



South Africa Morning Sheet

- **July CPI inflation data are due out this morning at 10:00; we expect headline CPI inflation to bounce back into the target range at 3.1% y/y in July from 2.2% in June**
- **The composite leading business cycle indicator rose by 2.7% m/m in June due to an increase in seven of the nine available component time series**

July CPI inflation data are due out for release today at 10:00 and these will be the last set of CPI inflation data to be published ahead of the September MPC meeting. We forecast headline CPI to rise by 1.2% m/m after an increase of 0.5% in June, mainly due to the 12.3% m/m hike in fuel prices at the start of July. Another key factor in the July CPI data is bi-annual survey of municipal property taxes, water and electricity. We expect the electricity price index to increase by 6.9% m/m in June, in line with the energy regulator's Eskom Retail Tariff and Structural Adjustment (ERTSA) determination. The combination of these factors should push headline CPI inflation back into the target range at 3.1% y/y (Thomson Reuters consensus: 3.1%) from 2.2% in June. We expect core CPI inflation to have remain unchanged at 3.0% y/y, in line with the Thomson Reuters consensus. Stats SA stated in a note last week that it will continue to run imputations in the July CPI data, though the relaxation of lockdown restrictions had reduced the components with no pricing information to just 4.5% of the CPI basket.

The SARB yesterday released its latest composite business cycle indicators. Encouragingly, the composite leading business cycle indicator rose by 2.7% m/m (to 94.1 index points) in June compared with -4.9% in May and -6.8% in April. The increase was the first in 3 months. However, it remains 9.1% lower than its level a year earlier and on par with its levels during the global financial crisis. Seven of the nine available component time series likely benefitted from a significantly less restrictive Level 3 of lockdown in June. Meanwhile, the coincident business cycle indicator continued to decrease on a month-on-month basis in May, albeit at a slower rate. Other indicators such as the Absa and IHS Markit PMI have signalled that economic activity continued to improve in July, the second month of Level 3 lockdown. Stats SA is due to release the Q2 GDP on 8 September and we forecast that GDP contracted by 44.0% q/q saar in Q2 compared to a 2.0% fall in Q1 (see *South Africa Q3 20 Quarterly Perspectives: No easy road to recovery*, 3 August 2020).

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FIGURE 1

New data releases and key events

Date	Time	Event	Period	Survey	Absa	Prior	Prior-1	Comments
26-Aug	10:00	Headline inflation, % y/y	Jul	3.1	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	3.0	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	1.7	0.5	0.4	PPI inflation likely rose in July as a result of 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 forecast 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
Leading indicator, index	25-Aug	Jun	--	94.1	91.6	The composite leading business cycle indicator rose by 2.7% m/m in June due to an increase in seven of the nine available component time series.
Statistics of Liquidations and insolvencies	24-Aug	Jul	--	193	134	Liquidations and insolvencies data still do not reflect the effects of COVID-19, likely due to case backlogs as a result of lower capacity at courts and simply the time it takes to liquidate a firm, even in normal conditions.
Tourist accommodation income, %y/y	17-Aug	Jun	--	-95.3	-97.6	The extension of restrictions for leisure accommodation and the ongoing international travel restrictions delivered another poor month with income down 95.3% y/y in June after April and May were also sharply weak.
Land transport survey	17-Aug	Jun	--	--	--	Nominal income in freight and passenger transportation rose further in June as lockdown restrictions were eased but also remained sharply negative on a y/y basis.
Food and beverages	17-Aug	Jun	--	--	--	Income in the food and beverages sector more than tripled in real terms in June on a month-on-month basis but was still quite weak on a year-on-year basis at -50.3% in June.
Mining output, % y/y	13-Aug	Jun	--	-28.2	-27.6	Overall, on a quarter-on-quarter sa basis, mining output fell by 76.3% saar in Q2, which is worse than our official forecast of a 70.4% decline.
Retail sales, % y/y	12-Aug	Jun	-3.6	-7.5	-11.9	Retail sales volumes rose by 6.4% m/m sa in June after a 68.7% increase in May as more activity under Level 3 of lockdown; on a year-on-year basis, retail sales are down by 7.5% in June.
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 is down by 76.2% q/q saar in Q2 compared to 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 coronavirus disease 2019 (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	The July sales remained subdued as a result of passenger car sales which fell by 35.9% y/y to 18.9k units compared to a 33.3% rise in the preceding month.
Merchandise trade balance, ZARbn	31-Jul	Jun	--	46.6	19.7	Quarterly, the merchandise trade surplus was a seasonally adjusted annualised R78.4bn in Q2 compared to R203.2bn in Q1.

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	16.84	-0.6%	-3.1%	2.3%	-3.4%	9.9%	19.09	13.99
EUR/ZAR	19.93	-0.3%	-3.9%	3.0%	4.0%	17.0%	20.78	15.67
GBP/ZAR	22.15	-0.1%	-3.8%	4.3%	2.9%	18.2%	23.54	18.00
AUD/ZAR	12.11	-0.1%	-3.7%	2.9%	4.4%	16.7%	12.64	9.71
ZAR/JPY	6.31	1.0%	4.1%	-1.2%	2.6%	-8.7%	7.79	5.64
EUR/USD	1.18	0.4%	-0.9%	0.6%	7.6%	6.5%	1.19	1.07
3m JIBAR	3.44	0.0bp	0.0bp	-30.0bp	-60.0bp	-337.5bp	6.84	3.44
R208	3.55	0.0bp	0.0bp	9.0bp	-0.5bp	-306.5bp	6.85	3.46
R186 (2026)	7.39	-1.5bp	-8.0bp	-10.0bp	-34.5bp	-81.0bp	11.22	7.23
US 2-year	0.15	0.0bp	1.1bp	3.5bp	0.0bp	-137.4bp	1.80	0.11
US 10-year	0.68	3.6bp	4.1bp	16.9bp	6.6bp	-80.6bp	1.94	0.50
All Share	56,625	1.2%	-2.3%	0.1%	10.0%	1.6%	59001.87	37963.01
S&P 500	3,431	1.0%	1.8%	7.1%	16.8%	19.4%	3443.62	2237.40
Gold	1,928	-0.2%	-3.7%	-0.8%	12.5%	26.2%	2063.19	1454.25
Platinum	927	1.2%	-3.1%	-2.0%	11.7%	8.1%	1020.20	586.51
Brent	44.9	1.8%	3.3%	7.0%	41.0%	-17.7%	71.55	5.62
CDS Spreads	284.16	-0.9bp	-12.1bp	-2.3bp	-69.9bp	96.6bp	492.47	157.78

Note: Bond yield changes are denoted in basis points.

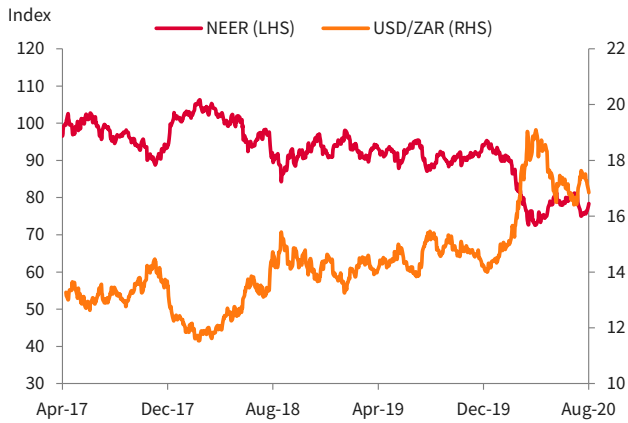
Source: Thomson Reuters, Absa Research

FIGURE 4
ZAR price of oil



Source: Thomson Reuters, Absa Research

FIGURE 6
ZAR performance



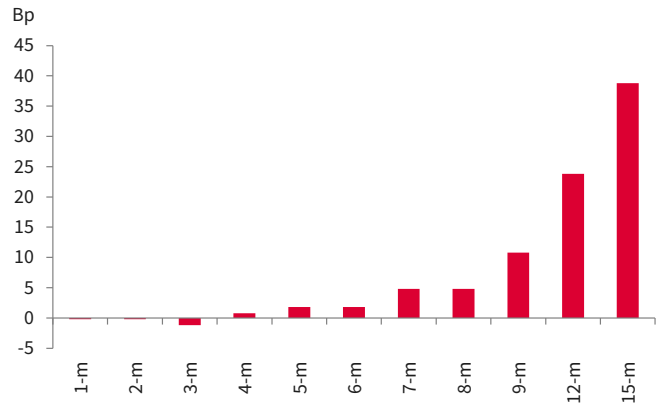
Note: Rise/fall in Nominal effective exchange rate implies ZAR ap/depreciation.
Source: Thomson Reuters

FIGURE 5
SA petrol price movements, as of 24 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)	573	564	555	558
Daily over/under recovery (c/l)	-3	-14	43	44
Avg. over/under recovery (c/l)	4	-6	16	16
o/w due to int'l price	21	12	34	34
o/w due to FX rate	-18	-17	-18	-18

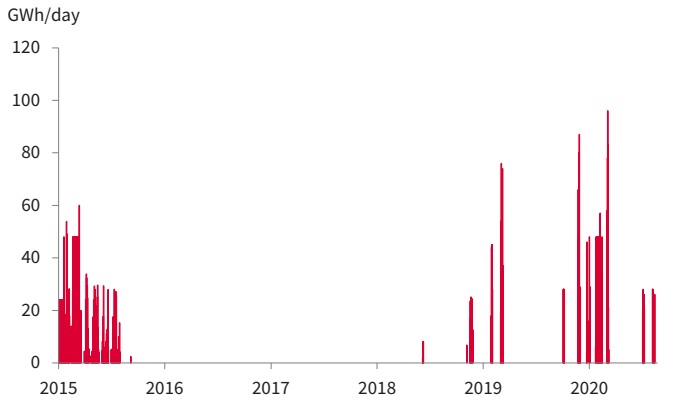
Source: CEF, Absa Research

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



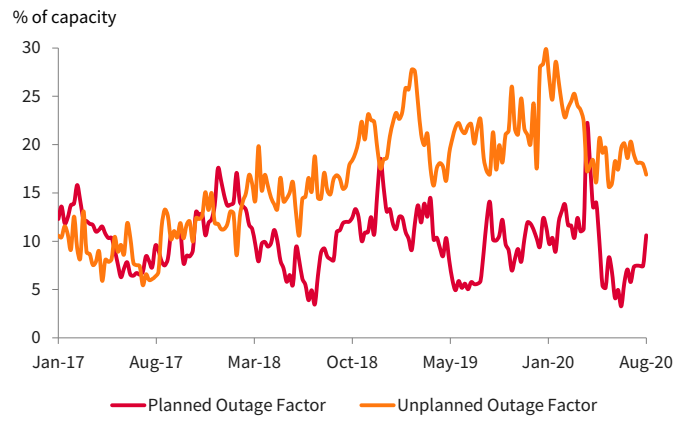
Note: Calculated by subtracting 3-month Jibar from the corresponding FRA rate.
Source: Thomson Reuters, Absa Research

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 17 August (%)	ppΔ from previous week	ppΔ from previous year	Long-run average
Eastern Cape	50.9	-0.3	-5.3	58.3
Free State	78.9	-0.8	-3.5	79.8
Gauteng	98.0	-0.8	7.5	95.1
Kwazulu-Natal	58.0	-0.5	-1.8	58.4
Lesotho	20.9	-1.1	-2.9	34.0
Limpopo	62.1	-0.5	5.8	65.6
Mpumalanga	69.8	-0.4	2.9	72.7
Northern Cape	91.7	-1.2	7.1	82.7
North West	67.7	-0.5	4.0	67.4
Eswatini	70.3	-1.5	-15.4	79.9
Western Cape	66.7	4.4	0.8	43.3
Grand total	67.4	-0.4	-1.9	68.4

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
Spot	16.76	19.80	2.42	6.35	22.00	12.02
Monthly						
Aug-20	16.54	19.12	2.35	6.46	20.99	11.61
Sep-20	16.00	18.88	2.29	6.63	20.64	11.36
Oct-20	15.90	18.76	2.27	6.67	20.51	11.29
Nov-20	15.85	18.70	2.26	6.69	20.45	11.25
Dec-20	15.75	18.59	2.25	6.73	20.32	11.18
Jan-21	15.81	18.72	2.27	6.70	20.46	11.29
Feb-21	15.84	18.79	2.27	6.69	20.53	11.34
Mar-21	15.90	18.92	2.29	6.67	20.67	11.45
Apr-21	16.04	19.12	2.31	6.64	20.90	11.56
May-21	16.11	19.22	2.32	6.62	21.02	11.62
Jun-21	16.25	19.42	2.34	6.59	21.25	11.73
Jul-21	16.31	19.62	2.36	6.56	21.48	11.84
Quarterly						
Sep-20	16.00	18.88	2.29	6.63	20.64	11.36
Dec-20	15.75	18.59	2.25	6.73	20.32	11.18
Mar-21	15.90	18.92	2.29	6.67	20.67	11.45
Jun-21	16.25	19.42	2.34	6.59	21.25	11.73
Sep-21	16.40	19.92	2.39	6.52	21.83	12.01
Dec-21	16.60	20.42	2.44	6.45	22.41	12.28
Mar-22	16.75	20.70	2.48	6.39	22.63	12.45
Annual						
Dec-20	15.75	18.59	2.25	6.73	20.32	11.18
Dec-21	16.60	20.42	2.44	6.45	22.41	12.28
Dec-22	17.25	21.56	2.61	6.20	23.29	12.94
Dec-23	18.00	22.32	2.73	5.89	24.66	12.78

Source: Bloomberg, Absa Research.

FIGURE 13

Absa exchange rate forecasts (period average)

Period avg	USDZAR	EURZAR	CNYZAR	ZARJPY	GBPZAR	AUDZAR
Spot	16.76	19.80	2.42	6.35	22.00	12.02
Monthly						
Aug-20	17.24	20.34	2.48	6.16	22.52	12.35
Sep-20	16.27	19.00	2.32	6.54	20.82	11.48
Oct-20	15.95	18.82	2.28	6.65	20.58	11.32
Nov-20	15.88	18.73	2.27	6.68	20.48	11.27
Dec-20	15.80	18.64	2.26	6.71	20.38	11.22
Jan-21	15.78	18.65	2.26	6.72	20.39	11.24
Feb-21	15.83	18.75	2.27	6.70	20.49	11.32
Mar-21	15.87	18.85	2.28	6.68	20.60	11.39
Apr-21	15.97	19.02	2.30	6.65	20.79	11.50
May-21	16.08	19.17	2.31	6.63	20.96	11.59
Jun-21	16.18	19.32	2.33	6.61	21.13	11.67
Jul-21	16.28	19.52	2.35	6.58	21.37	11.78
Quarterly						
Sep-20	16.77	19.53	2.40	6.35	21.54	11.88
Dec-20	15.88	18.73	2.27	6.68	20.48	11.27
Mar-21	15.83	18.75	2.27	6.70	20.49	11.32
Jun-21	16.08	19.17	2.31	6.63	20.96	11.59
Sep-21	16.33	19.67	2.36	6.56	21.54	11.87
Dec-21	16.50	20.17	2.42	6.48	22.12	12.14
Mar-22	16.68	20.56	2.46	6.42	22.52	12.37
Annual						
Dec-20	16.48	18.73	2.35	6.54	20.98	11.25
Dec-21	16.18	19.50	2.35	6.59	21.36	11.73
Dec-22	16.93	20.99	2.53	6.32	22.85	12.61
Dec-23	17.63	21.94	2.67	6.05	23.97	12.86

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	-0.7	-1.6	-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

Note: *For fiscal year commencing 1 April.

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

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