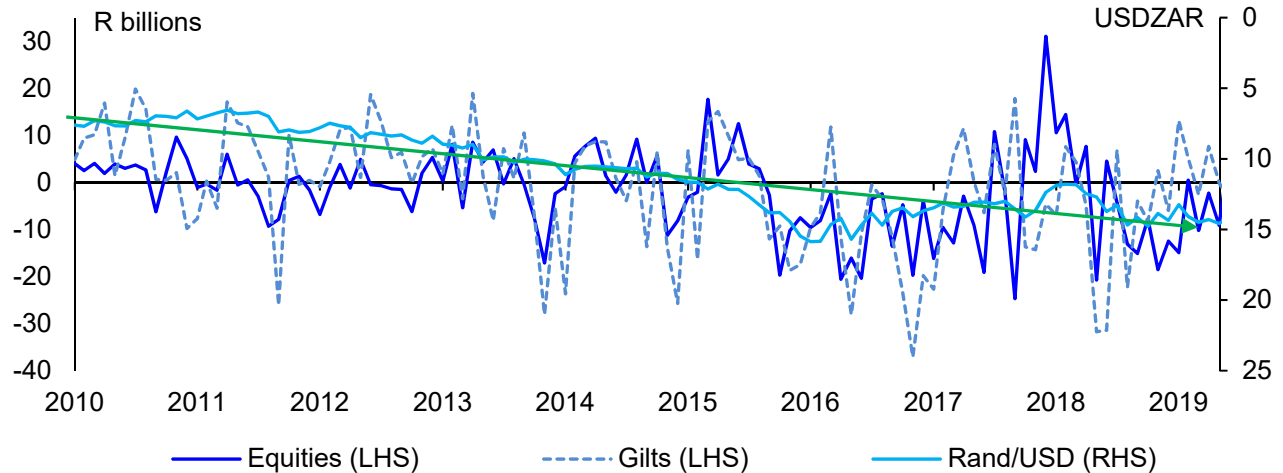


Rand note: domestic currency stabilizes as US economic symposium, Jackson Hole, approaches - markets hope the Fed will come around to its view of up to three further 25bp cuts in US rate this year

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Non-resident portfolio net purchases (+)/ sales(-) vs USD/ZAR (monthly averages)



Source: Iress, Investec

- After depreciating early last week to R15.47/USD, R17.32/EUR and R18.69/GBP, the rand has backtracked, stabilising somewhat, currently trading at R15.35/USD, R17.05/EUR and R18.60/GBP as risk levels in global financial markets are seen to have stabilised somewhat.
- Foreigners sold -R3.0bn worth of equities net of purchases last week, -R8.3bn this month to date and -R17.4bn since the last portion of July, while also dumping -R8.7bn worth of bonds net of purchases last week, -R18.3bn this month to date and -R19.8bn since the last portion of July.
- While financial market players' concerns over global economic growth, in tandem with reduced expectations of US rate cuts this year and some weak data prints in key economies, sparked the latest sell-off (see "Rand note", 12th August 2019, see website address below), this week has seen a quieter start.
- Clearer direction on US monetary policy is expected as the US's Economic Symposium taking place this week. The annual event at Jackson's Hole in Wyoming has been themed "Challenges for Monetary Policy" for this year. In particular, Friday will see Governor Powell's speech, of the same title.
- Markets are keen to see if the Fed could be reconsidering its interest rate outlook, after commentary from the Governor at the end of July was not seen to support further monetary easing. Indeed, it was this lack of 'insurance' rate cuts, in the face of the prospect of weaker growth, which shook markets at that time.

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Economic Scenarios: - note change in probabilities

		Q1.19	Q2.19	Q3.19	Q4.19	Q1.20	Q2.20	Q3.20	Q4.20
Extreme	Rand/USD (average)	14.01	14.38	11.50	10.30	9.50	8.60	7.90	7.60
Up case	Repo rate (end rate)	6.75	6.75	6.00	6.00	5.75	5.75	5.50	5.50
1%	Fast, sustainable economic growth of 5-7% y/y. Change in political will with growth creating economic reforms that structurally lift private sector investor confidence and fixed investment. Global growth boom (including commodities). Trump protectionism removed, SA export and domestic growth boom lifts employment and incomes, poverty eventually eliminated. Property rights strengthened, individuals obtain title deeds in EWC without disruption to economy. Fiscal consolidation, credit rating upgrades to A grade.								
Up case		Q1.19	Q2.19	Q3.19	Q4.19	Q1.20	Q2.20	Q3.20	Q4.20
10%	Rand/USD (average)	14.01	14.38	13.00	11.50	10.00	9.95	9.90	9.70
	Repo rate (end rate)	6.75	6.75	6.25	6.25	6.25	6.00	6.00	6.00
	Persistent growth of 3-5%, higher probability of extreme up case. Better governance, growth creating reforms (structural constraints are overcome), greater socio-economic stability, strengthening in property rights, individuals obtain title deeds in EWC without disruption to economy and can leverage and obtain credit. High business confidence and fixed investment growth, substantial FDI inflows, fiscal consolidation. Strong global growth and commodity cycle, 'trade war' subsides. Stabilisation of credit ratings, with ultimately credit rating upgrades.								
Base		Q1.19	Q2.19	Q3.19	Q4.19	Q1.20	Q2.20	Q3.20	Q4.20
case	Rand/USD (average)	14.01	14.38	14.30	13.90	13.40	13.70	13.90	13.30
45%	Repo rate (end rate)	6.75	6.75	6.50	6.50	6.50	6.50	6.50	6.50
	Annual growth rate of close to 2.0% y/y reached by 2020, 3.0% y/y by 2024. Higher confidence and investment levels than past decade. Rand structurally stronger nears PPP by 2021. SA retains one investment grade (Moody's) rating on its local currency long-term sovereign debt in 2019. Sedate global monetary policy normalisation - avoid severe global risk-off environment, neutral to global risk-on. Modestly strengthening global demand. Limited impact of EWC/expropriation without compensation (to abandoned and unused land of government and agricultural sector - individuals are new owners and receive title deeds).								
Lite		Q1.19	Q2.19	Q3.19	Q4.19	Q1.20	Q2.20	Q3.20	Q4.20
(domestic)	Rand/USD (average)	14.01	14.38	15.50	17.00	16.50	15.50	15.15	14.90
Down	Repo rate (end rate)	6.75	6.75	7.50	8.50	7.50	7.50	7.50	7.25
case	Business confidence remains depressed, marked rand weakness, significant load shedding and weak investment growth. SA sub-investment grade Moody's rating but substantial repair avoids further marked downgrades. SA experiences a V shaped, credit rating downgrade related, recession. However, modestly strengthening global demand and elevated commodity prices help lessen the longer-term impact of domestic disturbances. Sedate global monetary policy normalisation occurs - a severe global risk-off environment is avoided, with neutral to global risk-on. Partial expropriation of (certain groups') private commercial sector property (including productive land) without compensation.								
35%		Q1.19	Q2.19	Q3.19	Q4.19	Q1.20	Q2.20	Q3.20	Q4.20
Severe	Rand/USD (average)	14.01	14.38	16.10	18.50	19.50	20.00	19.25	18.70
down	Repo rate (end rate)	6.75	6.75	8.00	9.25	9.75	10.25	10.75	9.50
case	Faster than expected global (US) monetary policy normalisation, general market risk-off, global sharp economic slowdown (commodity slump) followed by marked escalation of US-China trade war - short US recession, global financial crisis. SA sub-investment grade, risks further credit rating downgrades. Significantly more severe recession than in lite down case. Confidence and investment depressed, marked rand weakness, significant strike action and widespread services load shedding. Expropriation of private sector property (title deeds not transferred to individuals nationalisation) without compensation.								
9%									

Note: Event risk begins Q3.19. Source: Investec, Iress historical data

Rand note: domestic currency stabilizes as US economic symposium, Jackson Hole, approaches - markets hope the Fed will come around to its view of up to three further 25bp cuts in US rate this year

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Light Down case: Exchange Rates forecasts	2019	2019	2019	2019	2020	2020	2020	2020	2021	2021	2021	2021
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
USD/ZAR	14.01	14.38	16.00	17.00	16.50	15.50	15.15	14.90	14.80	14.70	14.75	14.70
GBP/ZAR	18.24	18.48	19.99	21.36	21.00	20.09	20.14	19.98	20.42	20.50	20.57	20.50
EUR/ZAR	15.91	16.15	18.04	19.38	19.06	17.98	17.73	17.58	18.20	18.38	18.44	18.38
ZAR/JPY	7.87	7.65	6.75	6.35	6.48	6.84	6.96	7.01	7.16	7.21	7.19	7.21
ZARCHF	14.05	14.34	16.11	17.23	16.72	15.57	15.15	14.77	15.26	15.31	15.36	15.31
ZARAUD	9.98	10.07	10.80	11.56	11.47	10.93	10.91	10.88	11.25	11.61	11.51	11.47
GBP/USD	1.30	1.29	1.25	1.26	1.27	1.30	1.33	1.34	1.38	1.39	1.39	1.39
EUR/USD	1.14	1.12	1.13	1.14	1.16	1.16	1.17	1.18	1.23	1.25	1.25	1.25
USD/JPY	110	110	108	108	107	106	106	105	106	106	106	106

Note: averages, Source: IRESS, Investec

Severe Down case: Exchange Rates forecasts	2019	2019	2019	2019	2020	2020	2020	2020	2021	2021	2021	2021
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
USD/ZAR	14.01	14.38	16.10	17.20	18.50	19.50	20.00	19.25	18.70	18.00	17.50	16.75
GBP/ZAR	18.24	18.48	20.11	21.61	23.55	25.27	26.59	25.81	25.81	25.10	24.40	23.36
EUR/ZAR	15.91	16.15	18.15	19.61	21.37	22.62	23.40	22.72	23.00	22.50	21.88	20.94
ZAR/JPY	7.87	7.65	6.71	6.28	5.78	5.44	5.28	5.43	5.67	5.89	6.06	6.33
ZARCHF	14.05	14.34	16.21	17.43	18.74	19.58	20.00	19.09	19.28	18.75	18.23	17.45
ZARAUD	9.98	10.07	10.87	11.70	12.88	13.75	14.40	14.05	14.21	14.22	13.65	13.07
GBP/USD	1.30	1.29	1.25	1.26	1.27	1.30	1.33	1.34	1.38	1.39	1.39	1.39
EUR/USD	1.14	1.12	1.13	1.14	1.16	1.16	1.17	1.18	1.23	1.25	1.25	1.25
USD/JPY	110	110	108	108	107	106	106	105	106	106	106	106

Note: averages, Source: IRESS, Investec

- Subsequently, weak data prints from a number of key economies may influence the Governor's tone somewhat to one that is more dovish, and risk aversion in global financial markets is likely to have eased in anticipation of this upcoming prospect.
- Additionally, fears of a US recession have declined somewhat recently, while US-China trade talks have not seen a reignition of tensions, although there has been little evidence that a trade deal is forthcoming, and markets are currently in a wait-and-see-phase.
- Financial markets are currently pricing in further 25bp cuts in the Fed's target rate by year end, close to a cut at each of the remaining meetings, namely 18th September, 30th October, 11th December (date given is when the rate announcement is expected to be made).

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Expected case: Exchange Rates forecasts averages	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2021 Q1	2021 Q2	2021 Q3	2021 Q4
USD/ZAR	14.01	14.38	14.30	13.90	13.40	13.70	13.90	13.30	12.70	13.20	13.90	13.40
GBP/ZAR	18.25	18.48	17.87	17.46	17.05	17.76	18.48	17.83	17.53	18.41	19.38	18.69
EUR/ZAR	15.92	16.15	16.12	15.85	15.48	15.89	16.26	15.69	15.62	16.50	17.38	16.75
ZAR/JPY	7.87	7.65	7.55	7.77	7.99	7.74	7.59	7.86	8.35	8.03	7.63	7.91
ZARCHF	14.06	14.33	14.40	14.09	13.58	13.76	13.90	13.19	13.09	13.75	14.48	13.96
ZARAUD	9.98	10.07	9.65	9.45	9.31	9.66	10.01	9.71	9.65	10.43	10.84	10.45
GBP/USD	1.30	1.29	1.25	1.26	1.27	1.30	1.33	1.34	1.38	1.39	1.39	1.39
EUR/USD	1.14	1.12	1.13	1.14	1.16	1.16	1.17	1.18	1.23	1.25	1.25	1.25
USD/JPY	110	110	108	108	107	106	106	105	106	106	106	106

Source: IRESS, Investec

- In particular, markets have priced in an 80% chance of a 25bp cut in September, and a 66% chance of another 25bp cut at the October meeting. Markets even see a 25bp cut potentially for the December FOMC meeting currently.
- At the latest FOMC meeting, Governor Powell said the Fed is not necessarily embarking on an aggressive interest rate cut cycle, terming July's 25bp easing as a "midcycle adjustment", signalling that the Fed is highly unlikely to begin a long rate cut cycle, as that would be more appropriate under continual marked slowing of economic growth.
- However, markets believe that the FOMC will likely be pushed into at least some of the rate cuts as the yield curve increasingly inverts in the absence of it. Indeed, an inversion of the yield curve is also seen as a signal of recession, as markets factor in rate cuts/s on expectations of weak future growth.
- The rand is likely to remain volatile this month, as the sell-in-May-and-go-away (until September) period in global financial markets is still under way, namely the northern hemisphere summer vacation effect which tends to result in an exodus from riskier assets when risk (such as the increased chance of a US recession) is seen to elevate.
- The rand to date averages R14.41/USD in Q3.19, and is oversold, with some recovery likely as market participants return from vacation, particularly in Q4.19. However, our Q3.19 forecast of R14.30/USD (average for the quarter), would be revised closer to R14.50/USD, if not above, if the rand does not correct already this month and next.
- In particular, the last, and first, quarters of the calendar year usually sees EM currencies strengthen as many northern hemisphere market players return from vacation and riskier, higher yielding assets typically return to favour. The rand could strengthen by a substantial amount in Q4.19 on this seasonal effect, and in Q1.20.

Rand note: domestic currency stabilizes as US economic symposium, Jackson Hole, approaches - markets hope the Fed will come around to its view of up to three further 25bp cuts in US rate this year

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Extreme Up case: Exchange Rates forecasts averages	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2021 Q1	2021 Q2	2021 Q3	2021 Q4
USD/ZAR	14.01	14.38	11.50	10.30	9.50	8.60	7.90	7.60	7.40	7.10	6.95	6.75
GBP/ZAR	18.24	18.48	14.37	12.94	12.09	11.15	10.50	10.19	10.21	9.90	9.69	9.41
EUR/ZAR	15.91	16.15	12.97	11.74	10.97	9.98	9.24	8.97	9.10	8.88	8.69	8.44
ZAR/JPY	7.87	7.65	9.39	10.49	11.26	12.33	13.35	13.75	14.32	14.93	15.25	15.70
ZARCHF	14.05	14.34	11.58	10.44	9.63	8.64	7.90	7.54	7.63	7.40	7.24	7.03
ZARAUD	9.98	10.07	7.76	7.00	6.60	6.06	5.69	5.55	5.62	5.61	5.42	5.27
GBP/USD	1.30	1.29	1.25	1.26	1.27	1.30	1.33	1.34	1.38	1.39	1.39	1.39
EUR/USD	1.14	1.12	1.13	1.14	1.16	1.16	1.17	1.18	1.23	1.25	1.25	1.25
USD/JPY	110	110	108	108	107	106	106	105	106	106	106	106

Source: IRESS, Investec

Up case: Exchange Rates forecasts averages	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2021 Q1	2021 Q2	2021 Q3	2021 Q4
USD/ZAR	14.01	14.38	13.00	11.50	10.00	9.95	9.90	9.70	9.65	9.45	9.30	9.15
GBP/ZAR	18.25	18.48	16.24	14.45	12.73	12.90	13.16	13.01	13.32	13.18	12.97	12.76
EUR/ZAR	15.92	16.15	14.66	13.11	11.55	11.54	11.58	11.45	11.87	11.81	11.63	11.44
ZAR/JPY	7.87	7.65	8.31	9.39	10.70	10.65	10.66	10.77	10.98	11.22	11.40	11.58
ZARCHF	14.06	14.33	13.09	11.65	10.13	9.99	9.90	9.62	9.95	9.84	9.69	9.53
ZARAUD	9.98	10.07	8.78	7.82	6.95	7.01	7.13	7.08	7.33	7.47	7.25	7.14
GBP/USD	1.30	1.29	1.25	1.26	1.27	1.30	1.33	1.34	1.38	1.39	1.39	1.39
EUR/USD	1.14	1.12	1.13	1.14	1.16	1.16	1.17	1.18	1.23	1.25	1.25	1.25
USD/JPY	110	110	108	108	107	106	106	105	106	106	106	106

Source: IRESS, Investec

Rand note: domestic currency stabilizes as US economic symposium, Jackson Hole, approaches - markets hope the Fed will come around to its view of up to three further 25bp cuts in US rate this year

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