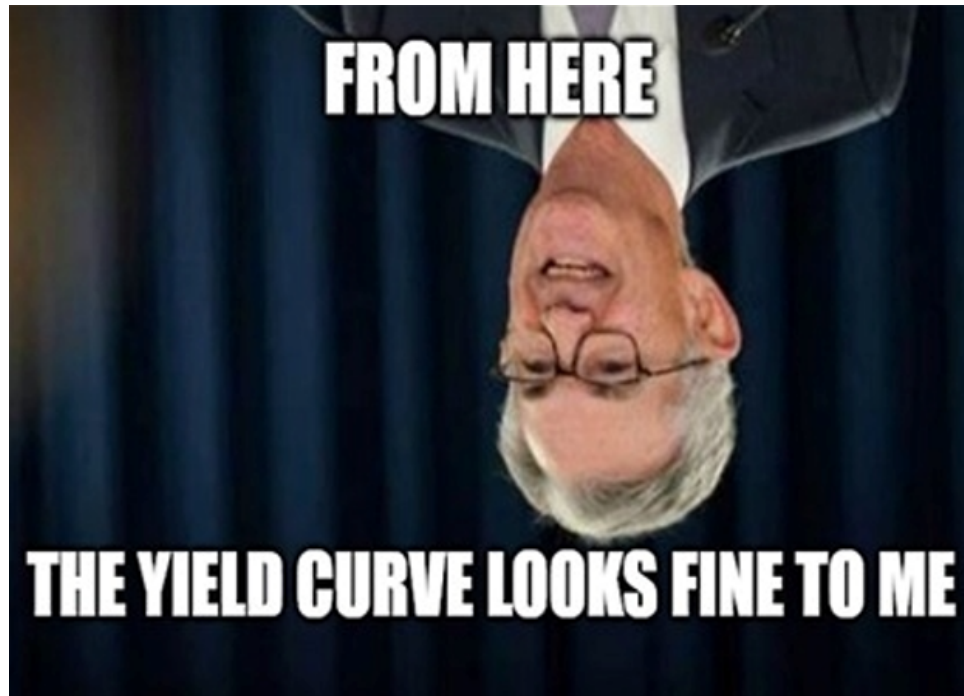


QUESTION 2 - YIELD SPREAD

Carel Olivier



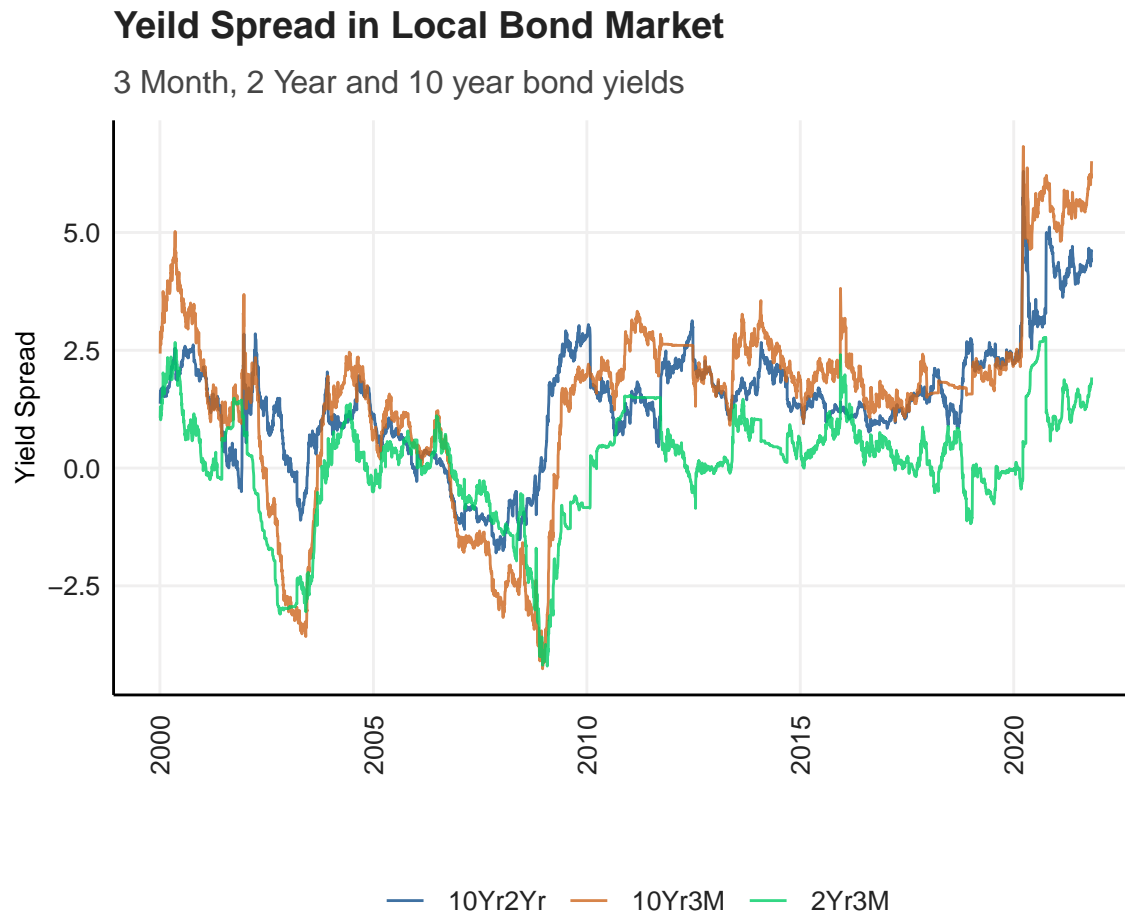
22017542

1. Short Introduction

Economists claim that the current yield spreads in the local mid to longer dated bond yields have since 2020 been the highest in decades. As such, I will conduct a brief analysis to investigate this claim.

A yield spread is simply the difference between the rate of return on different debt instruments which have varying maturities. I will start by importing the data and plotting the different yield spreads for SA.

2. Yield spreads

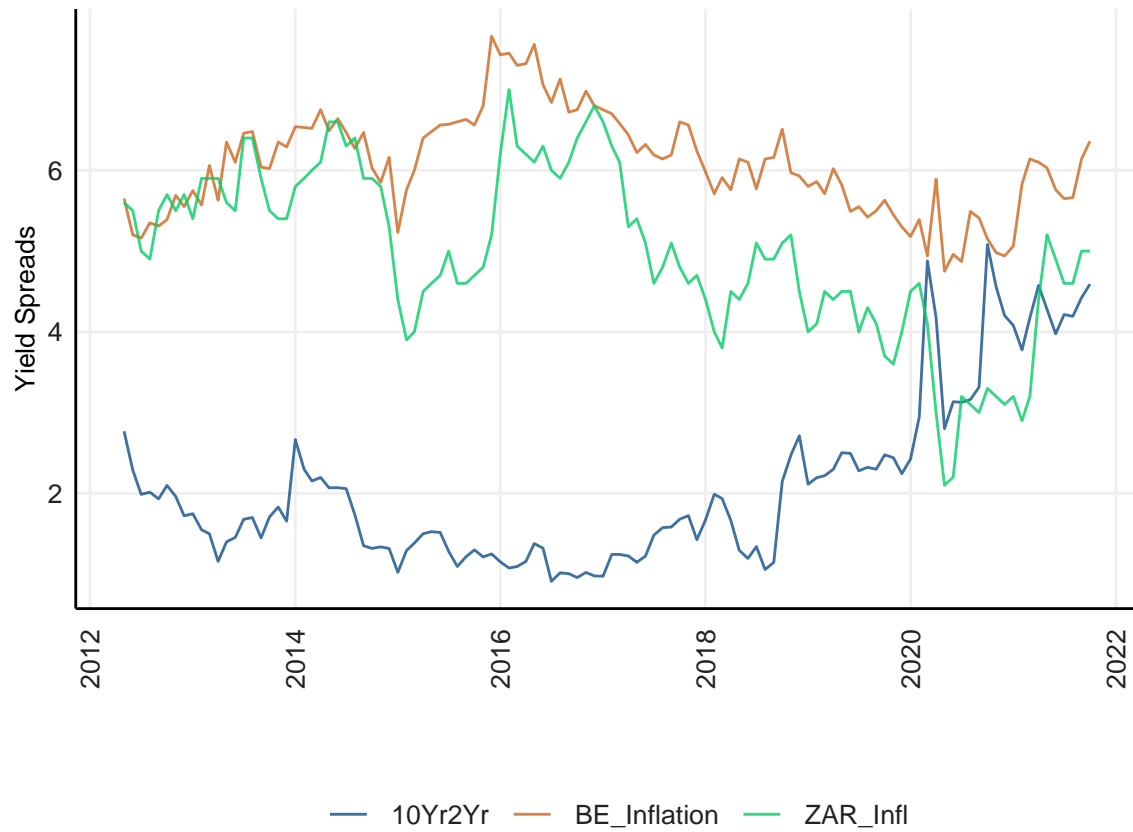


I can confirm that the current yield spreads in mid to longer dated bonds are the highest they have been in two decades. However, the yield spread between the 2 year and 3 month (short-term) local bonds have remained relatively stable.

Next I will try to analyse the relationship between the SA 10 Year Break-even inflation estimate, SA inflation, and the local long yield spread.

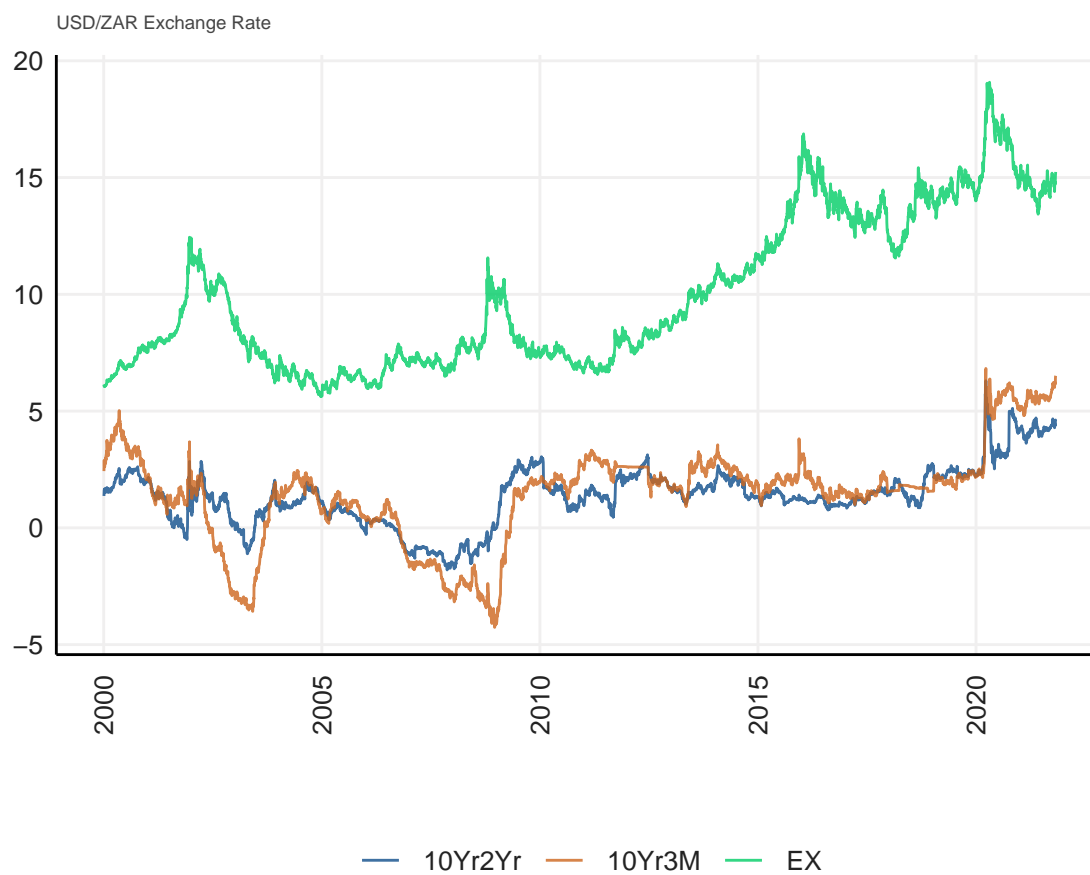
SA 10 year Spread and Inflation

Includes Inflation, Break-Even 10 Year Inflation and 10/2 year yield spread



From the graph it appears that there is an inverse relationship between the break even inflation estimate and local longer dated bond yields. Finally, I will compare the the local spread to international spreads. I will specifically look at Germany, Thailand and the US.

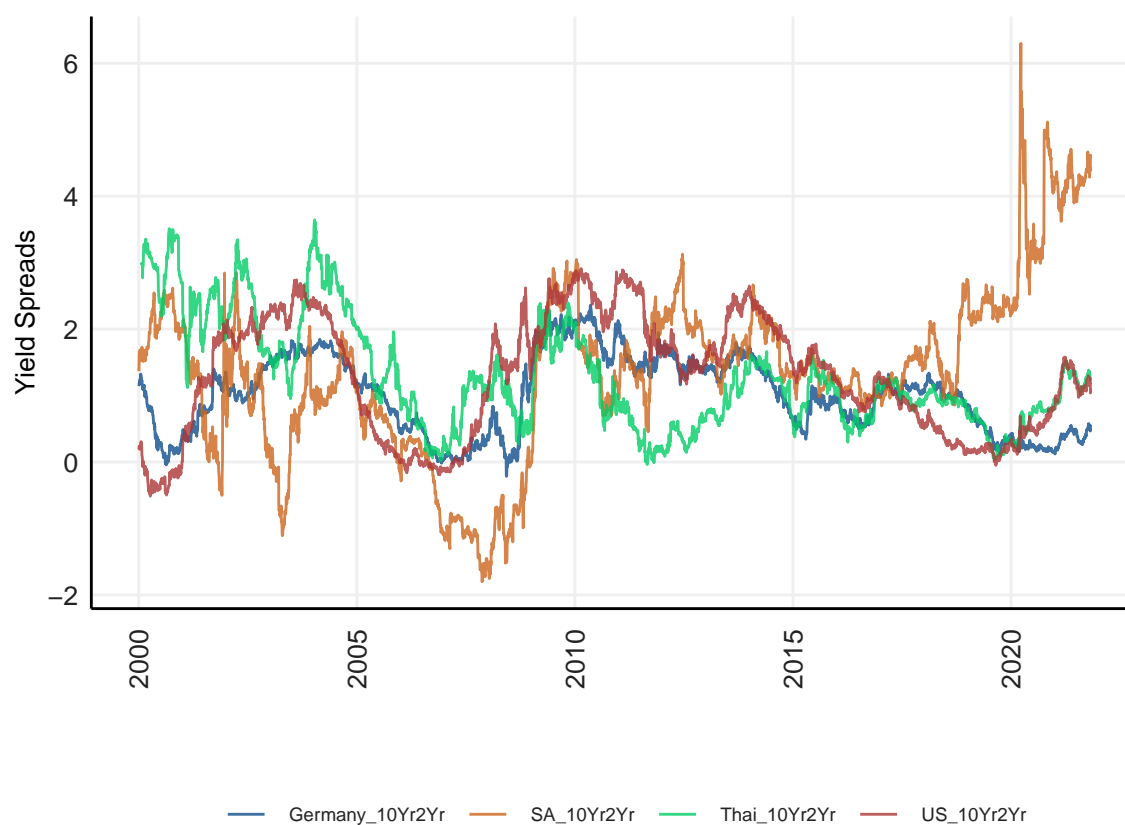
SA Spreads and Exchange Rate



There seems to be some co-movement

Relative Long Term Spreads

Includes US, Thailand, Germany and SA



The graph strongly supports the notion that the local yield spread is very high. This in part can be due to strong foreign demand for new South African bonds since 2019.