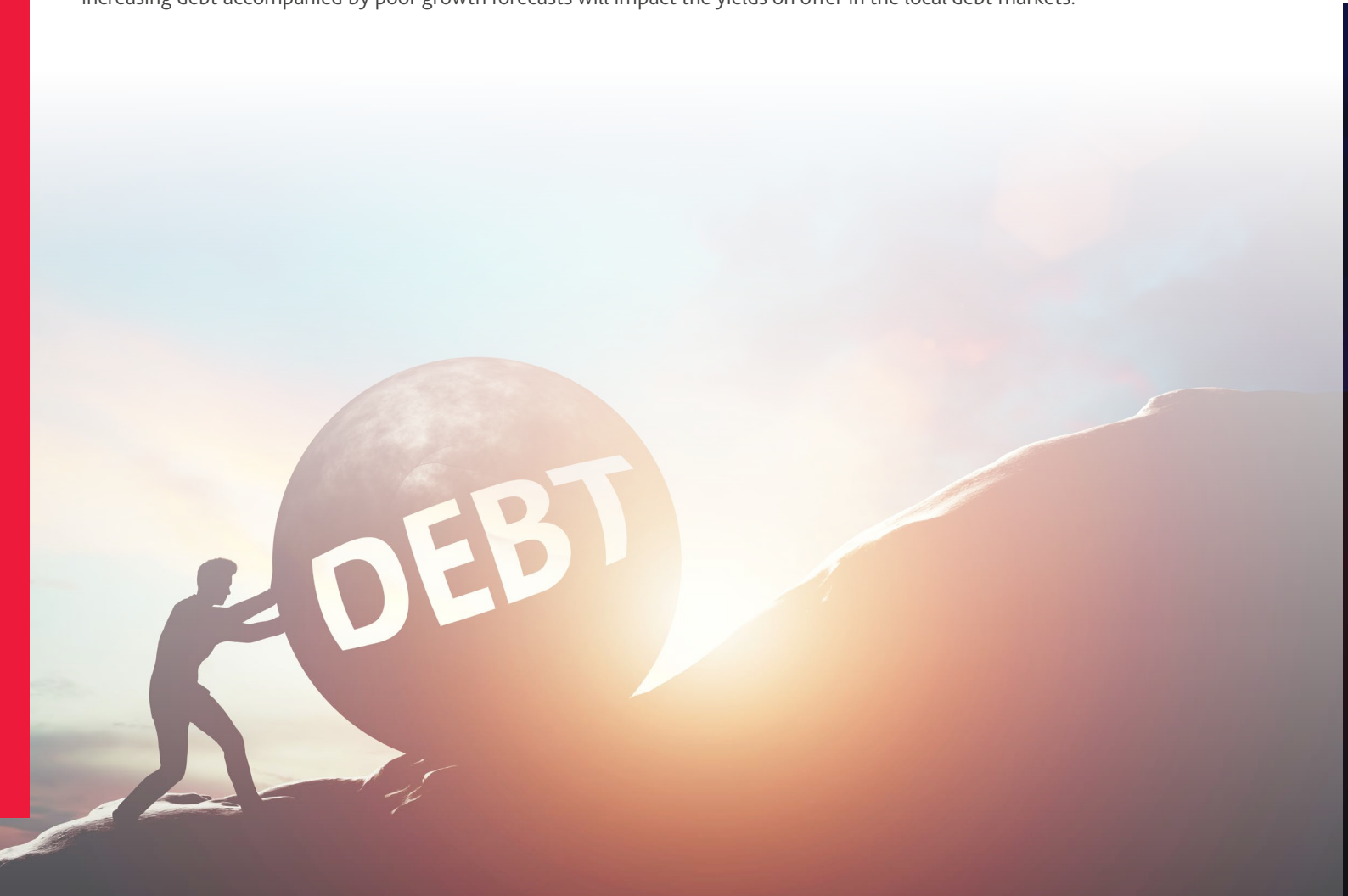
EXCHANGE RATES

CURRENT ACCOUNT

GDP

CREDIT RISK

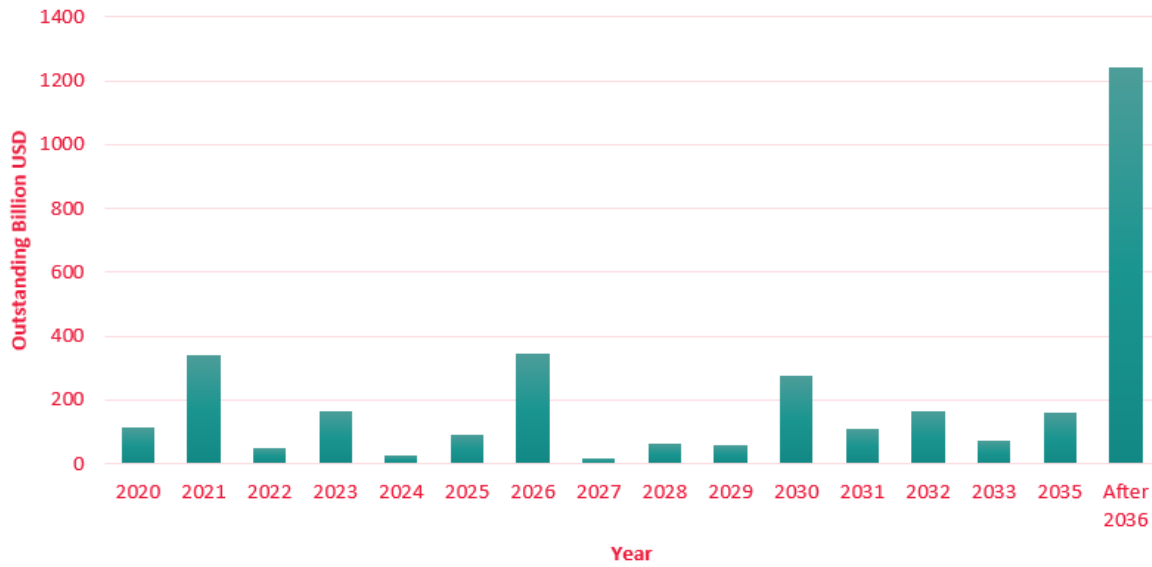
GOVERNMENT DEBT



GOVERNMENT DEBT CONTINUED

RSA debt maturity structure

RSA Debt Maturity Structure



Source: Refinitiv

On the upside, one of the positive things to note regarding government debt levels, is the maturity term structure. These maturities are well scattered reducing risk of settling a large percentage of our debt obligations in one go.

INFLATION

EXCHANGE RATES

CURRENT ACCOUNT

GDP

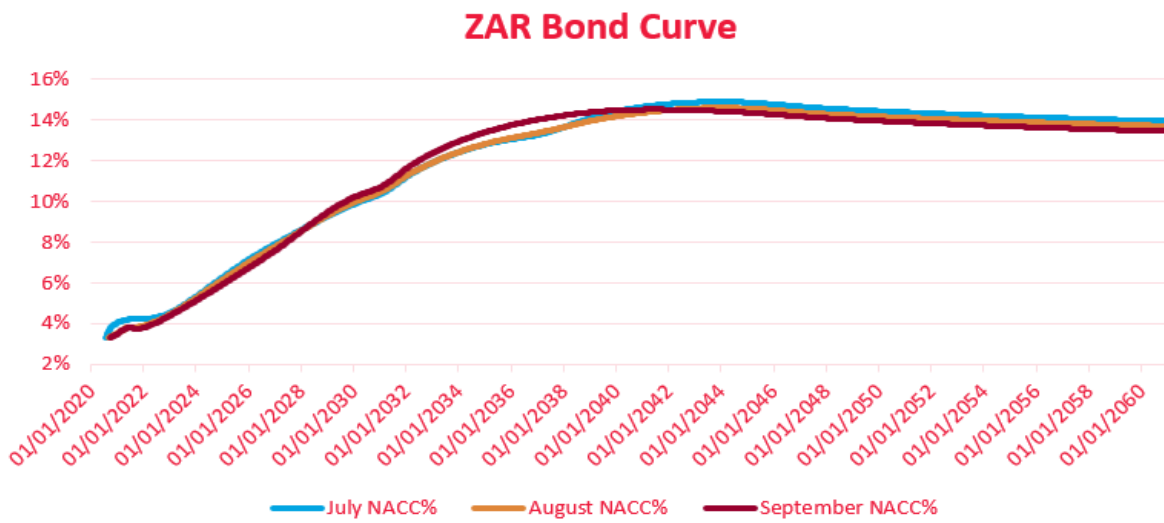
CREDIT RISK

GOVERNMENT DEBT



GOVERNMENT DEBT CONTINUED

Previous 3 months RSA bond spreads



Source: Refinitiv

INFLATION

EXCHANGE RATES

CURRENT ACCOUNT

GDP

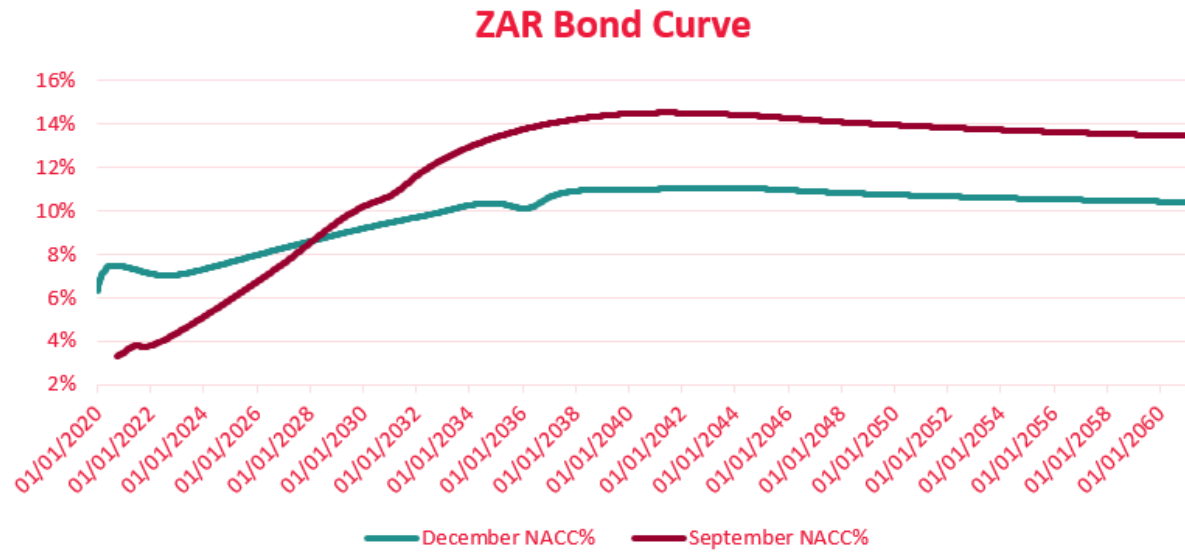
CREDIT RISK

GOVERNMENT DEBT



GOVERNMENT DEBT CONTINUED

RSA bonds spread year to date comparison



Source: Refinitiv

This graphic illustrates the impact of the above government debt assessment, as well as the COVID 19 pandemic, which has a marked short-term decrease (rates cuts) and the increased long-term yield, due to the economic sentiment and outlook.

INFLATION

EXCHANGE RATES

CURRENT ACCOUNT

GDP

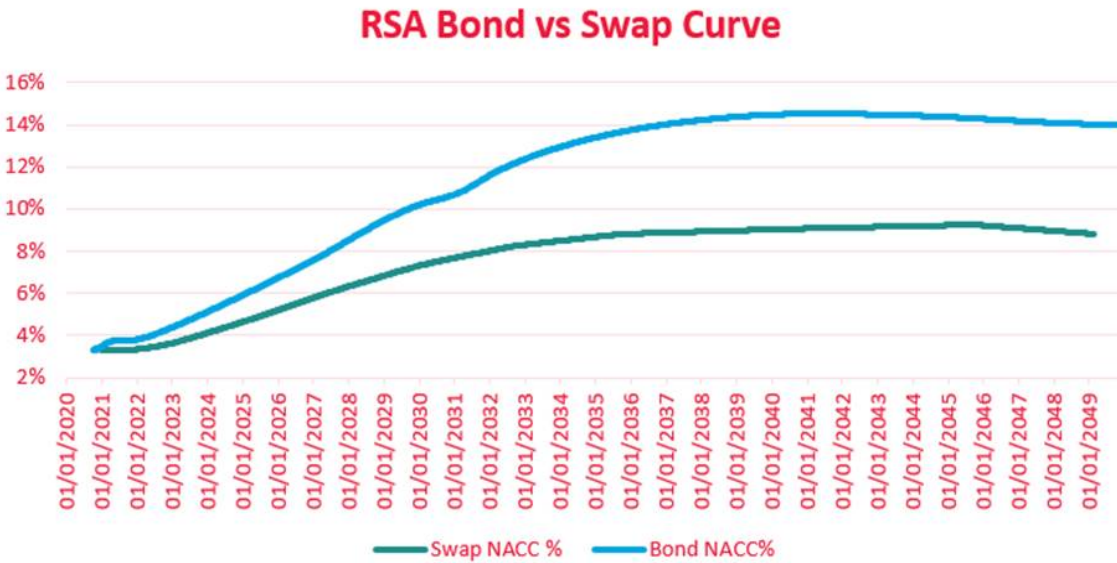
CREDIT RISK

GOVERNMENT DEBT



GOVERNMENT DEBT CONTINUED

RSA bonds spread v Corporate swap curve



Source: Refinitiv

The above graphic provides a telling story; all else being equal, government issued debt is perceived as being riskier than corporate banking issued debt, and hence the higher returns required to invest in State-issued instruments. In practice however, governments generally have wider access to financial resources than corporate institutions, and so for a more risk neutral investor this premium on government issued instruments could be an attractive investment at the higher current yield.

INFLATION

EXCHANGE RATES

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WE TAKE IT PERSONALLY.
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