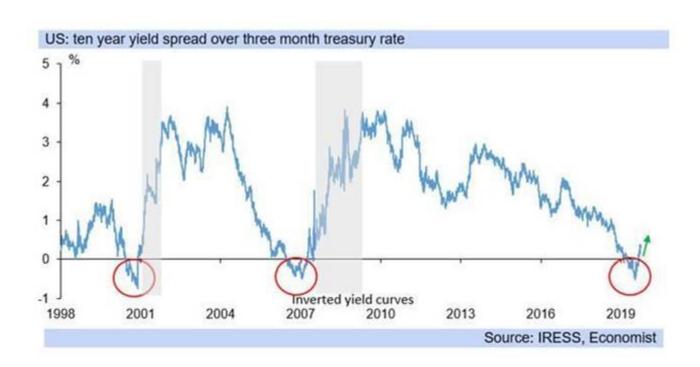




Rand Note

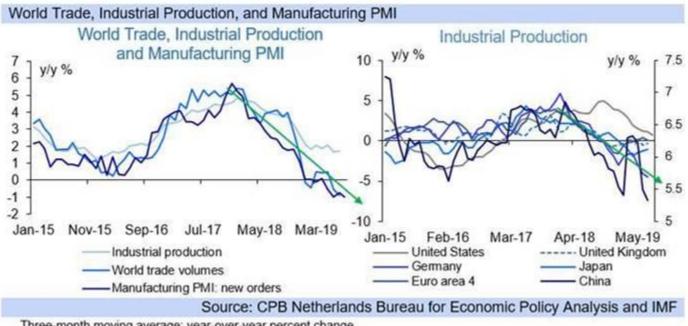
14th November 2019

Rand strengthens somewhat over the course of this week with some risk seen as diminishing as the US 'yield curve' uninverts and the Fed indicates little further on the rate cut front (with markets now having priced in Octobers MTBPS)



The rand has reached R14.82/USD, R16.29/EUR and R19.02/GBP today, strengthening somewhat over the course of this week as markets globally quietened somewhat, with the US spread between ten year and three month rates losing the inversion that had prevailed over most of this year.

- Part of the reason for the inversion falling away has been the fairly strong signals that the US is unlikely to cut interest rates further this year, or indeed in H1.20, and this, along with the uninversion, are both being taken by the markets as potentially indicating that the risk of recession is subsiding (that the Fed is less concerned on the growth front as well).
- Fed Chair Jerome Powell this week sounded significantly upbeat on the US economy, highlighting that the Fed "see(s) the current stance of monetary policy as likely to remain appropriate as long as incoming information about the economy remains broadly consistent with our outlook".
- He specifically added, that "(w)hat we have learned and what we continue to learn is that the U.S. economy can operate at a much lower level of unemployment than many would have thought". The more sanguine approach of the Fed to the jobs market is also being seen by markets as reducing the possibility of further rate cuts in the near term.
- This does not mean that the global economy is no longer at risk of recession, or indeed that it is not experiencing further slowdown, nor does it mean that the US led trade feud, and its effects, are at an end. Recent Chinese retail sales and manufacturing output was weaker than expected, indicating that broad based nature of the slowdown in the economy.
- The rand's hiatus will prove to be short-lived if the synchronised global economic slowdown accelerates, or indeed persists. Currently however, markets have also gained some cheer on German GDP data showing the EU's largest economy avoided recession in Q2.19 and Q3.19.
- Nevertheless, evidence of the weaknesses in the global economy persists, and Governor Powell has recognised the feed through into the US, adding that "(i)n particular, sluggish growth abroad and trade developments have weighed on the ... (US)... economy and pose ongoing risks".



Three-month moving average; year-over-year percent change

Earlier this month the IMF also warned on spill over effects, specifically into the world's largest economic block, stating that "(a)s in the rest of the world, European trade and manufacturing have weakened. There

are some signs that this slowdown is spreading into the rest of the economy ... investment is starting to lose steam."

- The weakening trade and manufacturing—along with subdued business confidence and elevated trade uncertainty—have started to spill over into investment, especially in many advanced European countries. While the services sector has been relatively buoyant, it too has started to soften. Private consumption, however, has stayed relatively robust."
- This weakness is primarily driven by machinery and transport equipment—sectors that are particularly relevant for Europe. As a result, economic activity in Europe has slowed, especially in advanced economies. Emerging European economies outside of Russia and Turkey were a bright spot, with growth remaining strong."
- "(S)igns of a slowdown are also emerging in labor markets. For example, job openings—a measure of labor demand—are not only falling in the manufacturing sector, but vacancy growth for the overall economy has also slowed since the beginning of the year."
- "On balance, Europe's growth is projected to decline from 2.3 percent in 2018 to 1.4 percent in 2019. A modest and precarious recovery is forecast for 2020 due to an expected rebound in external demand that would limit emerging spillovers into investment and services."
- The IMF concludes that "(a)mid high uncertainty, there are several risks to the outlook, including Brexitrelated disruptions, intensifications of protectionism and related uncertainty, abrupt declines in risk appetite, and rising geopolitical tensions."
- While the central case remains one of no global recession, the probability of this declined (see "Risk note: ... the rising threat of global recession sees the probability of the severe down case somewhat higher", 11th October 2019, website address below), and the probability of the downside elevated (see also scenario table below).

		Q1.19	Q2.19	Q3.19	Q4.19	Q1.20	Q2.20	Q3.20	Q4.20
Extreme	Rand/USD (average)	14.01	14.38	14.69	11.50	10.30	9.50	8.60	7.90
Up case	Repo rate (end rate)	6.75	6.75	6.50	6.00	6.00	5.75	5.75	5.50
1%	Fast, sustainable econom								
	reforms that structurally lit								
	(including commodities).								
	employment and incomes								
	title deeds in EWC without								
		0070000000000000							
Jp case		Q1.19	Q2.19	Q3.19	Q4.19	Q1.20	Q2.20	Q3.20	Q4.20
7%	Rand/USD (average)	14.01	14.38	14.89	13.00	11.50	10.00	9.95	9.90
	Repo rate (end rate)	6.75	6.75	6.50	6.25	6.25	6.25	6.00	6.00
	Persistent growth of 3-59	%, higher p	robability	of extrem	e up case	. Better g	overnance	e, growth	-creating
	reforms (structural constr	raints overc	ome), gre	ater socio	o-economi	c stability	, strength	ening in	property
	rights, individuals obtain t	title deeds in	EWC wit	hout disru	ption to e	conomy a	nd can let	verage an	nd obtain
	credit. High business confi	idence and f	fixed inves	tment gro	wth, subst	antial FDI	inflows, fit	scal cons	olidation
	Strong global growth and a	commodity of	ycle, Trun	np protect	ionism red	uce signifi	icantly. St	abilisation	of credit
	ratings, with ultimately cre	dit rating up	grades.						
		Q1.19	Q2.19	Q3.19	Q4.19	Q1.20	Q2.20	Q3.20	Q4.20
Base	Rand/USD (average)	14.01	14.38	14.69	14.65	14.15	14.45	14.65	14.00
case	Repo rate (end rate)	6.75	6.75	6.50	6.50	6.50	6.50	6.50	6.50
40%	Annual arouth anneashs	- 2 006 why 1						mana a da a	
40.70	Annual growth approache								
	forecast period. SA retains	s one invest	ment grade	e (Moody's	s) rating or	its local o	urrency lo	ng-term s	overeig
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Lite domestic) Down case 37% Severe down case	forecast period. SA retains debt in 2019 and 2020 on risk-on. Modestly strengtl without compensation) to are new owners and receil Rand/USD (average) Repo rate (end rate) SA is rated sub-investme Business confidence dep growth until substantial re neutral to risk-on global for case) lessens the impact some private commercial Rand/USD (average) Repo rate (end rate) Continued global sharp ex US-China trade war – ma key agencies, with further	s one investr a negative hening glob abandoned ive title deed Q1.19 14.01 6.75 ent grade by ressed, mar epair effecte financial ma t of the ration sector prop Q1.19 14.01 6.75 conomic slov ay include a r rating dow ked rand we	ment grade outlook. A al demand & unused dis) does n Q2.19 14.38 6.75 Moody's ked rand v d. V shape rket enviro g downgra erty witho Q2.19 14.38 6.75 wdown res global fins ngrades. A sakness, e	e (Moody's voids sev d to trend land, labo ot have a Q3.19 14.69 6.50 but substa weakness ed, credit r onment (th ade. Poter ut comper Q3.19 14.69 6.50 sulting in a ancial crisi A significa eventually	s) rating or ere global growth. L our tenets negative e Q4.19 15.80 6.75 initial repa significant rating down trially comparison, with Q4.19 16.10 7.00 global rec s. SA rate midespres	its local of risk-off er imited imited imited imited imited imited imited imited imited in the second secon	Q2.20 18.30 7.25 Wither ma edding and lated rece impact on Q2.20 19.50 8.50 n a marke estiment grossion oc astrony of the strong	Q3.20 15.50 7.25 rked dow 5 weak inv ssion. Ho s that of st exprop economy Q3.20 20.00 9.25 d escalation cours in S redding a	Q4.20 15.15 7.25 ngrades. vestment wever, a the base riation of 7. Q4.20 19.25 10.00 ton of the all three A than in nd strike

Expected case: Exchange	2019	2019	2019	2019	2020	2020	2020	2020	2021	2021	2021	2021
Rates forecasts	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
USD/ZAR	14.01	14.38	14.69	14.65	14.15	14.45	14.65	14.00	13.75	14.05	14.55	14.15
GBP/ZAR	18.25	18.48	18.10	18.39	18.16	18.66	19.06	18.30	18.56	19.25	20.29	19.73
EUR/ZAR	15.92	16.16	16.33	16.04	15.71	16.33	16.77	16.10	16.23	16.86	17.90	17.69
ZAR/JPY	7.86	7.65	7.31	7.34	7.53	7.34	7.20	7.46	7.71	7.54	7.29	7.49
ZARCHF	14.06	14.33	14.90	14.69	14.28	14.71	14.91	14.25	14.18	14.64	15.16	14.74
ZARAUD	9.98	10.07	10.07	9.99	9.83	10.19	10.55	10.22	10.45	10.82	11.35	11.04
GBP/USD	1.30	1.29	1.23	1.26	1.28	1.29	1.30	1.31	1.35	1.37	1.39	1.39
EUR/USD	1.14	1.12	1.11	1.10	1.11	1.13	1.15	1.15	1.18	1.20	1.23	1.25
USD/JPY	110	110	107	108	107	106	106	105	106	106	106	106

Lite Down case: Exchange	2019	2019	2019	2019	2020	2020	2020	2020	2021	2021	2021	2021
Rates forecasts	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
USD/ZAR	14.01	14.38	14.69	15.80	16.50	16.30	15.50	15.15	15.10	15.05	15.00	15.05
GBP/ZAR	18.25	18.48	18.10	19.83	21.17	21.05	20.17	19.80	20.39	20.62	20.92	20.99
EUR/ZAR	15.92	16.16	16.33	17.30	18.32	18.42	17.75	17.42	17.82	18.06	18.45	18.81
ZAR/JPY	7.86	7.65	7.31	6.81	6.45	6.50	6.81	6.90	7.02	7.04	7.07	7.04
ZARCHF	14.06	14.33	14.90	15.84	16.65	16.59	15.78	15.42	15.57	15.68	15.63	15.68
ZARAUD	9.98	10.07	10.07	10.78	11.47	11.49	11.16	11.06	11.48	11.59	11.70	11.74
GBP/USD	1.30	1.29	1.23	1.26	1.28	1.29	1.30	1.31	1.35	1.37	1.39	1.39
EUR/USD	1.14	1.12	1.11	1.10	1.11	1.13	1.15	1.15	1.18	1.20	1.23	1.25
USD/JPY	110	110	107	108	107	106	106	105	106	106	106	106

Severe Down case:	2019	2019	2019	2019	2020	2020	2020	2020	2021	2021	2021	2021
Exchange Rates forecasts	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
USD/ZAR	14.01	14.38	14.69	16.10	18.50	19.50	20.00	19.25	18.70	18.00	17.50	16.75
GBP/ZAR	18.25	18.48	18.10	20.21	23.74	25.18	26.02	25.16	25.25	24.66	24.40	23.36
EUR/ZAR	15.92	16.16	16.33	17.63	20.54	22.04	22.90	22.14	22.07	21.60	21.53	20.94
ZAR/JPY	7.86	7.65	7.31	6.68	5.76	5.44	5.28	5.43	5.67	5.89	6.06	6.33
ZARCHF	14.06	14.33	14.90	16.14	18.67	19.85	20.36	19.59	19.28	18.75	18.23	17.45
ZARAUD	9.98	10.07	10.07	10.98	12.86	13.75	14.40	14.05	14.21	13.86	13.65	13.07
GBP/USD	1.30	1.29	1.23	1.26	1.28	1.29	1.30	1.31	1.35	1.37	1.39	1.39
EUR/USD	1.14	1.12	1.11	1.10	1.11	1.13	1.15	1.15	1.18	1.20	1.23	1.25
USD/JPY	110	110	107	108	107	106	106	105	106	106	106	106

Up case: Exchange Rates	2019	2019	2019	2019	2020	2020	2020	2020	2021	2021	2021	2021
forecasts	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
USD/ZAR	14.01	14.38	14.69	13.00	11.50	10.00	9.95	9.90	9.70	9.65	9.45	9.30
GBP/ZAR	18.25	18.48	18.10	16.32	14.76	12.91	12.95	12.94	13.10	13.22	13.18	12.97
EUR/ZAR	15.92	16.16	16.33	14.24	12.77	11.30	11.39	11.39	11.45	11.58	11.62	11.63
ZAR/JPY	7.86	7.65	7.31	8.27	9.26	10.60	10.60	10.56	10.93	10.98	11.22	11.40
ZARCHF	14.06	14.33	14.90	13.03	11.60	10.18	10.13	10.08	10.00	10.05	9.84	9.69
ZARAUD	9.98	10.07	10.07	8.87	7.99	7.05	7.16	7.23	7.37	7.43	7.37	7.25
GBP/USD	1.30	1.29	1.23	1.26	1.28	1.29	1.30	1.31	1.35	1.37	1.39	1.39
EUR/USD	1.14	1.12	1.11	1.10	1.11	1.13	1.15	1.15	1.18	1.20	1.23	1.25
USD/JPY	110	110	107	108	107	106	106	105	106	106	106	106

Extreme Up case:	2019	2019	2019	2019	2020	2020	2020	2020	2021	2021	2021	2021
Exchange Rates forecasts	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
USD/ZAR	14.01	14.38	14.69	11.50	10.30	9.50	8.60	7.90	7.60	7.40	7.10	6.95
GBP/ZAR	18.25	18.48	18.10	14.44	13.22	12.27	11.19	10.32	10.26	10.14	9.90	9.69
EUR/ZAR	15.92	16.16	16.33	12.59	11.43	10.74	9.85	9.09	8.97	8.88	8.73	8.69
ZAR/JPY	7.86	7.65	7.31	9.35	10.34	11.16	12.27	13.23	13.95	14.32	14.93	15.25
ZARCHF	14.06	14.33	14.90	11.53	10.39	9.67	8.75	8.04	7.84	7.71	7.40	7.24
ZARAUD	9.98	10.07	10.07	7.85	7.16	6.70	6.19	5.77	5.78	5.70	5.54	5.42
GBP/USD	1.30	1.29	1.23	1.26	1.28	1.29	1.30	1.31	1.35	1.37	1.39	1.39
EUR/USD	1.14	1.12	1.11	1.10	1.11	1.13	1.15	1.15	1.18	1.20	1.23	1.25
USD/JPY	110	110	107	108	107	106	106	105	106	106	106	106