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SMART MARKETS™ ANALYSIS:

SOUTH AFRICAN GOVERNMENT BONDS ARE IN FULL RECOVERY MODE
IN JUNE 2024 AFTER THE VOLATILITY CAUSED BY THE GENERAL
ELECTIONS

Leveraging Smart Markets™, the advanced analytics platform powered by Mosaic Smart Data & Euroclear, this paper analyses the South African Government Bonds (SAGB) trading patterns exhibited by international investors in June 2024, after the high-volatility observed after the general elections' results became public on 30th May 2024. Analysis of the SAGB flows is updated up to 18th June 2024.

Key highlights:

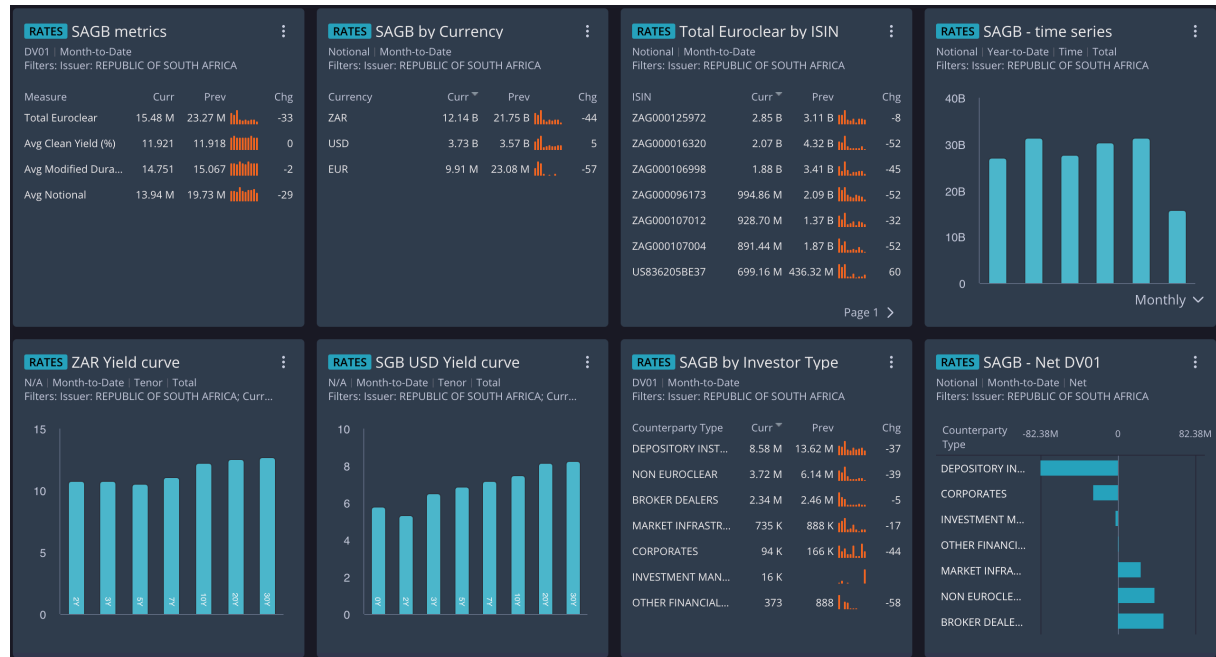
- The high **volatility** in South African Government Bonds (SAGB) observed in late May appears to have **significantly reduced**, with most of the metrics returning to pre-stress values last observed in April 2024.
- Most of the volatility appeared to be already factored and priced in from the beginning of May, with relatively little shock observed around the elections time. Also, right after the news of a new political coalition deal being reached in early June, international investors' flow rapidly returned to "Normal" conditions observed in April 2024.
- In the first half of June 2024 international investors' interest towards **longer durations** (especially **10 years**) bounced back, with **R2035** becoming the most popular bond in international investors' portfolios (almost 40B ZAR in free-float volume held within Euroclear, **up 20.4% i.e. +6.7 Bln ZAR** in the period between 1st May and 18th June 2024).
- Also, **6 years** tenor has been particularly popular with investors in June 2024, especially **R2030** bond which attracted additional **4 Bln ZAR** capital from international investors (**+13.6%**) in the period between 1st and 18th June 2024.

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SOUTH AFRICAN GOVERNMENT BONDS FLOW IN JUNE 2024

At a glance, this is a snapshot of the South African flow recorded in Euroclear CSDs in June 2024.



Note: Both sides of the trade (buy/sell) are reported, and all flow is in USD equivalent.

Key highlights:

- **Turnover** of South African Government Bonds in June 2024 remained aligned with previous months of the year. **12th June 2024** was a particularly busy day for the SAGB market, with 2.53B USD equivalent notional being traded by international investors within Euroclear.
- Majority of the turnover is on **local currency** (\$ 12Bln equivalent, i.e. 62% of the overall SAGB flow)
- Bonds most actively traded by international investors are all ZAR-denominated:
 - **R2035** (8.875% 28feb2035, ZAG000125972): \$ 2.85 Bln equivalent turnover in the period between 1st June and 18th June 2024
 - **R186** (10.5% 21dec2026, ZAG000016320): \$ 2.07 Bln equivalent turnover in the period between 1st June and 18th June 2024
 - **R2030** (8% 31jan2030, ZAG000106998): \$ 1.88 Bln equivalent turnover in the period between 1st June and 18th June 2024
 - **R2048** (8.75% 28feb2048, ZAG000096173): \$ 0.995 Bln equivalent turnover in the period between 1st June and 18th June 2024
- Most of the activity resided on the long-end part of the curve, with **20Y** being the most liquid tenor, on a risk (DV01) basis. However, focusing only on **local currency**, **10Y** is the most liquid ZAR SAGB tenor bucket. See next chart, broken down by tenor bucket and currency.



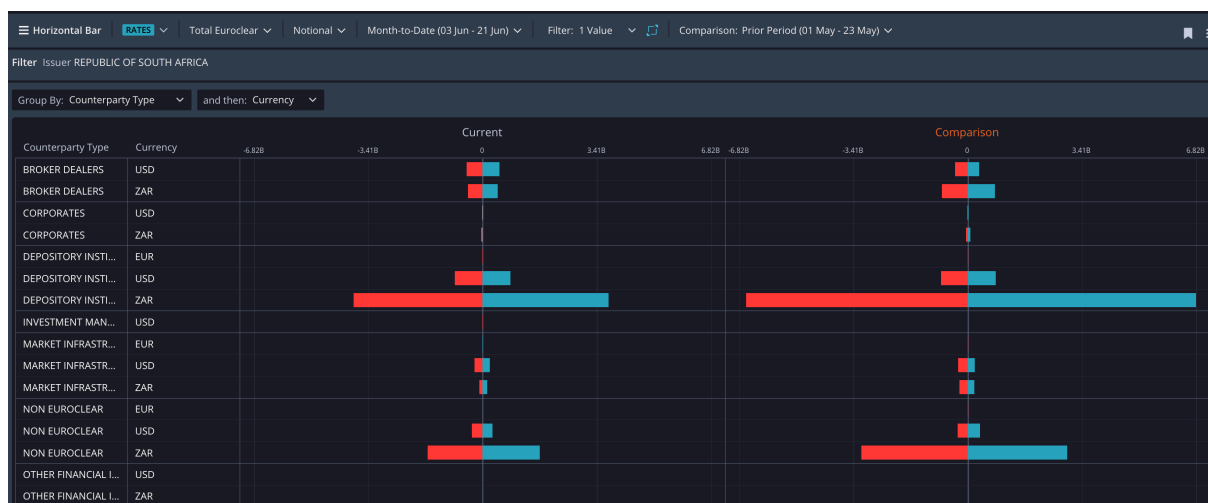
Note: All flow is reported in USD equivalent.

BREAK-DOWN BY INVESTOR TYPE

Breaking down the 1st-18th June 2024 South African Government Bonds flow by counterparty type highlights that most of the flow is settled by:

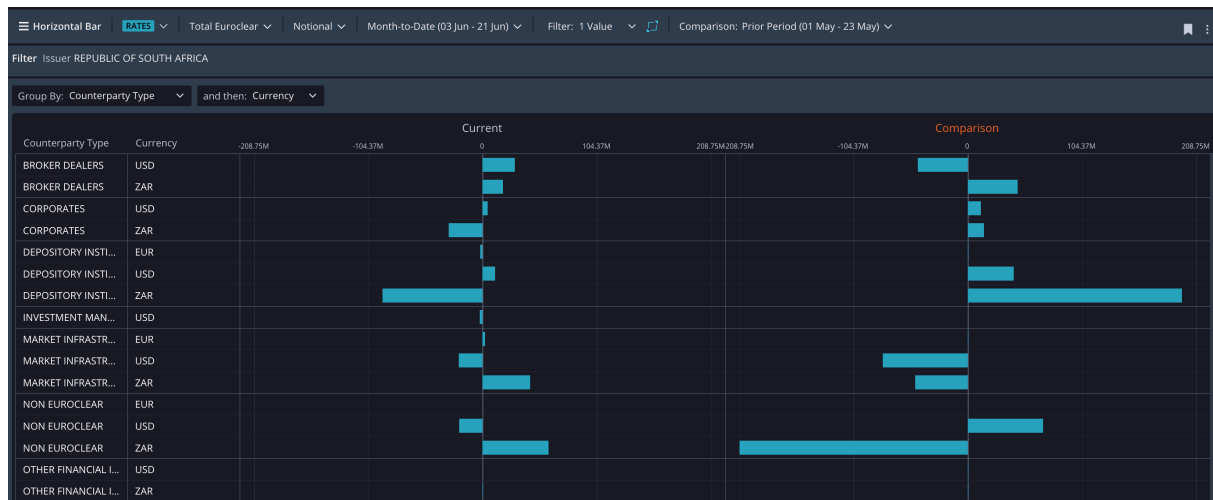
- Depository institutions
- Non Euroclear institutions
- Broker / Dealers

Even if the granularity of the investor categorisation has few limitations due to the nature of the data, it allows us to infer the main types of investors represented by each of these three categories: Depository institutions are mostly representative of buy-side international investors, Non Euroclear flow most likely represents local South African institutions settling in the local CSD (Strate), and Broker / Dealers are large international investment banks.



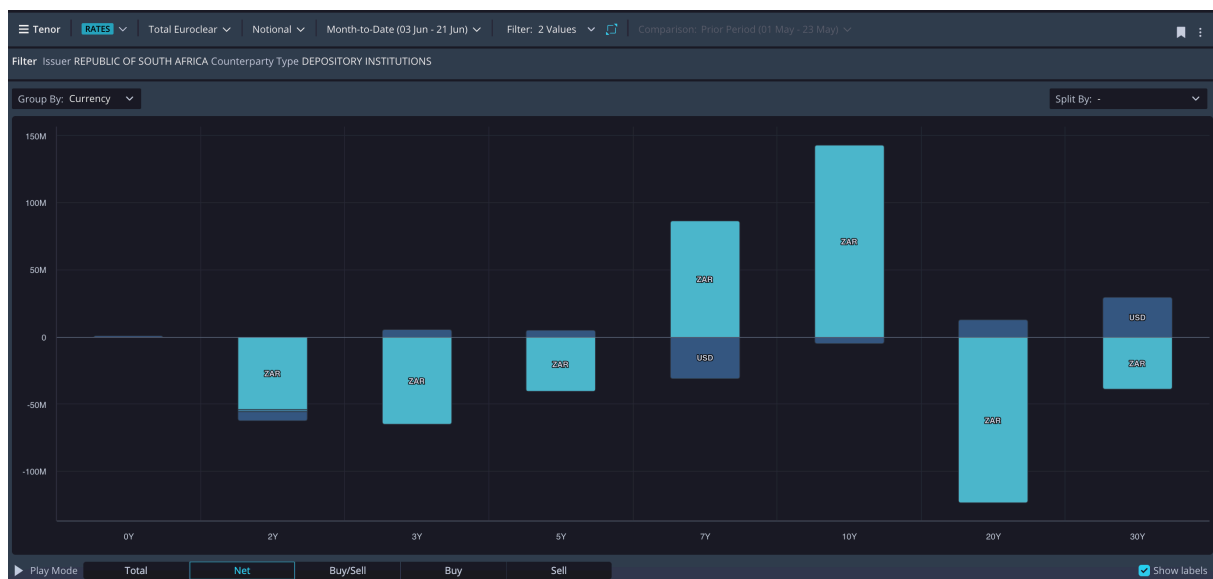
Note: All flow is reported in USD equivalent

Looking at new flow by investor type in the period 1st - 18th June 2024, and comparing it with the same period in May 2024 (1st - 18th May), we can appreciate how on aggregate the net positioning of international investors hasn't demonstrated a huge directional trend.



Note: All flow is reported in USD equivalent

The most notable net flow is the one attributable to Depository institutions, who have been selling ZAR-denominated SAGBs in June 2024, while we noticed a buying activity in the period 1st-18th May 2024. Drilling down in the details of this flow (in the next chart), we notice how **international investors shifted their duration from the short part of the curve towards the 10 years maturity, especially R2035**.



Note: All flow is reported in USD equivalent

HOLDINGS ANALYSIS ON THE MOST TRADED SOUTH AFRICAN BONDS

As outlined in the previous chapter, the most actively traded South African Government Bonds by international investors in the period 1st – 18th June 2024 are:

- **R2035** (8.875% 28feb2035, ZAG000125972): \$ 2.85 Bln equivalent turnover in the period between 1st June and 18th June 2024
- **R186** (10.5% 21dec2026, ZAG000016320): \$ 2.07 Bln equivalent turnover in the period between 1st June and 18th June 2024
- **R2030** (8% 31jan2030, ZAG000106998): \$ 1.88 Bln equivalent turnover in the period between 1st June and 18th June 2024
- **R2048** (8.75% 28feb2048, ZAG000096173): \$ 0.995 Bln equivalent turnover in the period between 1st June and 18th June 2024

In the next sub-sections, we'll analyse the aggregate Holdings Volume (i.e. the total amount of each bond held by international investors within Euroclear) for each of these four bonds individually over the course of Q2 2024.

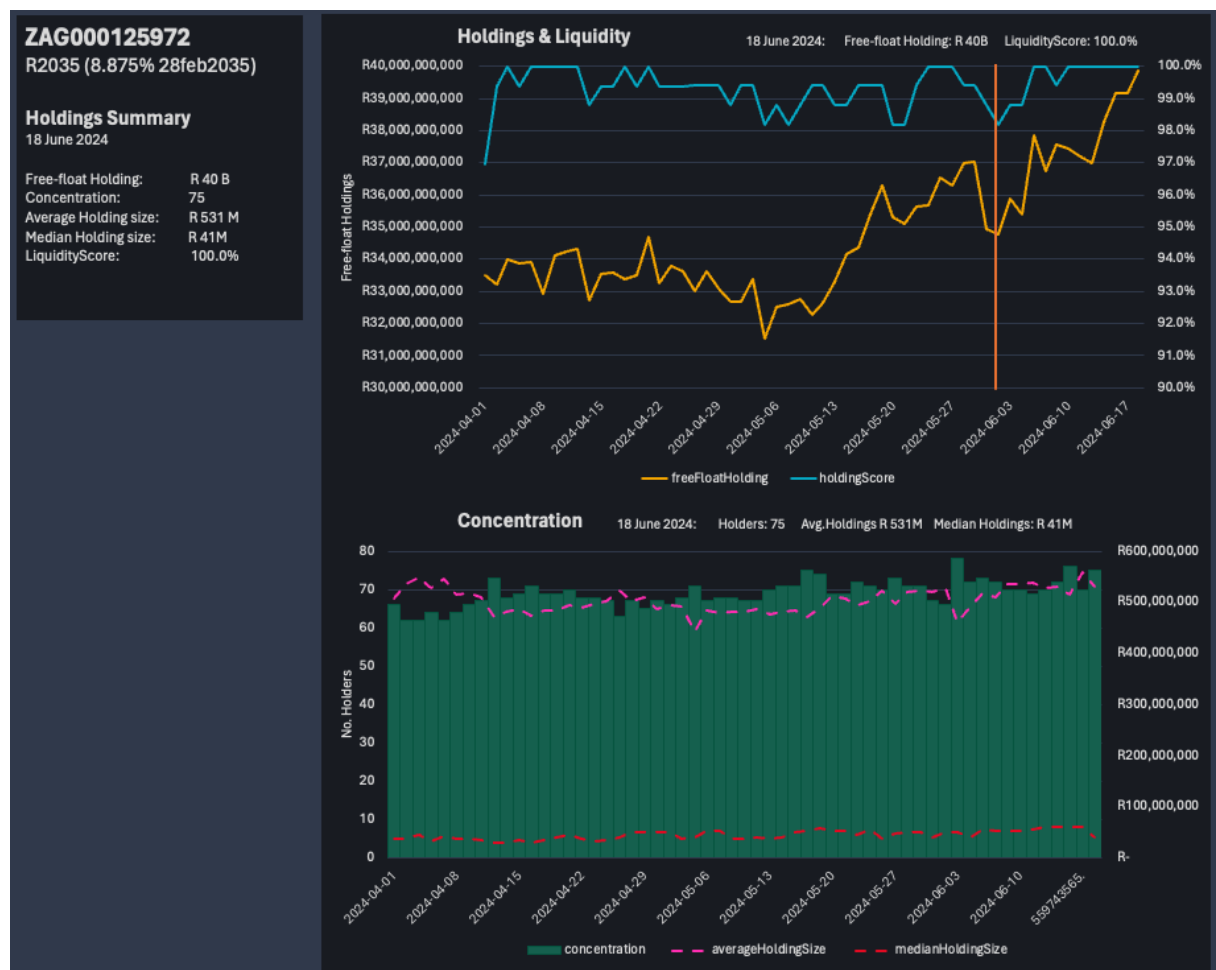
HOLDINGS ANALYSIS FOR R2035

R2035 (8.875% 28feb2035, ZAG000125972) has been the most actively traded South African bond by international investors in June 2024.

The analysis of the Euroclear aggregated Holdings data for R2035 highlights an interesting upward trend in May and June 2024, with international investors increasing the aggregate amount in their portfolios from 32.7 Bln ZAR on April 30th to almost 40 Bln ZAR on the 18th of June (**+6.7 Bln ZAR, +20.4% in the period between 1st May and 18th June 2024**).

It also interesting to note that in the few days immediate after the General Elections, specifically on the day after (the 30th of May), the exposure of international investors to R2035 decreased sharply, before recovering and continuing on the strong upward trend.

Specifically, on the 30th of May, R2035 held by international investor decreased from more than 37Bln ZAR to less than 35Bln ZAR (-2.1 Bln ZAR, -6% in one day).



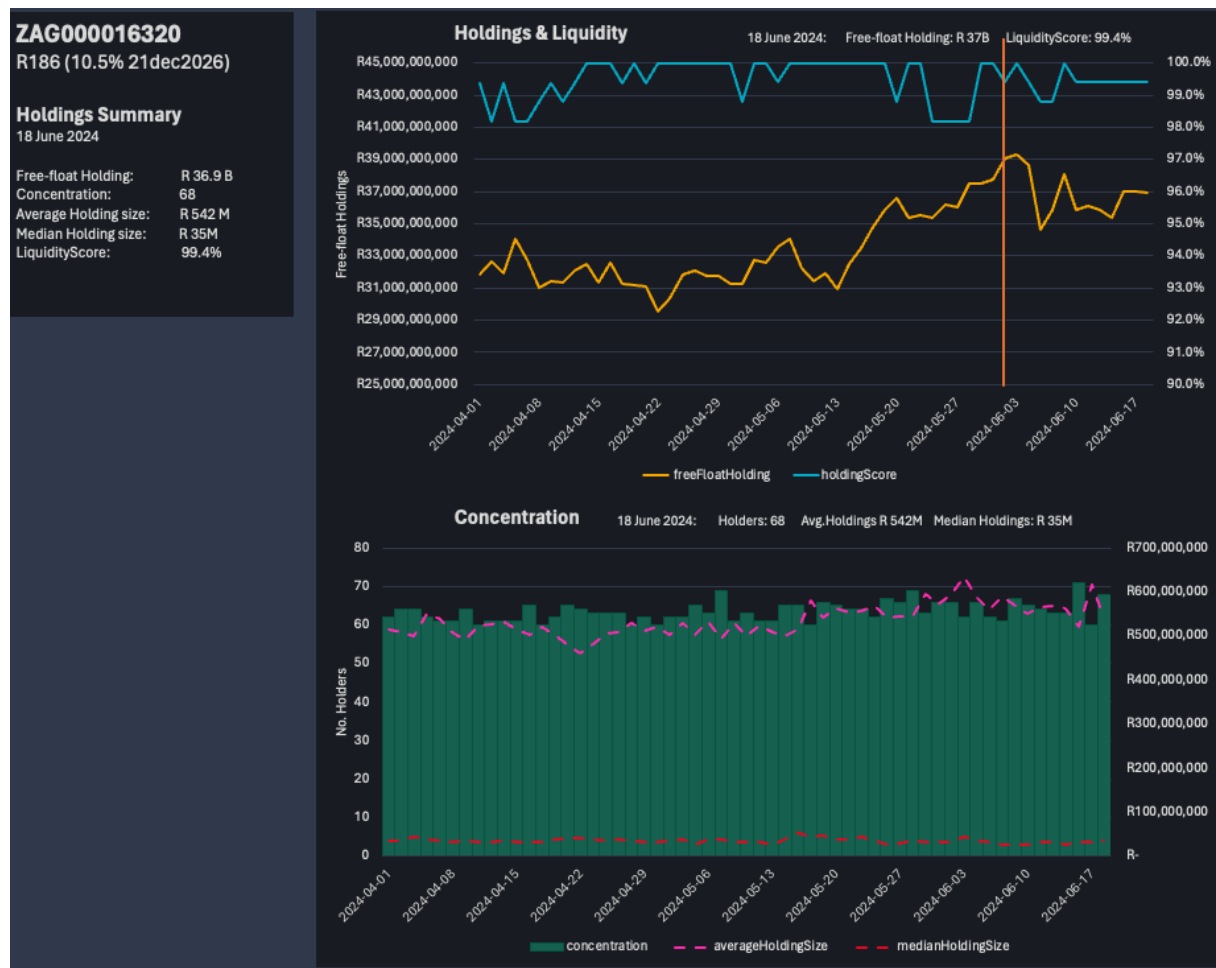
Note: Holdings data is reported in Local currency (ZAR). The aggregate Holdings data is represented by the yellow line. The orange vertical line represents the time of the General elections (29th May 2024).

HOLDINGS ANALYSIS FOR R186

R186 (2-year SAGB benchmark, 10.5% 21dec2026, ZAG000016320) has been the second most actively traded South African bond by international investors in June 2024.

The analysis of the Euroclear aggregated Holdings data for R186 in Q2 2024 highlights an **upward trend in May 2024**, with international investors increasing the aggregate amount in their portfolios from about 31Bln ZAR on the 1st of May to almost 38Bln ZAR on the 30th of May (+6.5 Bln ZAR, +20.8% in May 2024), followed by a relatively **mild selling activity in June 2024** which stabilised international investors' holdings at ~37 Bln ZAR.

The current values of R186 holdings (~37 Bln ZAR) are aligned to values previously seen in **Q1 2024**, before a March 2024 sell-off activity that brought the amount of R186 held by international investors from ~40 Bln ZAR to a minimum of about ~31Bln ZAR towards the end of Q1 2024.



Note: Holdings data is reported in Local currency (ZAR). The aggregate Holdings data is represented by the yellow line. The orange vertical line represents the time of the General elections (29th May 2024).

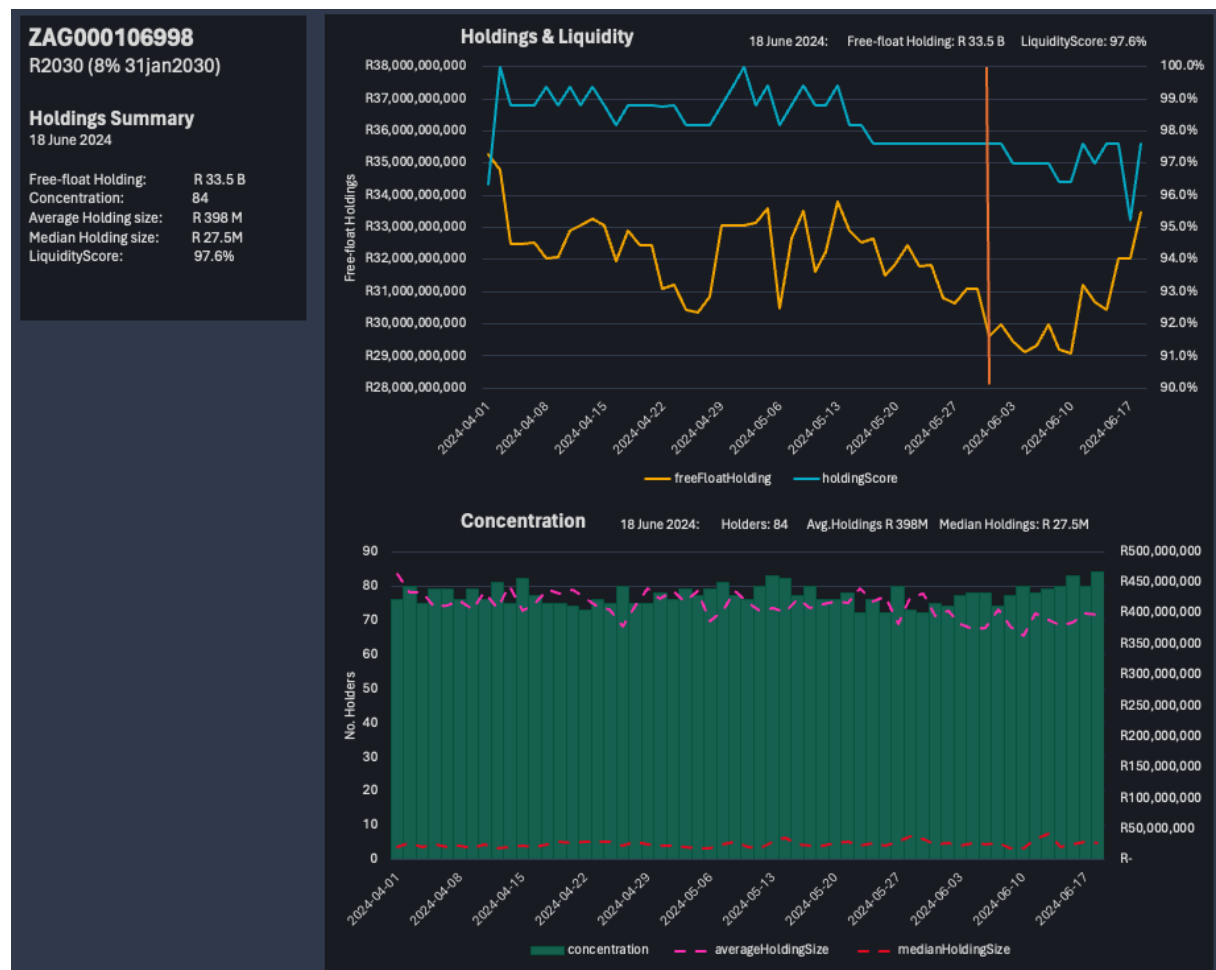
HOLDINGS ANALYSIS FOR R2030

R2030 (8% 31jan2030, ZAG000106998) has been the third most actively traded South African bond by international investors in May and in June 2024.

The analysis of the Euroclear aggregated Holdings data for R2030 in Q2 2024 highlights very interesting trends in May and in June 2024:

- In May 2024, international investors decreased the aggregate amount in their portfolios from 33 Bln ZAR on April 30th to 29.6 Bln ZAR on the 30th of May (-3.4 Bln ZAR, **-10.4% in May 2024**).
- In **June 2024**, amount of R2030 held by international investors **bounced back rapidly** from 29.5 Bln ZAR on the 3rd of June to 33.5 Bln ZAR on the 18th of June (**+4.0 Bln ZAR, +13.6%**)

The current values of R2030 held by international investors (around 33.5 Bln ZAR) is aligned to values previously seen in April 2024 as well as in Q1 2024, when the holdings amount oscillated between ~25Bln ZAR to a maximum of about ~35Bln ZAR in early April.



Note: Holdings data is reported in Local currency (ZAR). The aggregate Holdings data is represented by the yellow line. The orange vertical line represents the time of the General elections (29th May 2024).

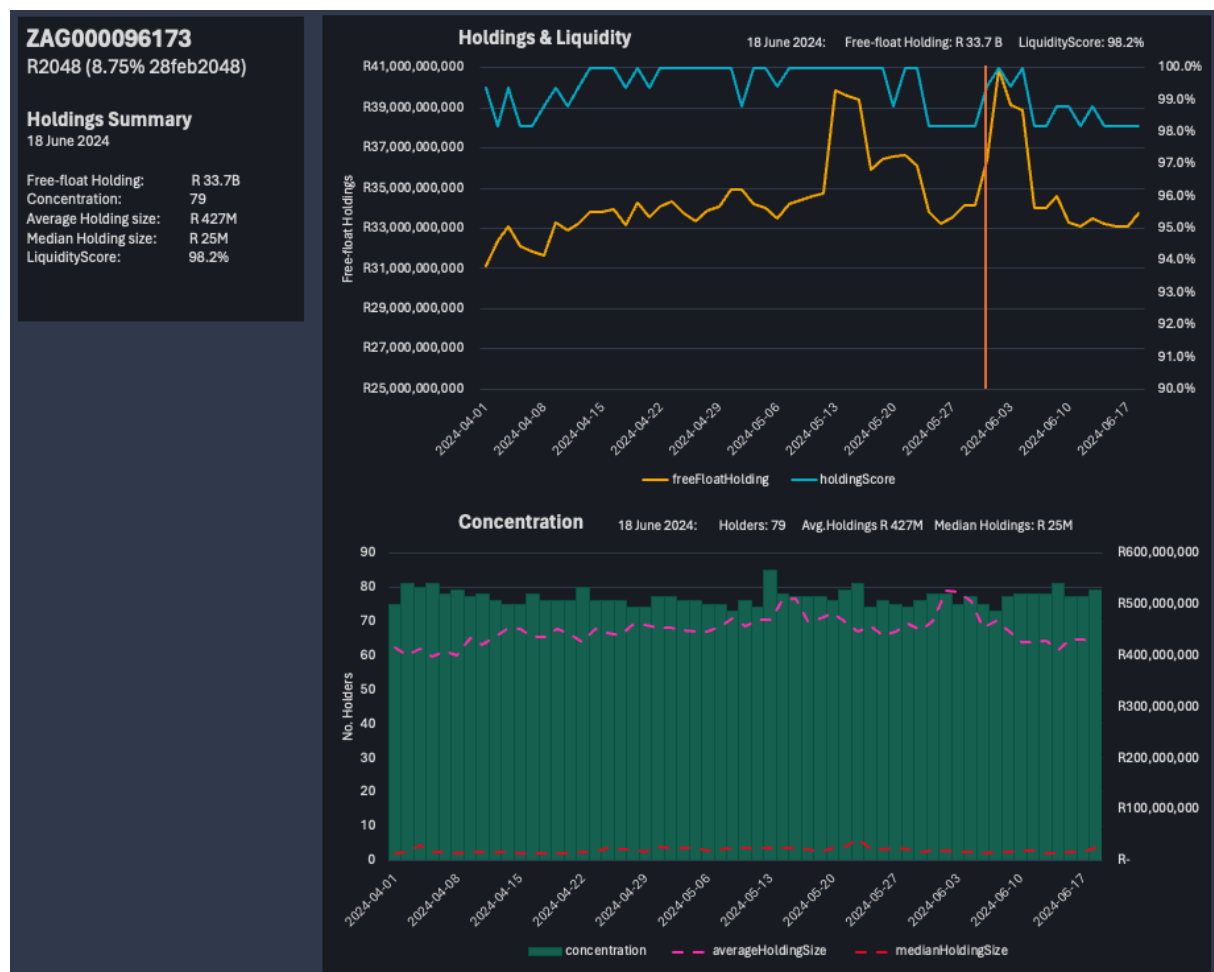
HOLDINGS ANALYSIS FOR R2048

R2048 (8.75% 28feb2048, ZAG000096173) has been the fourth most actively traded South African bond by international investors both in May 2024 and in June 2024.

The analysis of the Euroclear aggregated Holdings data for R2048 in Q2 2024 highlights an interesting trend in the second half of May 2024, with international investors decreasing the aggregate amount in their portfolios from almost 40 Bln ZAR on May 13th to 34.1 Bln ZAR on the 29th of May (-5.7 Bln ZAR, -14% in the second half of May 2024).

Extremely interesting to note however that on the few days immediately after the General Elections **30th and 31st of May**, the exposure of international investors to R2048 increased sharply from 34.1 Bln ZAR to 40.9 Bln ZAR (**+6.8 Bln ZAR, +20% in 2 business days**).

However, the **trend rapidly inverted in June 2024**, with amount of R2048 held by international investors reverting to pre-elections values (around 33 Bln ZAR) in the first few days of June 2024: on 3rd June 2024 there was 39.2 Bln ZAR held within Euroclear, but by the 18th June the holdings amount dropped to 33.7 Bln ZAR (**-5.4 Bln ZAR, -14% in between 3rd and 18th June 2024**)



Note: Holdings data is reported in Local currency (ZAR). The aggregate Holdings data is represented by the yellow line. The orange vertical line represents the time of the General elections (29th May 2024).