



South Africa Morning Sheet

- **The National Treasury's July main budget data due out this afternoon are likely to reflect a deficit of R116.8bn, an increase of nearly 18% compared with the same month last year**
- **PPI inflation for final manufactured goods rose to 1.9% y/y in July from 0.5% in June, mainly reflecting the effects of higher fuel prices**

Public finances will come into focus today as the National Treasury is due to publish the main budget data for July at 14:00 local time. We expect the data to print a main budget deficit of R116.8bn compared with a deficit of R22.3bn in June. Our projected July deficit may appear somewhat alarming compared with the June print, but we remind investors that these data are highly seasonal, and part of that jump reflect such seasonal effects. Still, a main budget deficit outcome in line with our forecast would be 17.8% higher than the deficit in the same month last year. As we argued in our *Q3 Quarterly Perspectives report*, we see the main budget deficit for the current fiscal year hitting 16.6% of GDP.

Stats SA yesterday released PPI data for July. The PPI for final manufactured goods rose 1.2% m/m in July compared with a 0.5% increase in June. Against this, headline PPI inflation increased from 0.5% y/y in June to 1.9% in July. This was slightly above our forecast and the Thomson Reuters consensus of 1.7% y/y. The increase in PPI inflation was mainly as a result of higher fuel prices and a notable increase in the price of 'electrical, machinery and communication' products. The effect of the rise in fuel prices at the start of July was evident in the 'coke, petroleum and chemical' category where the deflation rate eased to -2.5% in July from -8.9% in June. Meanwhile, after remaining unchanged in May and June, 'electrical, machinery and communication' products prices rose 1.8% m/m in July, taking the y/y inflation in this category to 2.0%, the highest figure since December 2019. 'Food, beverages and tobacco' products inflation was unchanged at 3.2% y/y in July. We forecast PPI inflation to average 2.6% y/y over the remainder of the year and currently see no material upside risks from these data for our CPI inflation forecast profile.

Economics

Peter Worthington
+27 21 927 6525
peter.worthington@absa.co.za
Absa, South Africa

Miyelani Maluleke
+27 11 895 5655
miyelani.maluleke@absa.co.za
Absa, South Africa

Sello Sekele
+27 11 895 5685
sello.sekele@absa.co.za
Absa, South Africa

FI and FX Strategy

Mike Keenan
+27 11 895 5513
mike.keenan@absa.co.za
Absa, South Africa

Nikolaus Geromont
+27 11 895 6120
nikolausphilip.geromont@absa.co.za
Absa, South Africa

www.absa.co.za

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FIGURE 1
New data releases and key events

Date	Time	Event	Period	Survey	Absa	Prior	Prior-1	Comments
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.
31-Aug	8:00	Private sector credit extension, % y/y	Jul	--	5.6	5.6	6.3	Lending growth likely to have remained broadly stable in July as lockdown relation likely lifted an improvement in borrowing on a m/m basis.
31-Aug	14:00	Merchandise trade balance, ZARbn	Jul	--	12.5	46.6	19.7	The merchandise trade data have been highly volatile in recent months but we expect another surplus in July due to a combination of weak domestic demand and broadly firmer export commodity prices.
1-Sep	11:00	Absa manufacturing PMI, index	Aug	--	--	51.2	53.9	Activity levels continued to improve in July as lockdown restrictions were relaxed.
1-Sep	16:00	NAAMSA vehicle sales, % y/y	Aug	--	-27.5	-29.6	-30.7	Vehicle sales likely to have continued to contract sharply on a year-on-year basis.
3-Sep	9:15	IHS Markit economy-wide PMI, index	Aug	--	--	44.9	42.5	Despite the easing of lockdown restrictions, the Markit PMI has surprisingly remained below the 50-point mark.
3-Sep	12:00	Provisional financing data	Aug	--	--	--	--	The provisional financing data are a good signal of the likely main budget balance for the month.

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
Producer Price Index, % y/y	27-Aug	Jul	1.7	1.9	0.5	PPI inflation for final manufactured goods rose from 0.5% y/y in June to 1.9% in July as a result of higher fuel prices.
Headline inflation, % y/y	26-Aug	Jul	3.1	3.2	2.2	Most of the rise was driven by an already well-telegraphed hike in fuel prices.
Core inflation, % y/y	26-Aug	Jul	3.0	3.2	3.0	Core inflation was lifted by higher inflation in the 'alcohol and tobacco' and miscellaneous categories.
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	--	193.0	134.0	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	17.04	1.0%	-1.7%	2.5%	-3.0%	10.2%	19.09	13.99
EUR/ZAR	20.16	1.0%	-1.7%	3.2%	3.8%	17.9%	20.78	15.67
GBP/ZAR	22.47	0.9%	-1.5%	4.6%	4.2%	19.6%	23.54	18.00
AUD/ZAR	12.37	1.4%	-0.4%	4.0%	6.5%	19.3%	12.64	9.71
ZAR/JPY	6.25	-0.5%	2.8%	-0.6%	2.5%	-8.5%	7.79	5.64
EUR/USD	1.18	-0.1%	0.0%	0.6%	7.1%	7.0%	1.19	1.07
3m JIBAR	3.44	0.0bp	0.0bp	-23.3bp	-56.6bp	-337.5bp	6.84	3.44
R208	3.68	12.5bp	12.5bp	21.5bp	12.0bp	-294.0bp	6.85	3.46
R186 (2026)	7.42	0.0bp	-7.0bp	-18.5bp	-22.5bp	-81.0bp	11.22	7.23
US 2-year	0.16	0.4bp	1.7bp	4.3bp	-1.0bp	-130.4bp	1.80	0.11
US 10-year	0.75	5.9bp	13.0bp	21.1bp	9.4bp	-69.2bp	1.94	0.50
All Share	56,572	0.8%	0.8%	1.0%	13.6%	2.7%	59001.87	37963.01
S&P 500	3,479	1.0%	3.3%	8.3%	16.5%	22.7%	3484.55	2237.40
Gold	1,929	-1.3%	-0.2%	-1.6%	12.9%	26.0%	2063.19	1454.25
Platinum	929	0.0%	1.5%	0.8%	11.1%	8.9%	1020.20	586.51
Brent	46.5	-0.6%	-1.1%	3.7%	40.3%	-24.2%	71.55	5.62
CDS Spreads	286.15	2.4bp	-7.7bp	0.1bp	-45.9bp	98.1bp	492.47	157.78

Note: Bond yield changes are denoted in basis points.

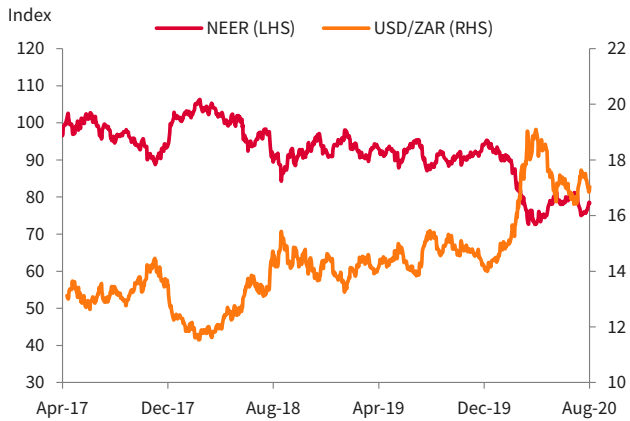
Source: Thomson Reuters, Absa Research

FIGURE 4
ZAR price of oil



Source: Thomson Reuters, Absa Research

FIGURE 6
ZAR performance



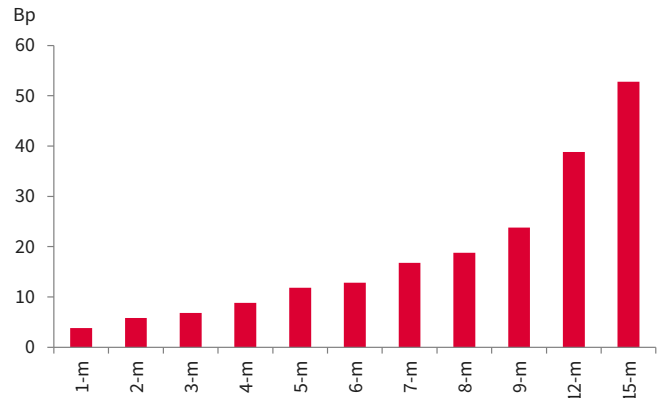
Note: Rise/fall in Nominal effective exchange rate implies ZAR ap/depreciation.
Source: Thomson Reuters

FIGURE 5
SA petrol price movements, as of 26 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)	569	560	552	555
Daily over/under recovery (c/l)	1	-10	45	47
Avg. over/under recovery (c/l)	3	-6	19	19
o/w due to int'l price	19	9	34	35
o/w due to FX rate	-16	-15	-16	-16

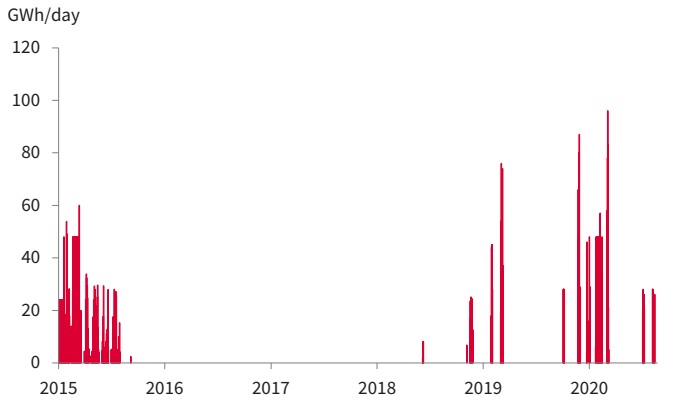
Source: CEF, Absa Research

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



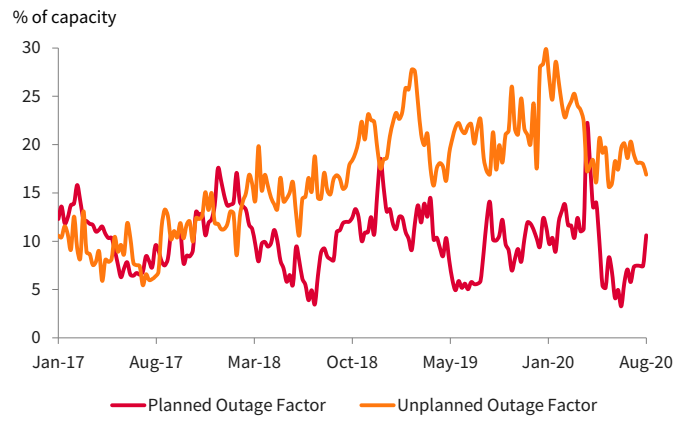
Note: Calculated by subtracting 3-month Jibar from the corresponding FRA rate.
Source: Thomson Reuters, Absa Research

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	Core CPI index	Core CPI %/y	Food CPI index	Food CPI %/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	63.6	915.7
20-Feb	115.2	4.6	114.4	3.8	114.0	4.2	55.7	836.6
20-Mar	115.6	4.1	115.1	3.7	114.3	4.2	31.9	531.5
20-Apr	115.0	3.0	114.9	3.2	114.7	4.4	18.5	342.6
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
20-Jul	116.4	3.2	115.8	3.2	115.5	4.3	42.9	727.1
Aug-20F	116.7	3.2	115.9	3.2	115.9	4.2	43.7	710.8
Sep-20F	116.8	3.0	116.2	3.3	116.2	4.2	45.6	733.8
Oct-20F	116.9	3.1	116.3	3.3	116.2	4.3	43.6	695.2
Nov-20F	116.9	3.0	116.4	3.3	116.5	4.3	43.8	695.5
Dec-20F	117.2	3.0	116.6	3.3	116.8	4.2	44.0	695.5
Jan-21F	117.5	3.0	116.7	3.2	118.5	4.4	44.1	695.5
Feb-21F	118.8	3.1	118.2	3.3	119.0	4.3	44.5	703.7
Mar-21F	119.4	3.3	119.0	3.3	119.3	4.3	45.0	713.7
Apr-21F	119.6	4.0	119.0	3.6	119.7	4.3	45.9	733.4
May-21F	119.7	4.7	119.0	3.7	120.0	4.3	46.5	748.1
Jun-21F	120.1	4.5	119.4	3.8	120.4	4.4	47.1	760.6
Jul-21F	121.1	4.1	119.9	3.5	120.6	4.4	47.5	771.9
Aug-21F	121.2	3.9	119.9	3.5	121.0	4.4	47.9	782.5
Sep-21F	121.6	4.1	120.3	3.5	121.3	4.4	48.3	792.2
Oct-21F	121.6	4.0	120.2	3.3	121.4	4.5	48.7	801.0
Nov-21F	121.7	4.1	120.3	3.3	121.7	4.5	49.0	808.8
Dec-21F	122.1	4.2	120.6	3.4	122.1	4.5	49.3	815.7
Quarterly averages								
19.Q1	110.1	4.2	110.1	4.4	109.5	3.0	63.1	884.6
19.Q2	112.0	4.5	111.4	4.2	110.3	3.3	69.8	1002.0
19.Q3	113.1	4.1	112.3	4.2	111.1	3.7	62.1	911.2
19.Q4	113.6	3.8	112.7	3.9	111.7	3.7	64.4	945.9
20.Q1	115.0	4.4	114.2	3.7	113.9	4.0	50.4	761.3
20.Q2	114.7	2.4	114.9	3.1	115.0	4.3	29.4	522.0
20.Q3F	116.6	3.1	116.0	3.2	115.9	4.3	44.1	723.9
20.Q4F	117.0	3.0	116.4	3.3	116.5	4.3	43.8	695.4
21.Q1F	118.6	3.1	118.0	3.3	118.9	4.4	44.5	704.3
21.Q2F	119.8	4.4	119.1	3.7	120.0	4.4	46.5	747.3
21.Q3F	121.3	4.0	120.0	3.5	121.0	4.4	47.9	782.2
21.Q4F	121.8	4.1	120.4	3.4	121.8	4.5	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	4.2	110.7	3.4	64.8	935.9
2020F	115.8	3.2	115.4	3.3	115.3	4.2	41.9	675.7
2021F	120.4	3.9	119.4	3.5	120.4	4.4	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	3.0	3.1	4.4	4.0	4.1	4.1	3.2	3.9	4.2	4.3
Core CPI inflation	4.1	3.9	3.7	3.1	3.2	3.3	3.3	3.7	3.5	3.4	4.1	3.3	3.5	3.5	3.7
PPI inflation	4.5	2.9	4.1	0.7	2.1	2.8	3.3	5.6	4.9	5.0	4.6	2.4	4.7	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.

Absa Research Team

FICC Research

Jeff Gable

Head of FICC Research
+27 11 895 5368
jeff.gable@absa.co.za
Absa, South Africa

Sello Sekele

Macroeconomics South Africa
+27 11 895 5685
sello.sekele@absa.co.za
Absa, South Africa

Nikolaus Geromont

FI/FX Strategy South Africa
+27 11 895 6120
nikolausphilip.geromont@absa.co.za
Absa, South Africa

Ridle Markus

Macroeconomics Sub-Saharan Africa
+27 11 895 6690
ridle.markus@absa.co.za
Absa, South Africa

Peter Worthington

Macroeconomics South Africa
+27 21 927 6525
peter.worthington@absa.co.za
Absa, South Africa

Sivenathi Marwarwa

Credit Strategy South Africa
+27 11 895 5722
sivenathi.marwarwa@absa.co.za
Absa, South Africa

Kgotso Radira

Macroeconomics South Africa
+27 11 895 5347
kgotso.radira@absa.co.za
Absa, South Africa

Samantha Singh

FI & Credit Strategy Sub-Saharan Africa
+27 11 895 5773
sam.singh@absa.co.za
Absa, South Africa

Miyelani Maluleke

Macroeconomics South Africa
+27 11 895 5655
miyelani.maluleke@absa.co.za
Absa, South Africa

Mike Keenan

FI/FX Strategy South Africa
+27 11 895 5513
mike.keenan@absa.co.za
Absa, South Africa

Andiswa Mdingi

Macroeconomics South Africa
+27 11 895 7036
andiswa.mdingi@absa.co.za
Absa, South Africa

Equity Research

Niel Venter

Head of Equity Research
Analyst: Telecommunication
+27 11 895 6444
niel.venter@absa.co.za
Absa, South Africa

Khaya Mthembu

Banking
+27 11 895 7323
khayelihle.mthembu@absa.co.za
Absa, South Africa

Linet Muriungi

Energy & Tobacco
+25 420 425 4679
linet.muriungi@absa.africa
Absa, South Africa

Mahir Hamdulay

Property
+27 21 816 4589
mahir.hamdulay@absa.africa
Absa, South Africa

Darren Cohn, CFA

Analyst: Retail
+27 11 895 7639
darren.cohn@absa.co.za
Absa, South Africa

Grant Davids

Banking & Insurance
+27 11 350 6118
grant.davids@absa.co.za
Absa, South Africa

Christina Steyn

Diversified Industrials & Chemicals
+27 11 895 6023
christina.steyn@absa.co.za
Absa, South Africa

Fayyaad Amien

Property
+27 21 816 4644
fayyaad.amien@absa.africa
Absa, South Africa

Samantha Naicker

Retail
+27 11 895 6004
samantha.naicker2@absa.co.za
Absa, South Africa

Timothy Wambu, CFA

Kenyan and Nigerian Banks
+254 20 42 54 630
timothy.wambu@absa.africa
Absa, South Africa

Dr Anuja Joshi

Healthcare
+27 11 895 6032
anuja.joshi@absa.africa
Absa, South Africa

ANALYST (S) CERTIFICATIONS (S):

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