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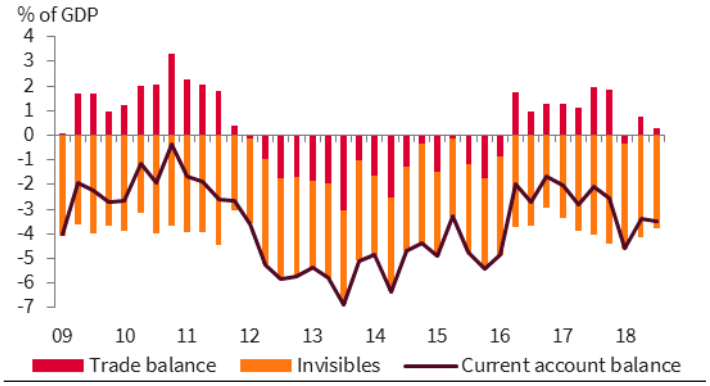
South Africa Q3 18 Current Account

Deficit widened marginally to 3.5% of GDP

A much smaller merchandise trade surplus was partially offset by a narrower deficit in net income receipts, leaving South Africa's current account deficit widening just marginally by 0.1pp to 3.5% of GDP in Q3 18. The Q4 merchandise trade data have started on a weak note with a wider-than-expected deficit in October. Moreover, we see some near-term adverse risks including disruptions to gold production, an accident at a major iron ore exporter and the likely need for increased diesel imports to run OCGTs due to ongoing strain to Eskom's baseload capacity.

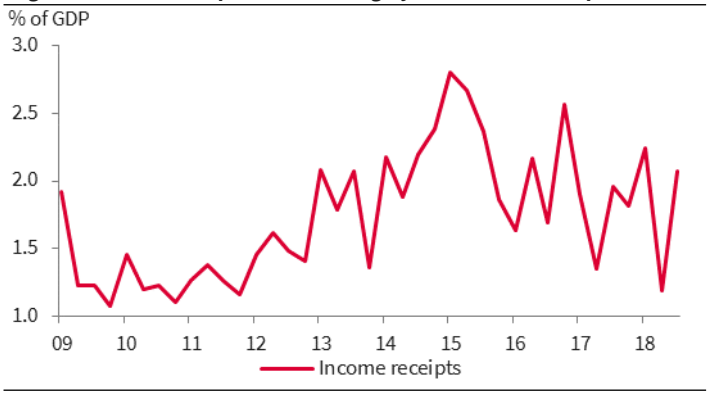
South Africa posted a slightly wider current account deficit in Q3 18 as its merchandise trade surplus shrank. The SARB published the Q3 current account data of the balance of payments this morning, ahead of the release of the financing data next Friday. The current account deficit printed at 3.5% of GDP, only just wider compared to the revised print of 3.4% (initial estimate: 3.3%) of GDP in Q2 (Figure 1). The surplus on merchandise trade fell notably to just 0.3% of GDP in Q3 (Q2: 0.8% of GDP), as the seasonally adjusted rand value of imports increased a bit faster than the rand value of exports. It is worth noting that the rise in exports was not only due to price effects but also due to a 5.5% q/q (sa) increase in export volumes. Nonetheless, the deterioration in the merchandise trade balance in Q3 was partially offset by an improvement in the deficit on the invisibles account, which narrowed to 3.8% of GDP in Q3 from 4.2% in Q2. This was in large part due to an improvement in net income receipts, a category that has no reliable intra-quarter data to track. The SARB release did not have additional details on the big improvement in income receipts, but we note that this line item has showed a high degree of volatility in recent quarters (Figure 2).

Figure 1: Current account deficit widened slightly in Q3



Source: SARB, Absa Research

Figure 2: Income receipts have been highly volatile in recent quarters



Source: SARB, Absa Research

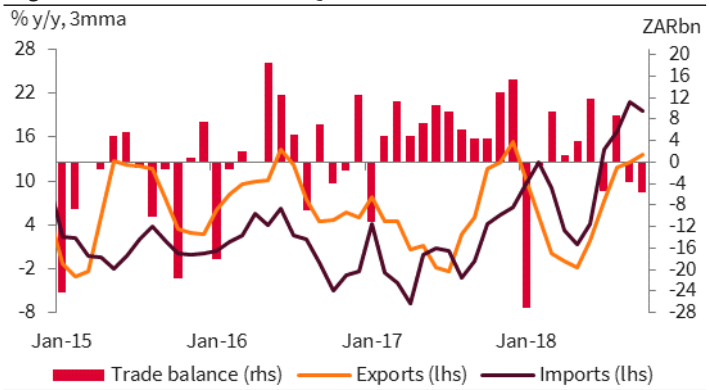
We see some adverse risks for the current account deficit in the near term. A deterioration in terms of trade has contributed to the widening in the current account deficit into 2018 relative to 2017. However, the recent decline in Brent crude oil prices is favourable given the relative importance crude oil imports (19% of merchandise imports from January to October this year). However, the effect of this will likely be offset by some softening in platinum, iron ore and coal prices. The Q4 merchandise trade data have already started on a weak note with the October data printing a larger-than-expected deficit of ZAR5.5bn. We also see some adverse risks for the current account balance in the near term. Production

has stopped since November at a mine of a major gold producer due to a strike that has recently turned violent. Meanwhile, South Africa's main iron ore producer reported in early December an accident that has affected transportation. Moreover, ongoing electricity generation constraints at Eskom are likely to result in increased diesel imports by the power utility as it ramps up OCGT usage to offset the struggling baseload capacity. We thus see adverse risks to our Q4 18 CA deficit forecast of 3.5% of GDP. For 2019, we expect gradual widening of the deficit to just over 4% of GDP by H2 2019 as domestic demand slowly improves.

Figure 3: South Africa's terms of trade fell during Q3 18

Source: SARB, Absa Research

Figure 4: Trade balance started Q4 on a weak note



Source: SARS, Absa Research

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