



South Africa Morning Sheet

- **For retail sales due out this afternoon, we expect price-adjusted sales growth of 10% m/m sa in June, as the shift to Level 3 lockdown restrictions permitted more retail sector activity.**
- **Although manufacturing output improved in May and June as lockdown restrictions were eased, average seasonally adjusted Q2 20 production fell 76.2% q/q on an annualised basis.**

The June retail sales data due out at 13:00 local time will be the key release to watch today.

Constant price retail sales rose 75.4% m/m sa in May after the 50% dip during the hard lockdown in April. For June, we expect sales to have increased by a further 10% m/m, as the shift to Level 3 lockdown restrictions at the start of June permitted more retail activity and consumers likely went out to purchase goods they had not been able to legally purchase for two months. Our June forecast is in line with the Thomson Reuters consensus.

Stats SA yesterday released the May and June manufacturing output data, which indicated some improvement in production on the back of the relaxation of lockdown restrictions.

Seasonally adjusted manufacturing output increased 30.4% m/m in May and rose a further 16.8% m/m in June. Despite this, June output was still down 16.3% on a y/y basis. Different sub-sectors are emerging from lockdown lows at different paces. The two sub-sectors closest to their pre-lockdown output levels were the 'petrochemicals, rubber and plastics' and 'communications instruments' categories, where June production levels were just 5.5% and 6.9% lower than February levels, respectively. Meanwhile, two sub-sectors where output is picking up the slowest are the 'vehicle and parts' and 'furniture' categories, where production levels were still 48.4% and 38.1% lower than those in February. Overall, average Q2 20 manufacturing output was down by a seasonally adjusted and annualised 76.2% q/q, which implies a big drag on GDP from this sector. However, this is close to our assumption for the sector in our Q2 GDP forecast of -44.0% q/q saar, so we see no major risks to our GDP forecast from this specific data release.

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FIGURE 1
New data releases and key events

Date	Time	Event	Period	Survey	Absa	Prior	Prior-1	Comments
12-Aug	13:00	Retail sales, % y/y	Jun	-3.6	-3.6	-12.0	-50.4	Retail sales likely rose further by 10% m/m sa in June due to more goods being sold under Level 3 lockdown restrictions.
13-Aug	11:30	Mining output, % y/y	Jun	--	-19.6	-29.8	-50.3	Almost all mining operations were permitted under Level 3 lockdown. Against this, we estimate that mining production rose further by 15% m/m sa in June.
21-Aug	12:00	NCR Consumer Credit Market	Q1 20	--	--	--	--	The data will be a key indicator of consumer credit health before the pandemic hit South Africa.
24-Aug	14:30	Statistics of Liquidations and insolvencies	Jul	--	--	134.0	195.0	These data may show some of the early effects of lockdown restrictions on firms' balance sheets but there is likely to be a lag.
25-Aug	9:00	Leading indicator, index	Jun	--	--	95.7	96.3	The forward-looking properties of the leading indicator are likely to be weak at this stage, given the nature of the unfolding shock.
26-Aug	10:00	Headline inflation, % y/y	Jul	--	3.2	2.2	2.1	Headline CPI inflation likely to have bounced back into the 3-6% target range due to the increase in fuel prices on the back of higher Brent crude oil prices.
26-Aug	10:00	Core inflation, % y/y	Jul	--	3.0	3.0	3.1	Core inflation likely remained at the lower end of the 3%-6% inflation target range due to weak demand-pull inflation.
27-Aug	11:30	Producer Price Index, % y/y	Jul	--	1.7	0.5	0.4	PPI inflation likely rose in July as a result of a lower rate of fuel deflation.
28-Aug	14:00	Main budget balance, ZARbn	Jul	--	-116.8	-22.3	-52.3	In line with the provisional financing data and seasonal factors, we estimate a main budget deficit in July.

R indicates "revised".
Source: Thomson Reuters, Bloomberg, Absa Research.

FIGURE 2

Review of recent key domestic data releases

Main indicators	Release date	Period	Survey	Actual	Prior	Comments
Manufacturing output, % y/y	11-Aug	Jun	-25.3	-16.3	-32.4	Despite improving in May and June as the government relaxed lockdown restrictions, manufacturing output was down by 76.2% q/q saar in Q2 compared with an 8.1% fall in Q1.
IHS Markit economy-wide PMI, index	5-Aug	Jul	--	44.9	42.5	According to IHS Markit, output fell by 'the slowest since before the government imposed lockdown measures to stop the spread of COVID-19 in March'.
Provisional financing data	4-Aug	Jul	--	--	--	The National Treasury provisional financing data for July signals a main budget deficit of R116.8bn.
Absa manufacturing PMI, index	3-Aug	Jul	--	51.2	53.9	Activity continues to recover from low levels. The business activity sub-index of the Absa PMI remained fairly strong at 62.9 in July compared with 64.6 in June.
NAAMSA vehicle sales, % y/y	3-Aug	Jul	--	-29.6	-30.7	July sales remained subdued as a result of passenger car sales, which fell by 35.9% y/y to 18.9k units, compared with a 33.3% rise in June.
Merchandise trade balance, ZARbn	31-Jul	Jun	--	46.6	19.7	The merchandise trade surplus was a seasonally adjusted annualised R78.4bn in Q2 compared with R203.2bn in Q1.
Producer Price Index, % y/y	30-Jul	Jun	0.6	0.5	0.4	Headline PPI inflation (i.e., PPI inflation for final manufactured goods) rose slightly to 0.5% y/y in June from 0.4% in May, mainly due to the increase in fuel prices during the month.
Main budget balance, ZARbn	30-Jul	Jun	--	-22.3	-52.3	June main budget data showed a deficit of R22.3bn as tax revenues cratered under the pressure of the ongoing shock of the pandemic.
Crop Estimates Committee	29-Jul	2020	--	--	--	The sixth total maize production forecast for 2020 rose 37.9% y/y to 15.5mn.
Headline inflation, % y/y	29-Jul	Jun	2.2	2.2	2.1	Headline inflation rose due to a lower rate of fuel price deflation in June.
Core inflation, % y/y	29-Jul	Jun	3.0	3.0	3.1	Decelerating housing cost growth seems principally responsible for pulling core CPI slightly lower in June.
Private sector credit extension, % y/y	29-Jul	Jun	6.5	5.6	6.3	Credit extension growth decelerated for both households and corporates.
Quarterly Employment Statistics	28-Jul	Q1 20	--	--	--	Total employment in the formal non-agricultural sector fell by 3k q/q to 10.2mn in Q1. Against the weak labour market, real average monthly earnings (including bonuses and overtime) fell by 1.7% q/q in Q1 compared with a 0.1% decline in Q4 19.
Statistics of Liquidations and Insolvencies	27-Jul	Jun	--	134.0	195.0	Liquidations were down 9.7% y/y and 17.8% in May and June, respectively, with the subdued prints likely reflecting the length of time it takes to liquidate a company.

R indicates "revised".

Source: Thomson Reuters, Bloomberg, Absa Research.

FIGURE 3

Key market indicators

	Previous close	Daily change	7 day change	1 month change	3 month change	1 year change	High in last year	Low over last year
USD/ZAR	17.48	-1.2%	0.8%	4.3%	-4.7%	14.9%	19.09	13.99
EUR/ZAR	20.53	-1.1%	0.4%	7.6%	2.9%	19.9%	20.78	15.67
GBP/ZAR	22.82	-1.3%	0.5%	8.2%	1.2%	23.8%	23.54	18.00
AUD/ZAR	12.48	-1.3%	0.4%	6.8%	4.8%	21.0%	12.64	9.71
ZAR/JPY	6.09	1.7%	0.0%	-4.5%	4.6%	-11.6%	7.79	5.64
EUR/USD	1.17	0.0%	-0.7%	3.3%	8.0%	4.5%	1.19	1.07
3m JIBAR	3.53	-5.0bp	-15.8bp	-35.0bp	-100.8bp	-334.2bp	6.85	3.50
R208	3.55	0.5bp	4.0bp	5.5bp	-23.5bp	-327.5bp	6.85	3.46
R186 (2026)	7.43	1.5bp	-10.0bp	-29.5bp	-42.5bp	-106.5bp	11.22	7.23
US 2-year	0.16	3.0bp	4.2bp	0.6bp	0.4bp	-134.3bp	1.89	0.11
US 10-year	0.66	8.4bp	14.0bp	4.1bp	3.4bp	-87.4bp	2.06	0.50
All Share	56,758	-1.6%	2.6%	2.5%	14.3%	-1.0%	59001.87	37963.01
S&P 500	3,360	0.3%	1.2%	4.7%	15.7%	10.4%	3386.15	2237.40
Gold	1,911	-5.7%	-7.2%	3.9%	10.1%	24.0%	2063.19	1454.25
Platinum	930	-5.7%	-1.6%	11.4%	22.4%	7.2%	1020.20	586.51
Brent	43.8	-1.7%	-1.1%	0.6%	100.3%	-29.1%	71.55	5.62
CDS Spreads	308.66	-0.9bp	2.0bp	-2.6bp	-95.5bp	123.1bp	492.47	157.78

Note: Bond yield changes are denoted in basis points.

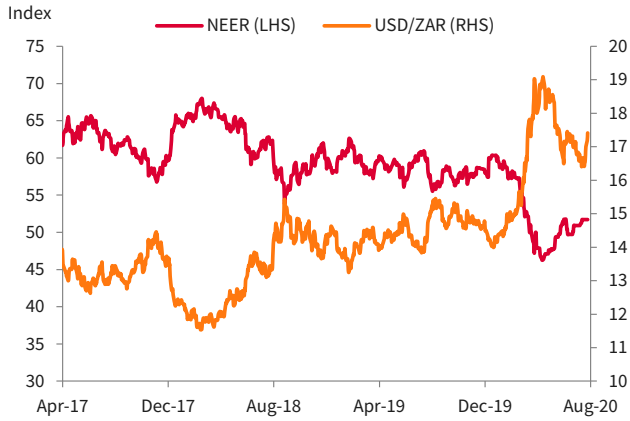
Source: Thomson Reuters, Absa Research

FIGURE 4
ZAR price of oil



Source: Thomson Reuters, Absa Research

FIGURE 6
ZAR performance



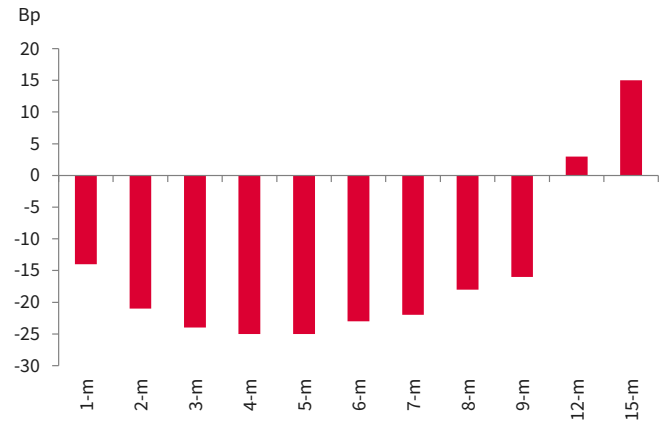
Note: Rise/fall in Nominal effective exchange rate implies ZAR ap/depreciation.
Source: Thomson Reuters

FIGURE 5
SA petrol price movements, as of 10 Aug 2020

	Petrol 95 unleaded	Petrol 93 unleaded	Diesel 0.05%	Diesel 0.005%
Pump price (c/l)	1,517	1,488	1,349	1,353
Basic fuel price (c/l)	575	565	579	583
Daily over/under recovery (c/l)	-5	-14	18	19
Avg. over/under recovery (c/l)	17	8	1	1
o/w due to int'l price	34	24	18	18
o/w due to FX rate	-17	-16	-17	-18

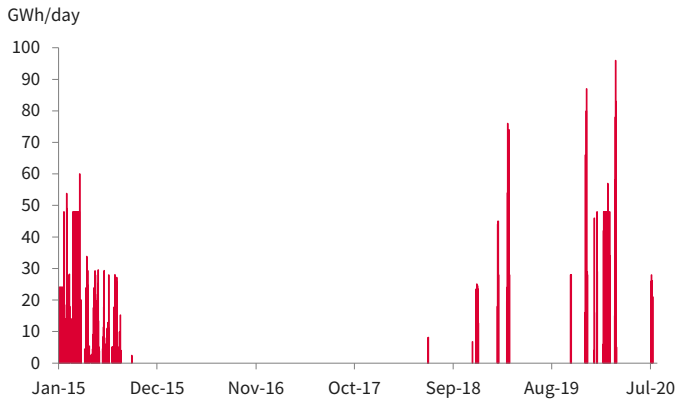
Source: CEF, Absa Research

FIGURE 7
Implied change in the repo rate based on FRA curve



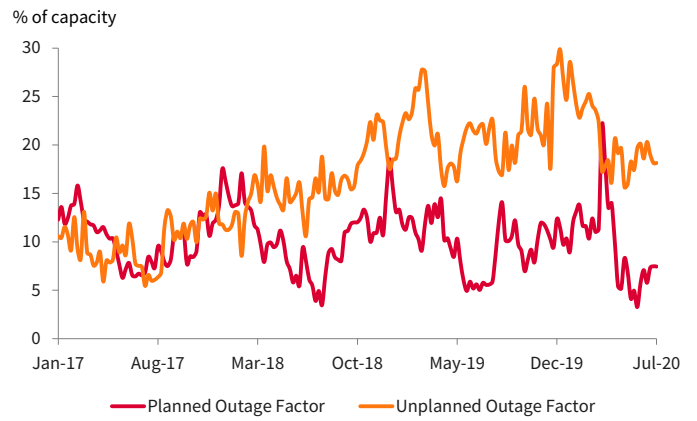
Note: Calculated by subtracting 3-month Jibar from the corresponding FRA rate.
Source: Thomson Reuters, Absa Research

FIGURE 8
Load shedding intensity



Source: Eskom, Absa Research

FIGURE 9
Maintenance vs breakdowns



Source: Eskom, Absa Research

FIGURE 10
Latest changes in water dam levels

	As at 3 August (%)	ppΔ from previous week	ppΔ from previous year	Long-run average
Eastern Cape	51.5	-0.1	-5.1	58.4
Free State	80.2	-0.5	-3.6	79.8
Gauteng	99.1	-0.2	7.3	95.1
Kwazulu-Natal	58.9	-0.5	-1.9	58.4
Lesotho	22.0	-0.8	-3.2	34.2
Limpopo	63.2	-0.9	5.7	65.7
Mpumalanga	70.7	-0.5	2.5	72.7
Northern Cape	89.9	-4.0	5.5	82.6
North West	68.8	-0.7	4.4	67.4
Eswatini	73.2	-0.8	-15.9	80.0
Western Cape	61.2	0.5	-0.2	43.1
Grand total	68.2	-0.4	-2.1	68.5

Source: Department of Water and Sanitation, Absa Research

FIGURE 11
Rainfall

millimeters	May-20	% Δ from LT average	Feb-Apr average	% Δ from LT average
Eastern Cape	28.7	20.6	70.6	5.9
Free State	0.0	-100.0	77.9	17.0
Gauteng	0.0	-100.0	101.0	31.9
Kwazulu-Natal	4.8	-82.6	101.9	11.1
Limpopo	0.7	-93.6	74.4	1.0
Mpumalanga	0.2	-98.6	73.2	-13.6
Northern Cape	1.5	-88.8	30.9	-1.8
North West	0.0	-100.0	72.7	14.4
Western Cape	40.6	-27.5	19.7	-44.2
Weighted average	9.2	-55.1	57.5	2.1

Source: South African Weather Service, Absa Research

FIGURE 12

Absa exchange rate forecasts (end of period)

Period end	USDZAR	EURZAR	CNYZAR	ZARJPY	GBPZAR	AUDZAR
Monthly						
Jun-20	16.50	17.99	2.32	6.48	20.30	10.40
Jul-20	16.30	17.83	2.30	6.57	20.11	10.33
Aug-20	16.20	17.75	2.29	6.61	20.02	10.30
Sep-20	16.00	17.60	2.27	6.69	19.84	10.24
Oct-20	15.90	17.62	2.26	6.73	19.84	10.30
Nov-20	15.85	17.62	2.26	6.75	19.84	10.33
Dec-20	15.75	17.64	2.25	6.79	19.85	10.40
Jan-21	15.81	17.77	2.26	6.77	20.11	10.50
Feb-21	15.84	17.84	2.26	6.76	20.24	10.55
Mar-21	15.90	17.97	2.27	6.73	20.51	10.65
Apr-21	16.04	18.14	2.29	6.71	20.72	10.76
May-21	16.11	18.22	2.30	6.70	20.82	10.81
Quarterly						
Jun-20	16.50	17.99	2.32	6.48	20.30	10.40
Sep-20	16.00	17.60	2.27	6.69	19.84	10.24
Dec-20	15.75	17.64	2.25	6.79	19.85	10.40
Mar-21	15.90	17.97	2.27	6.73	20.51	10.65
Jun-21	16.25	18.40	2.32	6.68	21.03	10.92
Sep-21	16.40	18.83	2.36	6.62	21.56	11.19
Dec-21	16.60	19.26	2.41	6.57	22.08	11.45
Annual						
Dec-20	15.75	17.64	2.25	6.79	19.85	10.40
Dec-21	16.60	19.26	2.41	6.57	22.08	11.45
Dec-22	17.25	20.53	2.61	6.23	23.81	12.59
Dec-23	18.00	21.60	2.71	5.89	25.02	13.14

Source: Bloomberg, Absa Research.

FIGURE 13

Absa exchange rate forecasts (period average)

Period avg	USDZAR	EURZAR	CNYZAR	ZARJPY	GBPZAR	AUDZAR
Monthly						
Jun-20	17.01	18.56	2.40	6.31	21.06	10.81
Jul-20	16.40	17.91	2.31	6.53	20.20	10.36
Aug-20	16.25	17.79	2.30	6.59	20.07	10.32
Sep-20	16.10	17.68	2.28	6.65	19.93	10.27
Oct-20	15.95	17.61	2.27	6.71	19.84	10.27
Nov-20	15.88	17.62	2.26	6.74	19.84	10.32
Dec-20	15.80	17.63	2.25	6.77	19.84	10.36
Jan-21	15.78	17.71	2.25	6.78	19.98	10.45
Feb-21	15.83	17.80	2.26	6.76	20.18	10.52
Mar-21	15.87	17.90	2.27	6.74	20.38	10.60
Apr-21	15.97	18.05	2.28	6.72	20.62	10.71
May-21	16.08	18.18	2.30	6.70	20.77	10.79
Quarterly						
Jun-20	17.75	19.45	2.51	6.05	22.15	11.34
Sep-20	16.25	17.79	2.30	6.59	20.07	10.32
Dec-20	15.88	17.62	2.26	6.74	19.84	10.32
Mar-21	15.83	17.80	2.26	6.76	20.18	10.52
Jun-21	16.08	18.18	2.30	6.70	20.77	10.79
Sep-21	16.33	18.61	2.34	6.65	21.29	11.05
Dec-21	16.50	19.04	2.38	6.59	21.82	11.32
Annual						
Dec-20	16.36	18.02	2.32	6.60	20.54	10.55
Dec-21	16.18	18.41	2.32	6.68	21.02	10.92
Dec-22	16.92	19.89	2.51	6.40	22.94	12.02
Dec-23	17.63	21.06	2.66	6.06	24.41	12.87

Source: Bloomberg, Absa Research.

FIGURE 14

Detailed CPI inflation forecasts

Date	CPI index	CPI % y/y	Core CPI index	Core CPI % y/y	Food CPI index	Food CPI % y/y	Brent \$/bbl	Brent R/bbl
Jan-19	109.2	4.0	109.0	4.4	109.4	3.0	59.0	815.9
Feb-19	110.1	4.1	110.2	4.4	109.4	2.9	64.3	888.7
Mar-19	111.0	4.5	111.0	4.4	109.7	3.1	66.0	949.3
Apr-19	111.7	4.4	111.3	4.1	109.9	2.9	71.5	1010.6
May-19	112.0	4.5	111.3	4.1	110.2	3.2	72.1	1038.8
Jun-19	112.4	4.5	111.7	4.3	110.7	3.7	65.7	956.6
Jul-19	112.8	4.0	112.2	4.2	110.7	3.4	64.1	899.9
19-Aug	113.1	4.3	112.3	4.3	111.2	3.9	58.8	891.9
19-Sep	113.4	4.1	112.5	4.0	111.5	3.9	63.4	941.7
19-Oct	113.4	3.7	112.6	4.0	111.4	3.6	60.3	899.9
19-Nov	113.5	3.6	112.7	3.9	111.7	3.5	63.9	945.5
19-Dec	113.8	4.0	112.9	3.8	112.1	3.9	69.0	992.4
20-Jan	114.1	4.5	113.0	3.7	113.5	3.7	64.4	927.7
20-Feb	115.2	4.6	114.4	3.8	114.0	4.2	56.5	848.7
20-Mar	115.6	4.1	115.1	3.7	114.3	4.3	32.1	535.6
20-Apr	115.0	3.0	114.9	3.2	114.7	4.4	14.9	276.2
20-May	114.3	2.1	114.7	3.1	115.0	4.4	29.4	533.9
20-Jun	114.9	2.2	115.0	3.0	115.3	4.2	40.3	689.6
Jul-20F	116.3	3.1	115.5	2.9	115.4	4.3	40.3	660.6
Aug-20F	116.6	3.1	115.6	2.9	115.9	4.2	43.7	710.8
Sep-20F	116.8	3.0	115.9	3.0	116.2	4.2	45.6	733.8
Oct-20F	116.9	3.1	116.0	3.0	116.3	4.4	43.6	695.2
Nov-20F	117.0	3.1	116.2	3.1	116.6	4.4	43.8	695.5
Dec-20F	117.3	3.1	116.5	3.2	116.9	4.3	44.0	695.5
Jan-21F	117.6	3.0	116.5	3.1	118.4	4.3	44.1	695.5
Feb-21F	118.8	3.1	118.1	3.2	118.8	4.2	44.5	703.7
Mar-21F	119.4	3.3	118.8	3.2	119.1	4.2	45.0	713.7
Apr-21F	119.7	4.1	118.9	3.5	119.6	4.3	45.9	733.4
May-21F	119.8	4.8	118.8	3.5	120.2	4.5	46.5	748.1
Jun-21F	120.3	4.7	119.3	3.7	120.6	4.6	47.1	760.6
Jul-21F	121.0	4.0	119.8	3.7	120.7	4.6	47.5	771.9
Aug-21F	121.1	3.9	119.9	3.7	121.2	4.6	47.9	782.5
Sep-21F	121.5	4.1	120.2	3.7	121.5	4.6	48.3	792.2
Oct-21F	121.6	4.0	120.3	3.7	121.8	4.7	48.7	801.0
Nov-21F	121.8	4.1	120.5	3.7	121.9	4.6	49.0	808.8
Dec-21F	122.2	4.2	120.9	3.8	122.0	4.4	49.3	815.7
Quarterly averages								
19.Q1	110.1	4.2	110.1	4.4	109.5	3.0	63.1	884.7
19.Q2	112.0	4.4	111.4	4.2	110.3	3.2	69.7	1002.0
19.Q3	113.1	4.1	112.3	4.1	111.1	3.7	62.1	911.2
19.Q4	113.6	3.7	112.7	3.9	111.7	3.7	64.4	945.9
20.Q1	115.0	4.4	114.2	3.7	113.9	4.1	51.0	770.7
20.Q2	114.7	2.4	114.9	3.1	115.0	4.3	28.2	499.9
20.Q3F	116.5	3.0	115.7	3.0	115.8	4.2	43.2	701.7
20.Q4F	117.1	3.1	116.2	3.1	116.6	4.4	43.8	695.4
21.Q1F	118.6	3.2	117.8	3.2	118.8	4.2	44.5	704.3
21.Q2F	119.9	4.5	119.0	3.6	120.1	4.5	46.5	747.3
21.Q3F	121.2	4.0	120.0	3.7	121.2	4.6	47.9	782.2
21.Q4F	121.9	4.1	120.6	3.7	121.9	4.6	49.0	808.5
Annual averages								
2015	92.0	4.6	93.0	5.5	92.0	4.6	52.7	665.6
2016	97.8	6.3	98.2	5.6	97.8	6.3	44.2	646.2
2017	103.0	5.3	102.8	4.7	103.0	5.3	54.8	731.1
2018	107.8	4.6	107.2	4.3	107.0	3.6	71.1	942.8
2019	112.2	4.1	111.6	4.1	110.7	3.4	64.8	935.9
2020F	115.8	3.2	115.2	3.2	115.3	4.2	41.5	666.9
2021F	120.4	4.0	119.3	3.5	120.5	4.5	47.0	760.6

Note: *Crude oil price assumptions embedded into our inflation forecasts are based on Bloomberg consensus forecasts for Brent. Source: Bloomberg, Absa Research.

FIGURE 15

Main macroeconomic variables in South Africa

	2019		2020				2021				2019	2020F	2021F	2022F	2023F
	Q3	Q4	Q1	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F					
Output (% q/q saar)															
Real GDP	-0.8	-1.4	-2.0	-44.0	20.5	7.5	4.3	3.7	3.7	3.4	0.2	-8.3	2.4	1.9	1.2
Real GDP (%y/y)	0.1	-0.6	-0.3	-14.4	-10.1	-8.2	-6.7	8.8	4.8	3.8	0.2	-8.3	2.4	1.9	1.2
Private consumption	0.3	1.4	0.7	-17.1	2.4	3.7	2.4	2.5	2.9	3.1	1.0	-2.3	1.4	1.2	1.3
Public consumption	1.4	-0.2	1.1	2.1	1.8	0.6	-2.0	-2.3	-2.3	-2.2	1.5	1.2	-0.9	-2.0	-1.9
Investment	4.1	-10.0	-20.5	-66.7	6.4	4.7	9.7	9.2	9.8	10.3	-0.9	-22.7	-0.1	1.3	1.8
Exports	3.5	2.3	-2.3	-56.4	27.5	5.3	5.4	5.7	5.9	5.9	-2.5	-11.1	2.0	1.7	1.8
Imports	-8.9	-8.5	-16.7	-54.2	43.3	4.8	3.8	2.5	2.6	2.2	-0.5	-14.7	2.1	1.9	0.9
Prices (% y/y)															
CPI inflation	4.1	3.7	4.4	2.4	3.1	3.1	3.1	4.5	4.1	4.1	4.1	3.3	4.0	4.2	4.3
Core CPI inflation	4.1	3.9	3.7	3.1	3.1	3.1	3.2	3.6	3.5	3.4	4.1	3.3	3.4	3.5	3.7
PPI inflation	4.5	2.9	4.1	0.6	2	3.7	4.3	6.5	5.6	4.6	4.6	2.6	5.2	4.7	4.8
External and government accounts (% of GDP)															
Current account	-3.7	-1.3	1.3	-0.8	-1.6	-1.6	-1.6	-1.6	-1.6	-1.6	-3.0	-0.2	-2.1	-2.8	-2.9
Main budget fiscal balance*	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-6.6	-16.6	-12.0	-10.3	-8.4
Main primary balance*	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-2.6	-11.6	-6.7	-4.5	-2.4
Government debt*	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	63.5	84.6	87.7	94.1	97.4
Interest rates and exchange rate (eop)															
Repurchase rate, %	6.50	6.50	5.25	3.75	3.25	3.25	3.25	3.25	3.50	3.50	6.50	3.25	3.50	4.25	4.75
Prime rate, %	10.00	10.00	8.75	7.25	6.75	6.75	6.75	6.75	7.00	7.00	10.00	6.75	7.00	7.75	8.25
USDZAR	15.17	13.98	17.80	17.38	16.00	15.75	15.90	16.25	16.40	16.60	13.98	15.75	16.60	17.25	18.00

Note: *For fiscal year commencing 1 April.

Source: SARB, National Treasury, Stats SA, Thomson Reuters, Absa Research.

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