

FNB Agric



# Outlook for ..... now

*(nothing further)*

SAMPA AGM

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# *Disclaimer*

I'M ONLY  
RESPONSIBLE  
FOR WHAT I SAY  
NOT FOR WHAT YOU UNDERSTAND



# Global situation



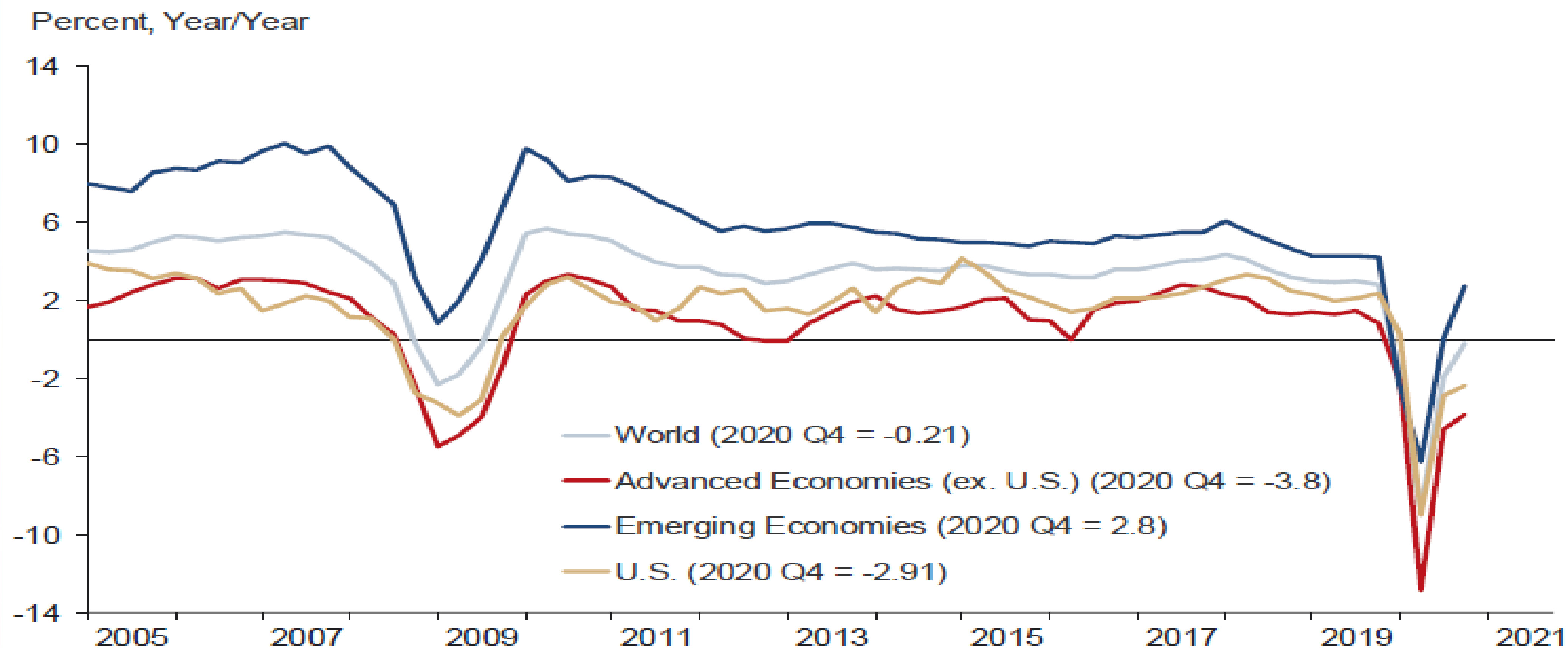


# Global backdrop

- Steady recovery from pandemic shock
  - Persistent risks for repeated waves
  - Dependant on vaccinations
- Other major themes
  - Oil market volatility
  - US-China trade tensions
  - Nationalistic politics and anti-globalisation

# Global GDP

**Chart 1. Global GDP Growth**



NOTE: The advanced economies (ex. U.S.) aggregate includes the Euro Area, Japan, the U.K., Canada, Australia, South Korea, Switzerland and Sweden. The emerging economies aggregate includes China, Brazil, Russia, India, Mexico, Indonesia, Turkey, Argentina, South Africa and Colombia. The world aggregate includes these countries, which make up approximately 80 percent of world GDP computed using purchasing power parity (PPP)-adjusted GDP weights.

SOURCES: National Statistical Offices, International Monetary Fund; Haver Analytics

Globalization Institute  
Federal Reserve Bank of Dallas

# GLOBAL ASSUMPTIONS

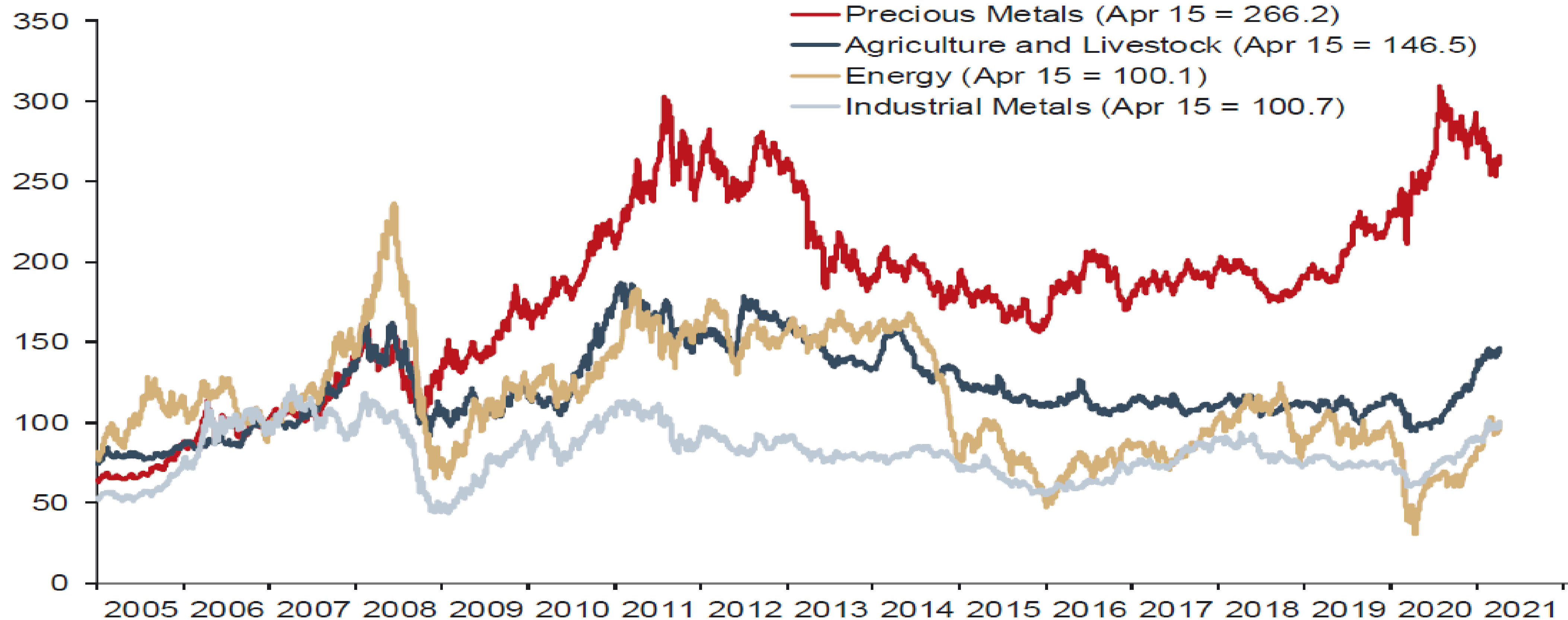
	2018	2019	2020	2021f	2022f
Economic growth (% y/y, year average) (f)					
US	2.9	2.3	-3.5	6.6	4.1
Eurozone	1.8	1.2	-7.5	4.2	4.2
China	6.6	6.1	2.2	8.5	5.5
Commodities (year end)					
Brent crude (US\$/bbl)	72.0	62.0	51.78	62.0	63.5
Gold (US\$/oz)	1,250	1,450	1,898	1,800	1,825
Platinum (US\$/oz)	790.0	850.0	1,072	950.0	1,050

# Commodity prices

Commodity supercycle?

**Chart 9. Commodity Prices**

Index, Jan. 2007 = 100



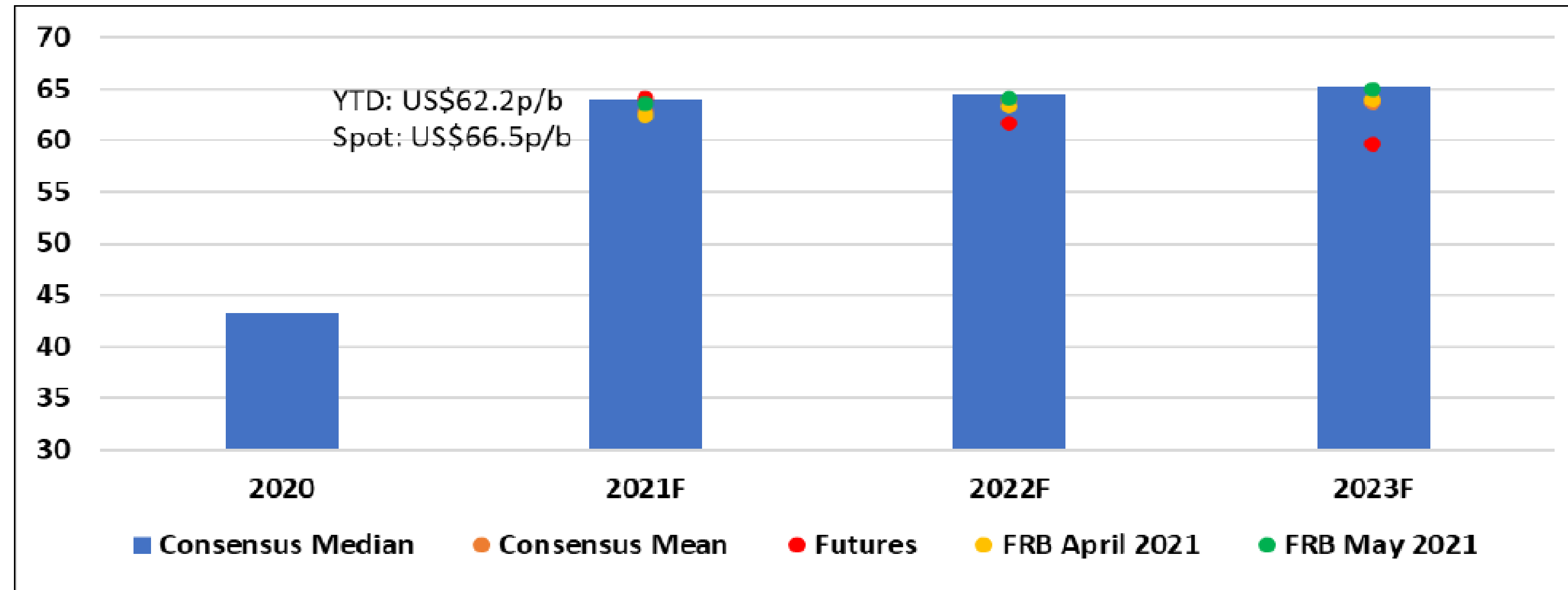
SOURCES: Goldman Sachs; Haver Analytics

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# Oil price

## Supply conditions firmly driving oil prices



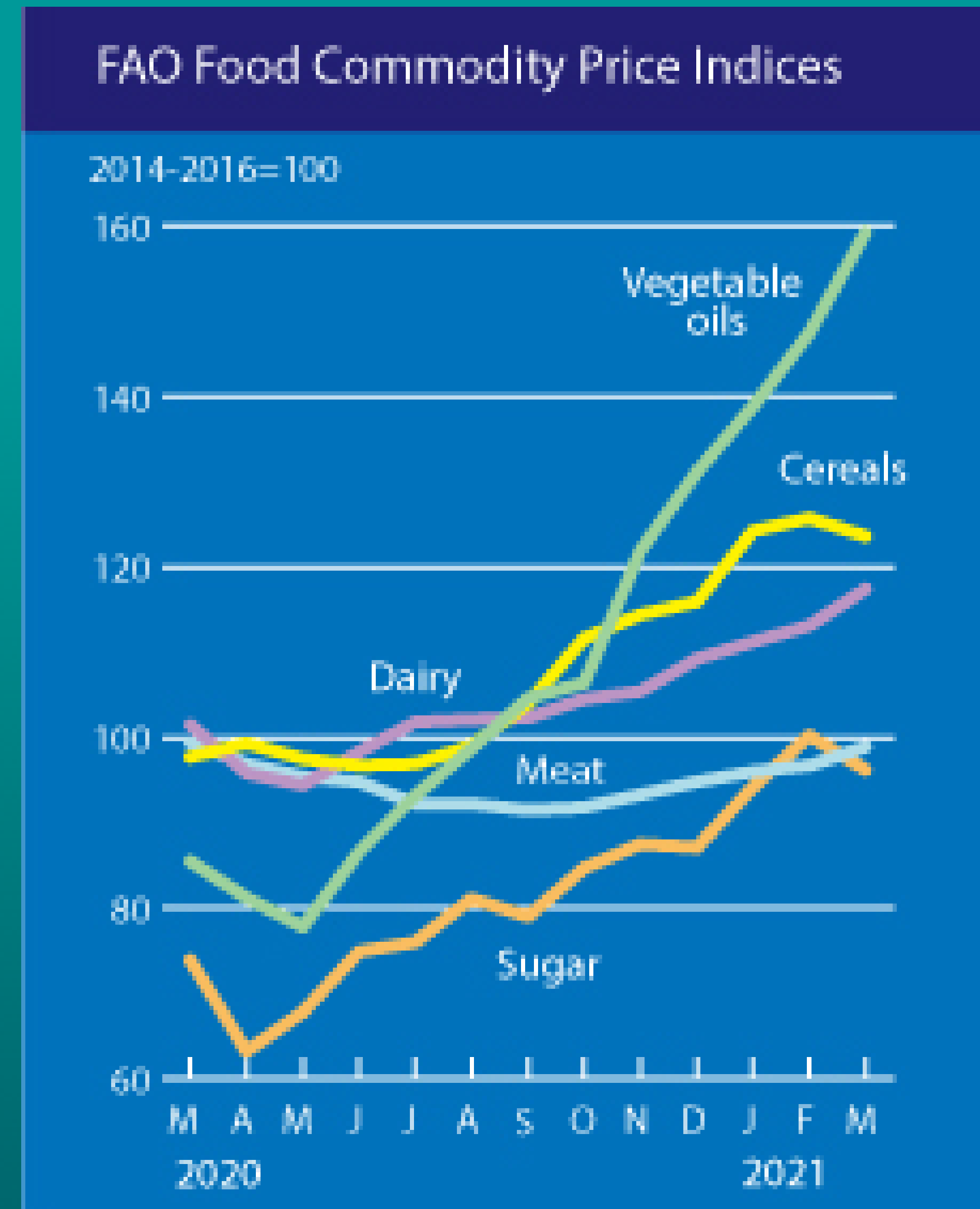
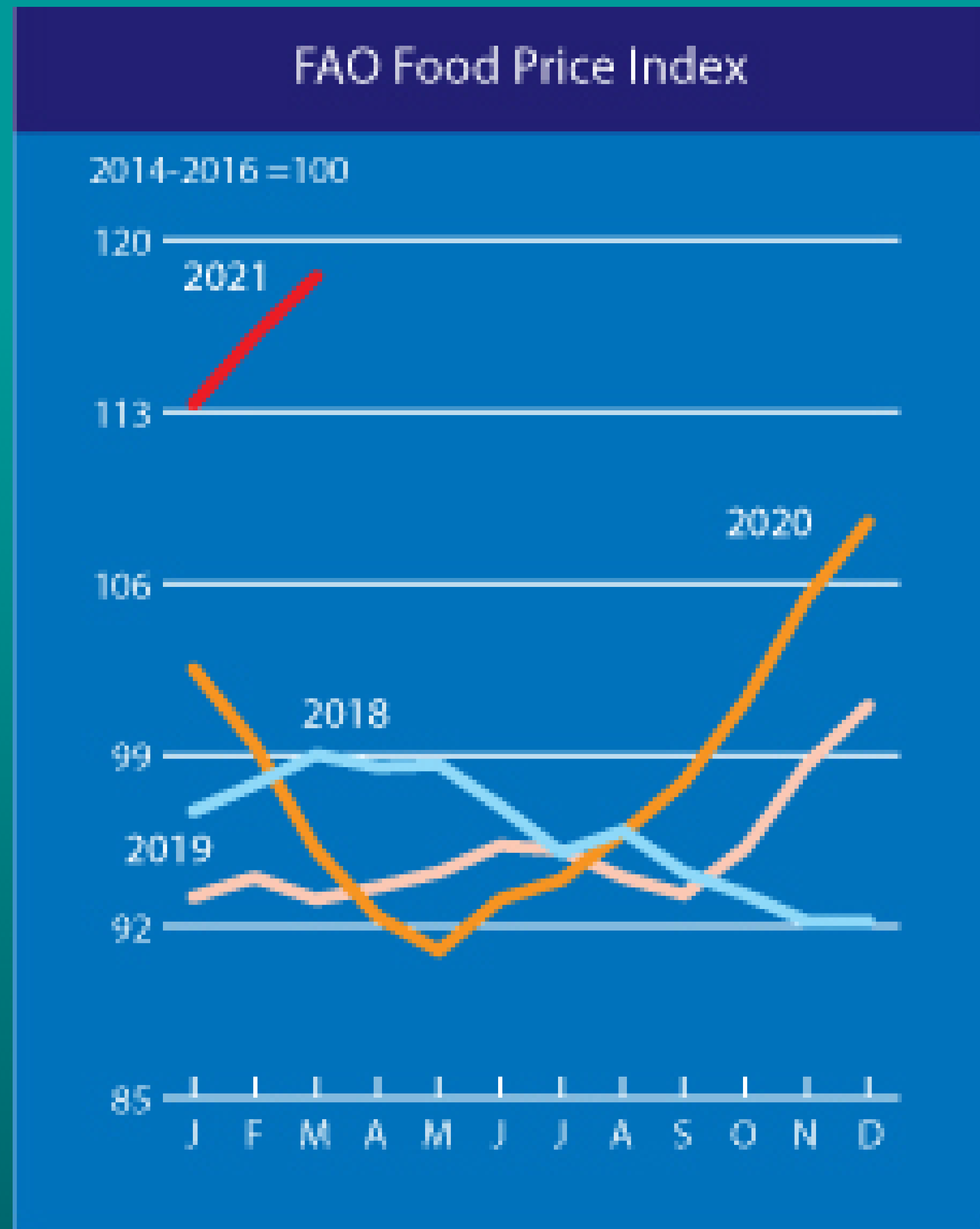
	2021F	2022F	2023F
Brent crude, US\$p/b (consensus)	64	64.5	65.3
FRB Proposal, US\$p/b annual ave	63.5	64.1	65.0
FRB Proposal, US\$p/b EOP	64	65.5	66

- Improving demand outlook to drive further gains
- Shale unlikely to respond as fast as previous recovery
- OPEC+ production cuts remain supportive





# World Food price index





# South African economy

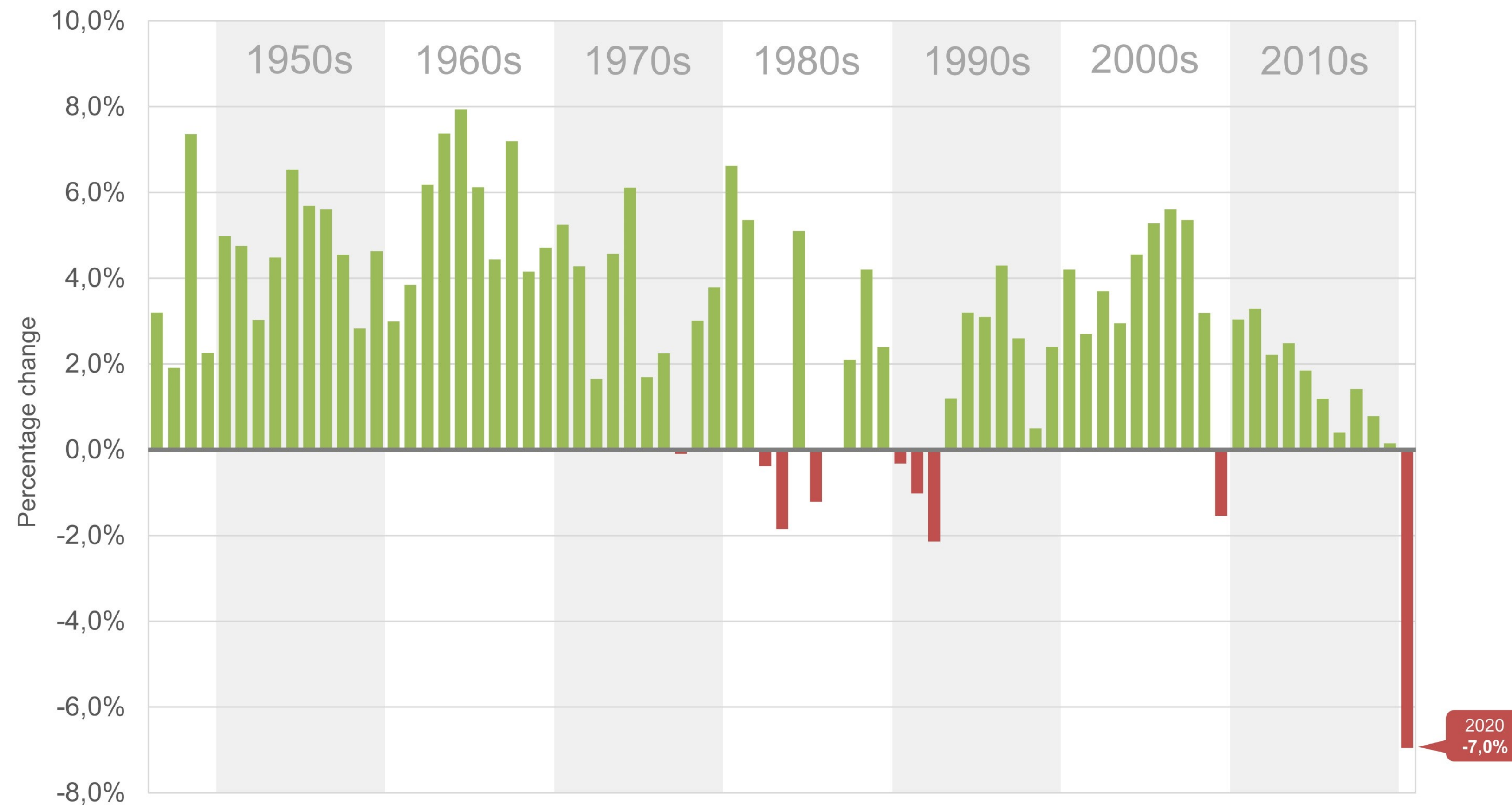




# South Africa GDP

**The South African economy contracted by 7,0% in 2020, the largest annual decrease in GDP since the end of World War II**

Annual growth, constant 2010 prices



Sources: South African Reserve Bank

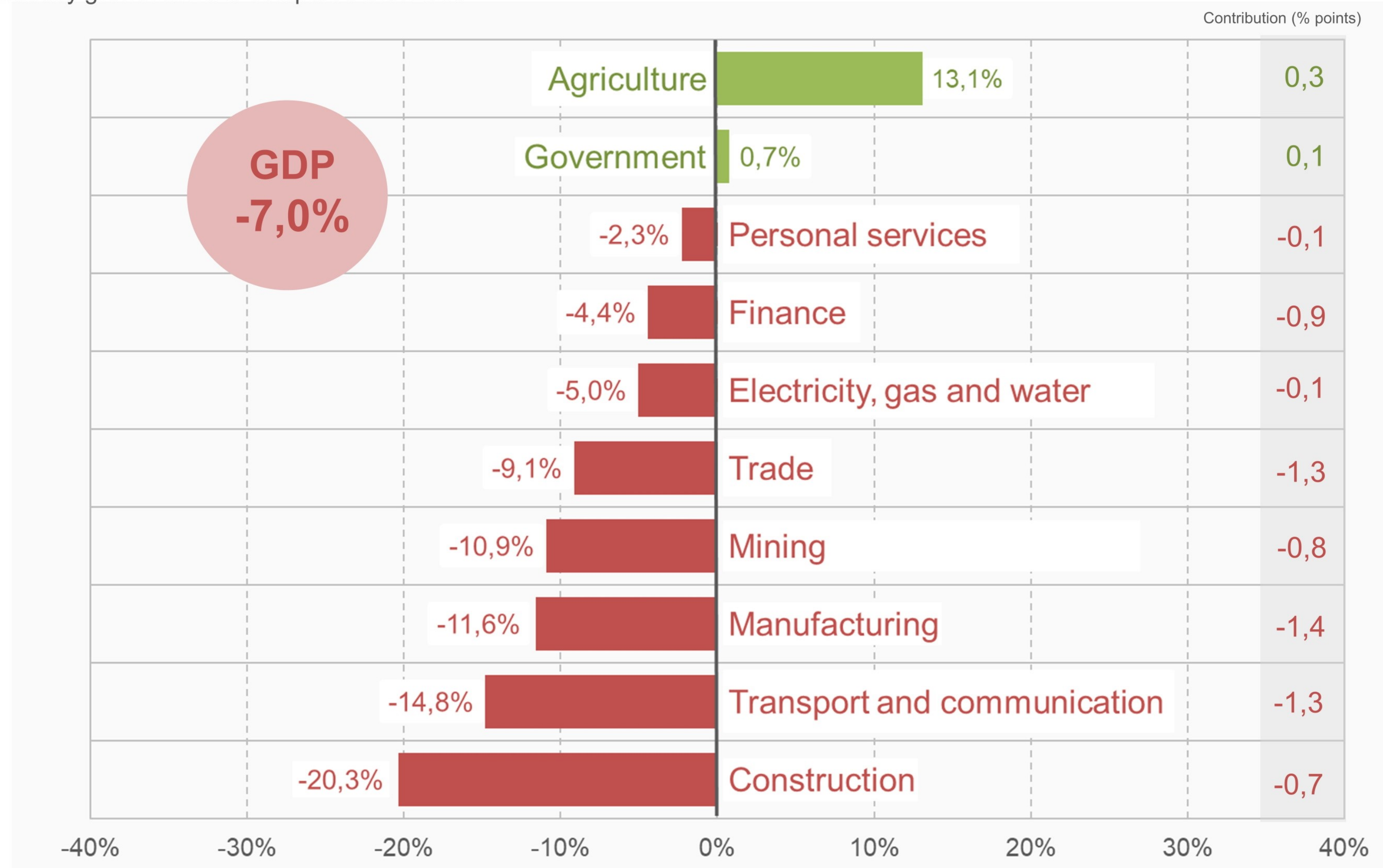
Stats SA, Gross domestic product (GDP), 4<sup>th</sup> quarter 2020



# South Africa GDP

## Eight of the ten industries recorded decreased economic activity in 2020

Industry growth in 2020 compared with 2019



Source: Gross domestic product (GDP), 4<sup>th</sup> quarter 2020



# SA ECONOMY SCENARIOS FOR THE NEXT 12 MONTHS

Scenario (probability)	Base case: 65% (previous: 65%)	Bull case: 10% (previous: 10%)	Bear case: 25% (previous: 25%)
<b>Covid-19 and lockdown</b>	Government continues to implement a targeted lockdown approach as the SA economy contends with repeated increases in active cases. Quickening global recovery supports activity in export-oriented sectors, but electricity supply shortages and a slow vaccine roll-out will continue to weigh on the pace of the recovery.	Active cases increase but pressure on healthcare system is limited as government meets its vaccine roll-out target. This, coupled with better-than-expected global growth, leads to further improvement in the growth outlook.	Further waves of the pandemic result in greater restrictions on economic activity. Mutating covid-19 strains constrain government's vaccination efforts as efficacy of vaccines is reduced. This, coupled with a weakening global economy, leads to further deterioration in the growth outlook.
<b>Growth</b>	2021: 3.7% (3.3%) 2022: 1.3% (1.0%) 2023: 1.7% (1.5%)	2021: 4.6% 2022: 2.5% 2023: 2.9%	2021: 2.8% 2022: 0.5% 2023: 1.0%
<b>Inflation</b>	2021: 4.1% 2022: 4.3% 2023: 4.7%	2021: 4.3% 2022: 4.5% 2023: 5.0%	2021: 4.0% 2022: 4.3% 2023: 4.7%
<b>Fiscal policy (main balance as a % of GDP)</b>	FY20/21: -11.8% FY21/22: -8.8% FY22/23: -7.7% FY23/24: -7.2%	FY20/21: -11.8% FY21/22: -7.8% FY22/23: -5.8% FY23/24: -4.6%	FY20/21: -11.8% FY21/22: -10.4% FY22/23: -10.2% FY23/24: -10.5%
<b>Monetary policy</b>	Repo rate kept on hold at 3.5% during 2021. Rate hikes begin in 2H22.	Repo rate remains stable.	Repo rate kept stable to end of 2022; hikes begin in 2023.
<b>Rand (vs. US dollar)</b>	Trades around 14.80, in a range between 14.00 and 16.50. Ends the year at 15.17.	Trades around 14.50, in a range between 13.70 and 16.00. Ends the year at 14.50.	Trades around 15.50
<b>Bond yields – 10-yr government bonds</b>	Generic 10-yr ends the year at 9.5%.  Curve remains steep.	Generic 10-yr ends the year at 9.2%.  Curve flatter than in the base case	Generic 10-yr ends the year at 10.0%.  Curve bear steepens from current levels.

# South Africa - Forecast

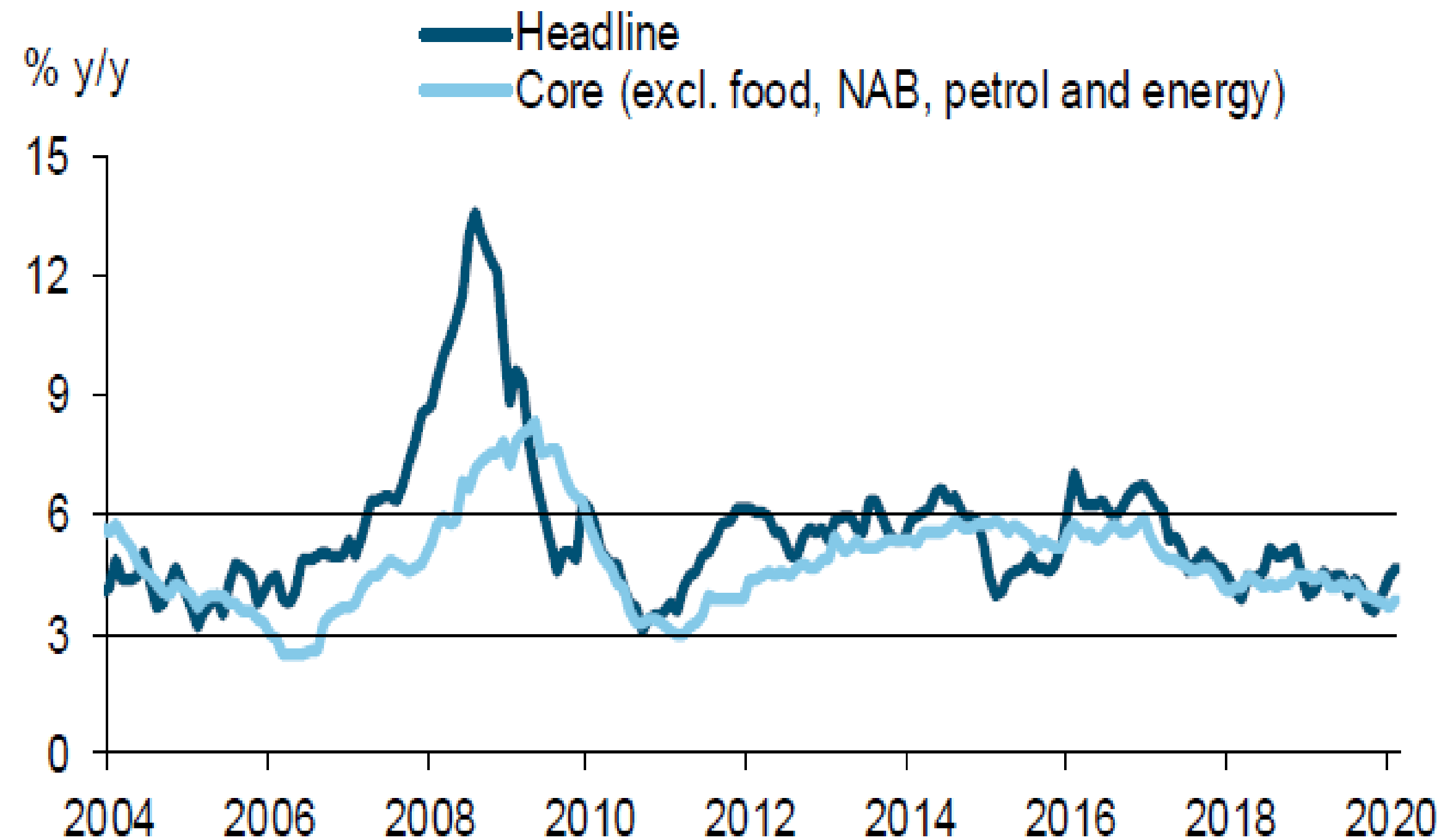
	2018	2019	2020	2021f	2022f	2023f
<b>Real GDP (% y/y, year average)</b>						
GDP	0.8	0.2	-7.0	3.7	1.3	1.7
<b>Inflation</b>						
CPI (% y/y, year average)	4.6	4.1	3.3	4.1	4.3	4.7
CPI (% y/y, year end)	4.5	4.0	3.1	4.6	4.4	4.8
Core CPI (% y/y, year average)	4.3	4.1	3.3	2.9	3.9	4.6
Core CPI (% y/y, year end)	4.4	3.8	3.3	2.9	4.3	4.7
PPI (% y/y, year average)	5.4	4.6	2.5	5.3	4.3	4.8
<b>Interest rates</b>						
Repo rate (% , year end)	6.75	6.50	3.50	3.50	3.75	4.75
Prime rate (% , year end)	10.25	10.00	7.00	7.00	7.25	8.25





# Inflation

## Headline and core inflation



## Inflation checklist

	1-3 months	4-12 months
	Short term	Medium term
Food prices	↑	→
Energy prices	↑	↑
Wage growth	→	→
Exchange rate	→	→
Import prices	↑	↑
Administered prices	↑	↑
Output gap	↓	↓
Money supply/credit growth	↓	→
<u>Inflation expectations</u>	↓	→

# Exchange rate

Fair value for USD/ZAR currently 14.00 – trading between 16.50 and 14.30

Moves towards 14.30

- Vaccine hopes
- Stimulatory responses in DM's
- SA inflation remain close to 3% than 4%
- Further acceleration in commodity prices

Moves toward 16.50

- Recurrent bouts of Covid-19 and global growth fears
- Geopolitical tensions
- Worse than expected growth numbers and rising inflation



ZAR rates	4Q20	1Q21	2Q21	3Q21	31-Dec-2021	31-Dec-22	31-Dec-23
USD/ZAR	14.69	14.78	14.70	15.00	14.87	15.20	15.57
EUR/ZAR	17.95	17.33	17.50	18.12	18.14	18.44	18.84
GBP/ZAR	20.09	21.64	20.09	20.37	19.99	20.13	19.78



# So what is the outlook in the medium term?

- Recovery of economy – Global & Local – barring some risks
- Flat interest rates, benefiting consumers/producers
- Changes in consumer demand – it is here to stay
- Risks:
  - **Politics not good for confidence**
  - **Load shedding even worse for confidence**
  - **Pandemics (Version x.x) doesn't help either**





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Thank you