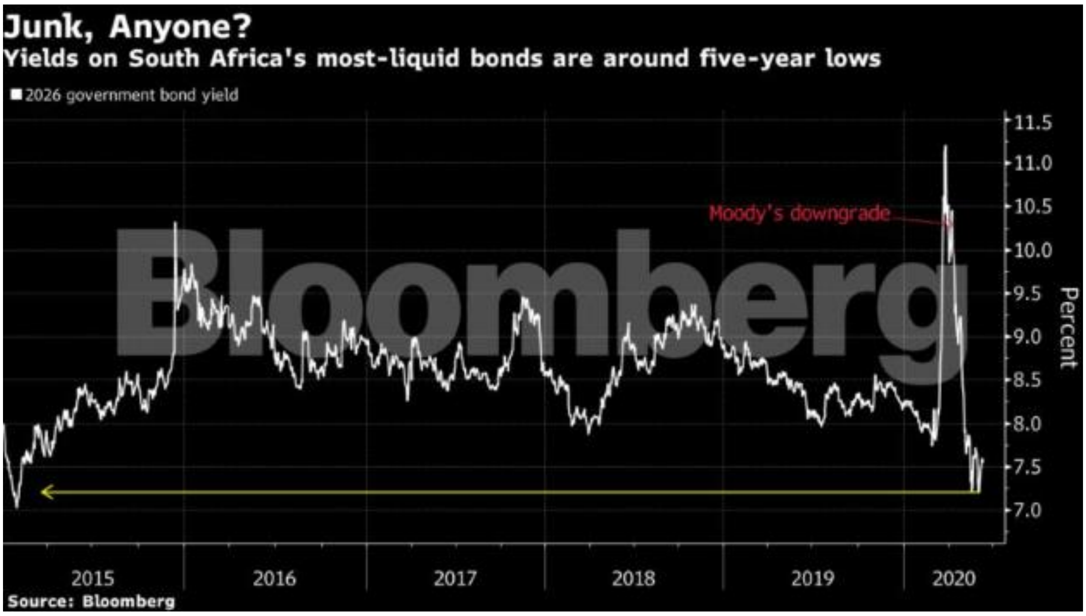
# Junk rating forgotten, investors pile back into SA


- **South Africa was downgraded to junk by Moody's in March.**
- **However, global monetary and fiscal stimulus and a weaker dollar have sparked an emerging market rally.**
- **Foreign investors are returning to SA's bond market.**
- **SA is now paying less to borrow and the rand has rebounded.**

It's as if South Africa's downgrade to junk never happened.

The country is now paying less to borrow in the local-currency than at any time in the five years before Moody's Investors Service removed its last investment-level rating on March 27. The rand has rebounded, risk premia have returned to pre-downgrade levels, and foreign investors are streaming back into the country's bond market after a record selloff in the first five months of the year.

That shows how global developments - specifically, the emerging-market rally sparked by global monetary and fiscal stimulus and a weaker dollar - matter more than domestic risks. It's also good news for President Cyril Ramaphosa, who's had to increase borrowing as an economic slump, worsened by the Covid-19 lockdown, curtails tax revenue.

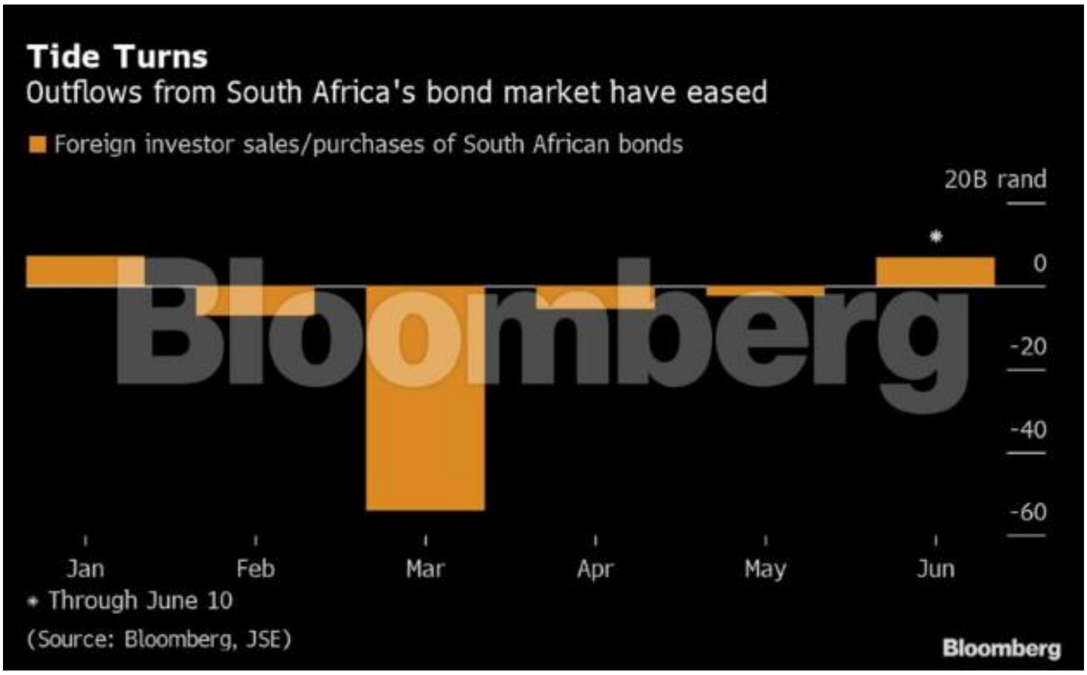


With the loss of the last investment rating and South Africa’s subsequent expulsion from the FTSE World Government Bond Index out of the way, the rand’s idiosyncratic risks have diminished and the currency is once again a "bellwether for global recovery," according to Societe Generale SA. That was clear on Thursday, when a sudden risk-off tilt in globalmarket saw the rand post its biggest one-day decline almost four years.

"Although South Africa’s fiscal position grows increasingly perilous, fiscal dynamics are likely to be less potent a rand driver than the path of the global recovery post-pandemic," Societe Generale strategists led by Jason Daw wrote in a report. The Paris-based lender recommends an overweight position in South African sovereign credit.

The South African currency gained 0.6% on Friday to 17.0644 per dollar, paring Thursday’s 3.8% decline.

- **The rand weakened more than 9% in the days following the Moody’s downgrade to a record 19.35 per dollar on April 6, but has rebounded as much as 13% since then.**
- **The cost of insuring South Africa’s debt against default for five years using credit-default swaps more than doubled in March and April to a record, but fell back to a three-month low this week.**
- **The extra premium investors demand to hold the country’s dollar bonds rather than U.S. Treasuries has narrowed 296 basis points from a record high in March.**
- **After selling a record 64 billion rand ($3.8 billion) of South African government bonds on a net basis in the five months through May, foreign investors are buyers again. Inflows this month through June 10 stood at 6.9 billion rand, according to JSE Ltd. data.**
- **The National Treasury has attracted orders for more than twice the amount on offer at its weekly debt auctions, even after increasing sales by 34% last month.**




Bond yields have room to move lower as inflation slows due to low oil prices and the pandemic-induced decline in consumer demand, according to Societe Generale. Bond purchases by the central bank and the global search for yield should also support South African debt, the strategists said.