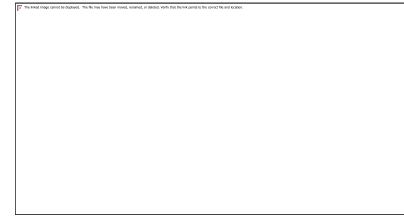
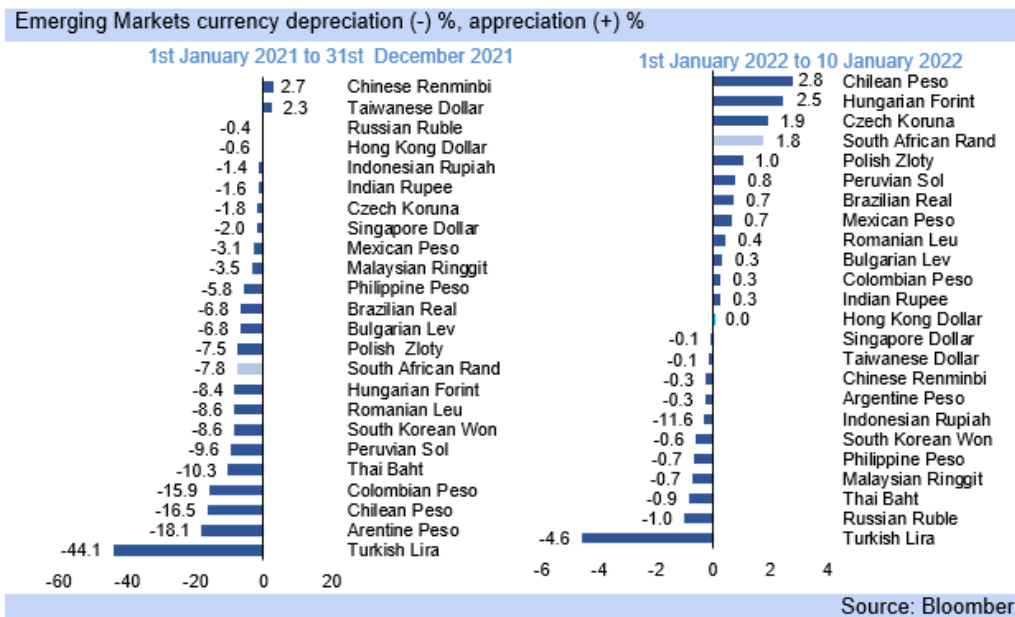


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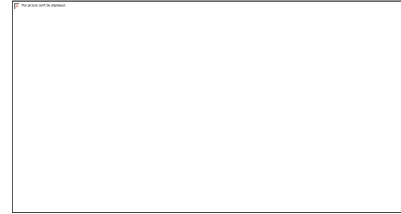


Monday 10 January 2022

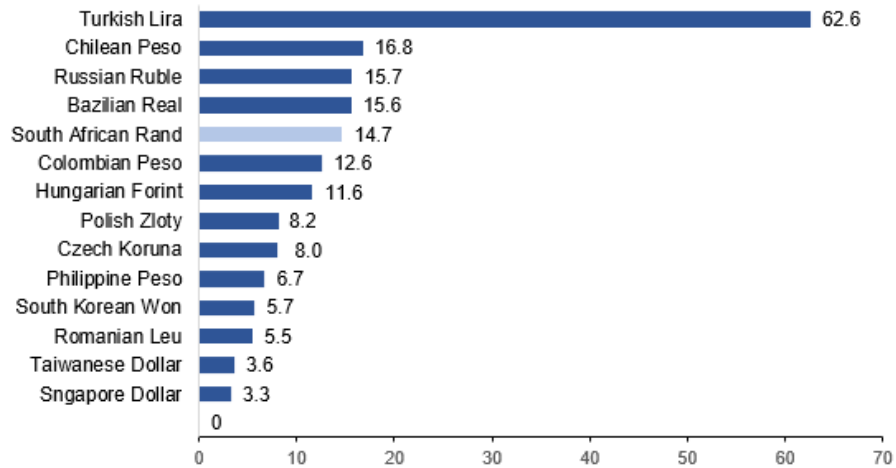
Rand note: the rand is seeing typical seasonal January strength, pulling back towards R15.50/USD today, but will likely remain volatile this year



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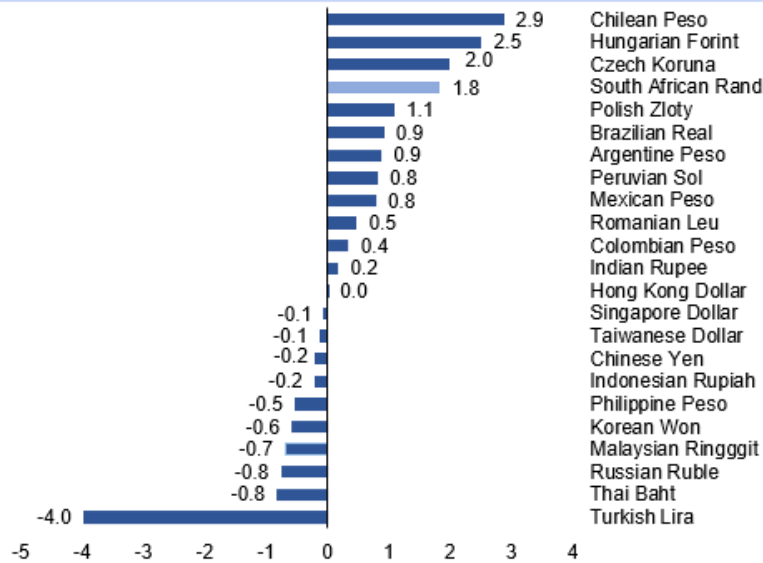


Emerging Markets Implied Volatilities – values 10 January 2022



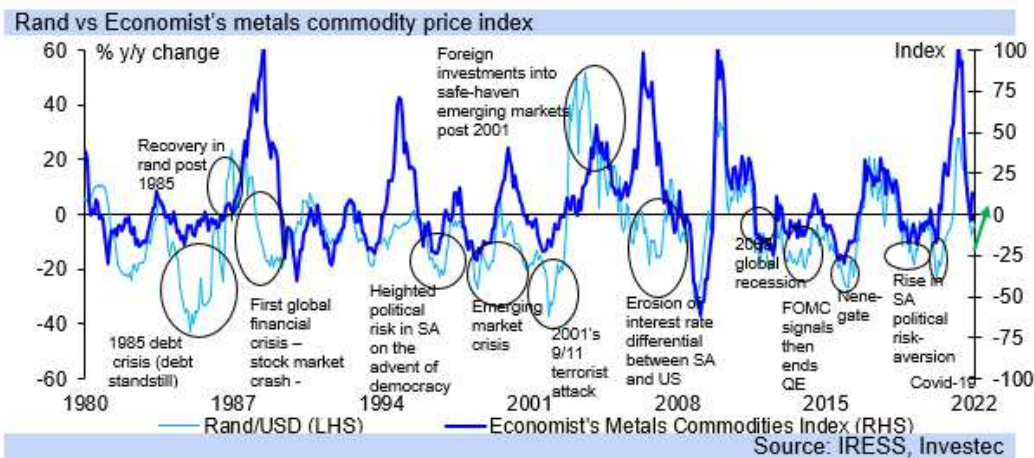
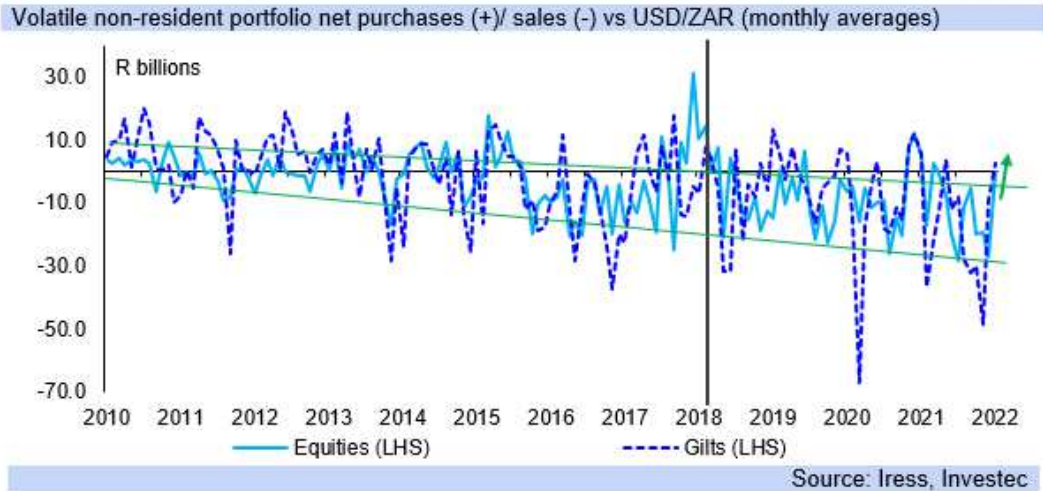
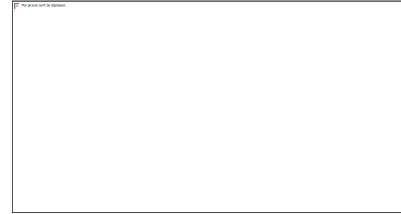
Source: Bloomberg

Emerging Markets Carry Return – values 10 January 2022



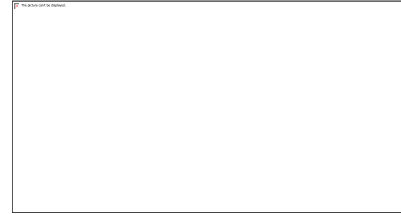
Source: Bloomberg

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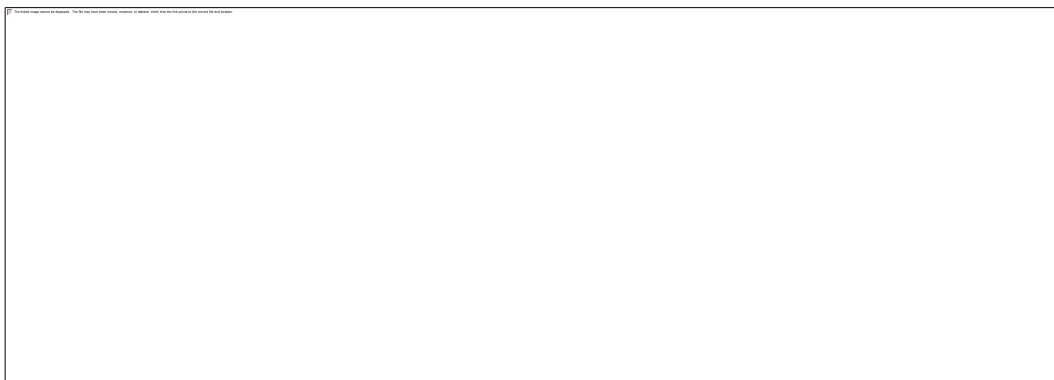
- The rand is driven by a myriad of factors, strengthening to R15.57/USD so far today in its usual bout of seasonal strength, and is expected to average R15.50/USD this quarter, although it remains at risk of marked volatility, and weakness.
- Foreigners have been active in SA markets this year so far, purchasing R2.6bn worth of SA bonds (net of sales), and R0.7bn worth of equities (also on a net basis) in the middle of last week. Overall foreigners sold only -R0.4bn worth of equities (net of purchases) this year.
- Foreign inflows into South Africa's portfolio assets this year so far stand at R2.2bn, which has bolstered the rand, and the favorable risk appetite is being driven by the usual increased seasonal risk taking of foreigners towards rand assets over the turn of the year.

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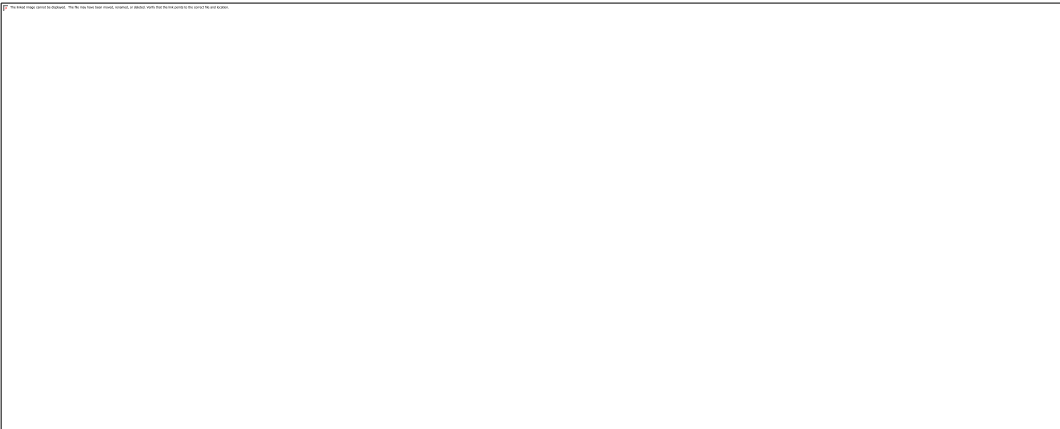
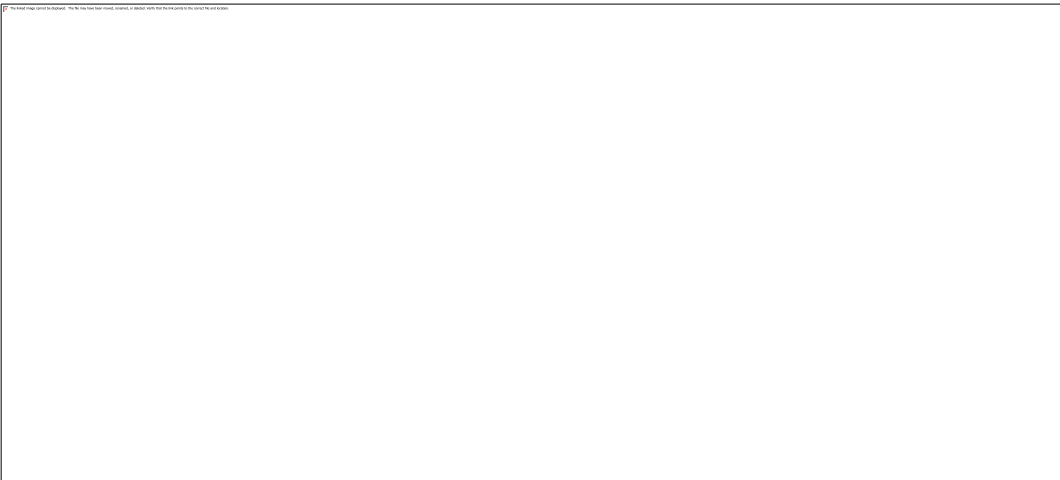
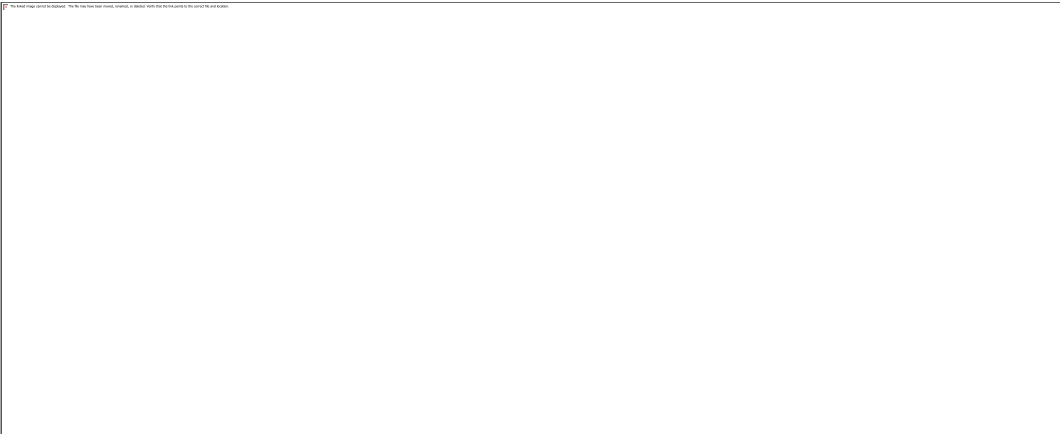
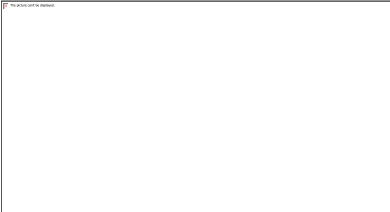


- That is, the northern hemisphere winter, December to February inclusive, typically sees increased investor interest in SA markets at this time, as most market players are at work compared to the thin market months in the northern hemisphere summer vacations.
- Heightened risk taking typically occurs over the northern hemisphere winter versus the low risk taking in the northern hemisphere summer. Rand assets are often in particular favour given the high liquidity and sophistication of the domestic financial markets.
- Consequently, the rand tends to strengthen in the first and last quarters of the year and weaken in the middle two quarters of the year and this seasonality particularly comes to the fore when other drivers of the domestic currency are more subdued.
- The recent FOMC minutes and meeting of 15th December 2021 provided the markets with significantly more certainty on the US monetary policy normalisation process, and consequently has reduced risk aversion for markets.
- With expected US rate hikes this year (the Fed fund futures are currently expecting up to three 25bp increases) and QE ending signalled as early as March, markets are relishing the increased certainty of the outlook, bolstering foreign investor portfolio flows into SA.
- The rand consequently could strengthen through the R15.50/USD mark this month, potentially as early as this week, and moving towards R15.00/USD this quarter, if not stronger, although the domestic currency will also remain highly volatile.

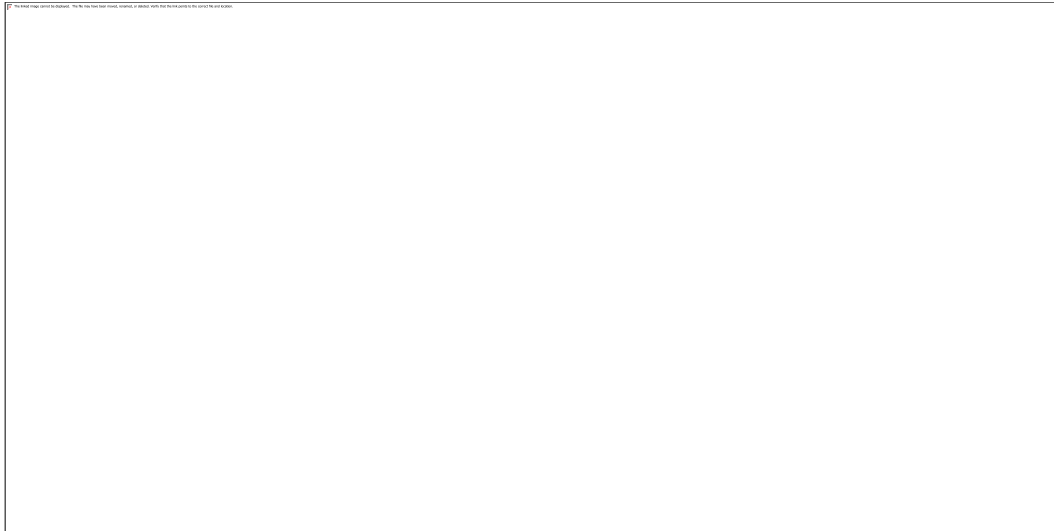
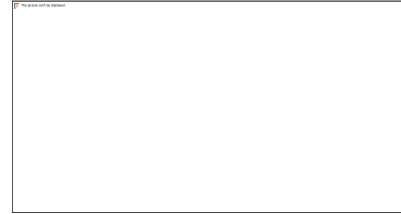
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- Increased certainty on the US monetary policy front (including balance sheet reduction) has been positive for the rand, as is the upwards interest rate trajectory expected for SA, with the FRA curve factoring in close to a 2.0% hike this year (although this is likely overdone.)
- Nevertheless, higher interest rates tend to benefit currencies from the carry trade and other flows, while the money market's FRA curve is also expecting higher interest rates for SA for next year as well, of up to another 1.0% increase.
- We do not expect the SARB will lift interest rates by 2.0% this year, and instead expect around three 25bp lifts, or 75bp, and another hike next year, as the South African economy is still in a recovery phase, with unemployment very high.
- However, the risk for SA is for higher, not lower interest rates, which is also rand positive, and the domestic currency has consequently been gaining from a number of factors, including the removal of most lockdown restrictions as omicron proves mild.
- While the international travel restrictions imposed in December have negatively impacted SA's foreign tourism, and so currency inflows from this source, seasonally imports are extremely weak in January, which bolsters the rand
- The rand is also a commodity currency, and the strengthening in metals prices in particular in December, up 10% y/y, also drove the domestic currency stronger over December (from R16.15/USD early in the month) and into January, reaching R15.57/USD today.
- While the rand did not make substantial gains into year end, closing 2021 at R15.94/USD, it saw some strength, while 2022 so far has seen this exacerbated. Market sentiment will remain influenced by data too, with the Fed relying particularly on recent data at its meetings.

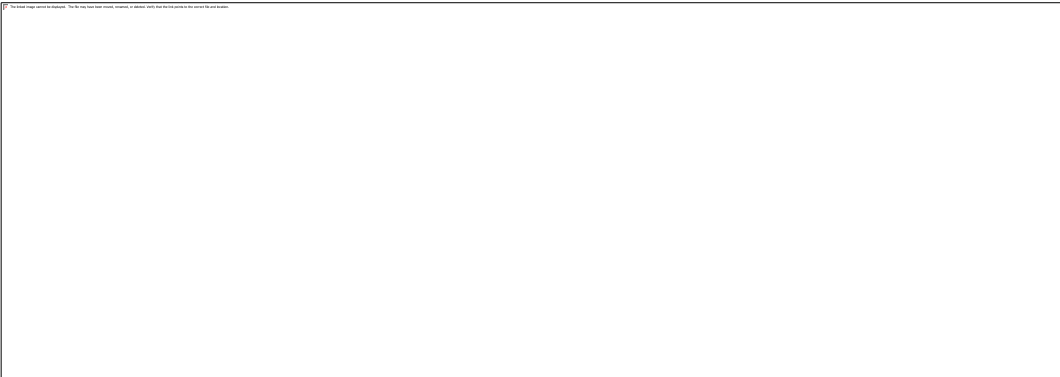
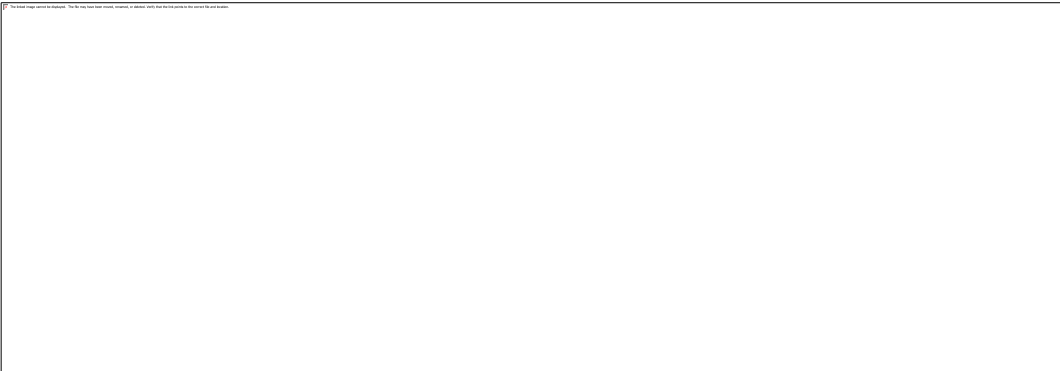
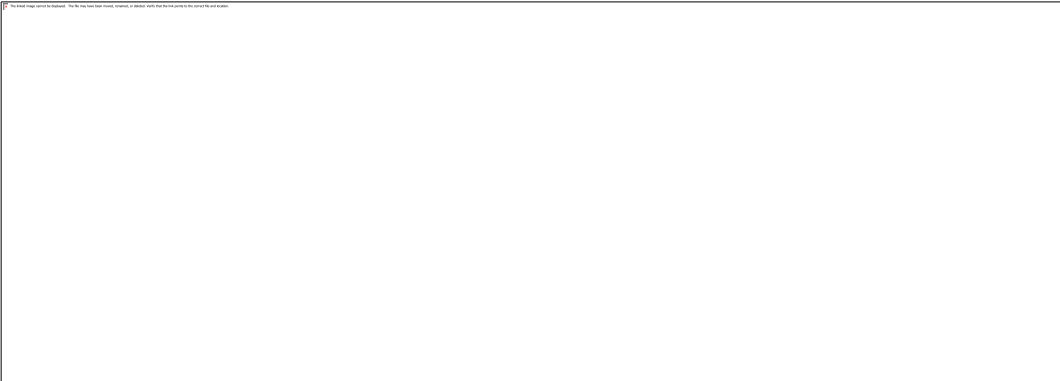
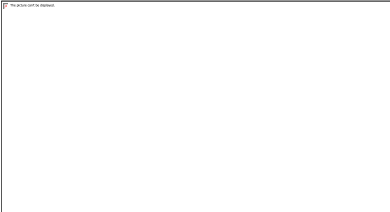
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- The rand is likely to trade in the R15.00/USD to R16.00/USD this month, but much will depend on the likely speed of US interest rate increases. Some are even expecting the first US interest rate hike as early as March this year, although we believe this may be too soon.
- This year consequently could hold significant volatility for markets, although not to the extent of 2020, which was an outlier year. The rand could attempt to pierce R15.00/USD this quarter, but likely will be pushed weaker in H2.22, if not before.



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