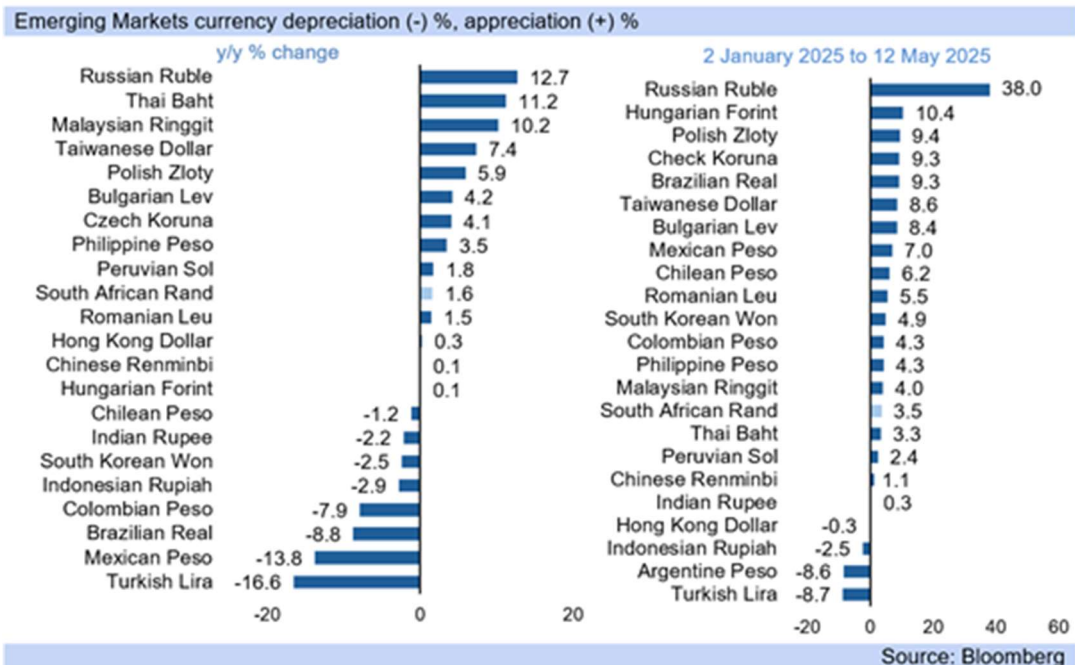


# SA Economics

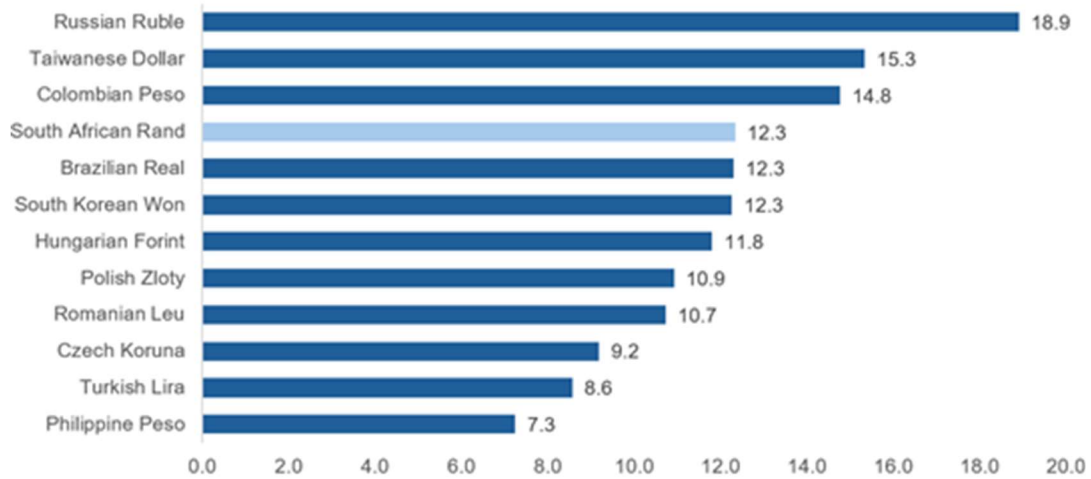


Rand note: sees less volatility recently, could see further strength this quarter

Monday 12 May 2025

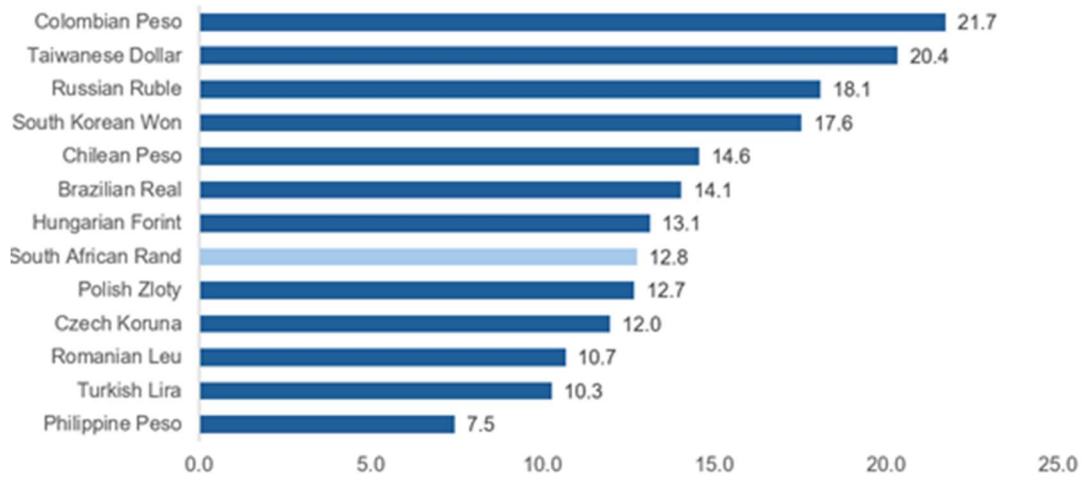


#### Emerging Markets Implied Volatilities – values 12 May 2025

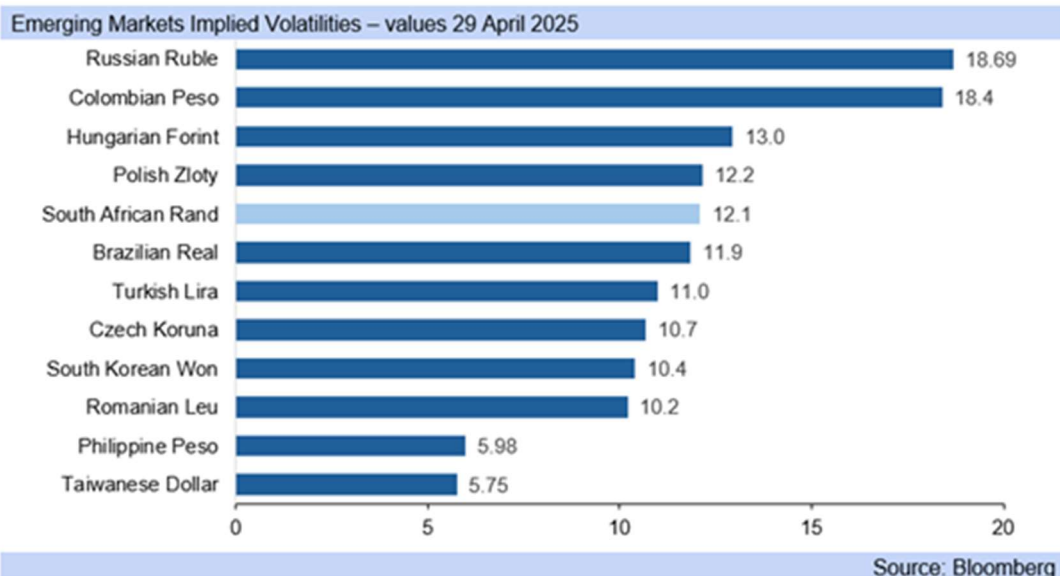


Source: Bloomberg

#### Emerging Markets Implied Volatilities – values 5 May 2025



Source: Bloomberg



Expected Case: Exchange Rate forecasts												
	2025				2026				2027			
	Q1.25	Q2.25	Q3.25	Q4.25	Q1.26	Q2.26	Q3.26	Q4.26	Q1.27	Q2.27	Q3.27	Q4.27
USD/ZAR	18.50	18.60	18.45	18.00	17.90	18.00	18.10	18.00	17.90	18.00	18.10	17.90
GBP/ZAR	23.29	24.22	24.54	24.12	24.25	24.66	24.98	24.84	24.34	24.12	23.89	23.27
EUR/ZAR	19.47	20.72	21.13	20.88	21.03	21.42	21.72	21.60	21.30	21.42	21.36	21.12
ZAR/JPY	8.24	7.86	7.86	8.06	7.96	7.78	7.60	7.50	7.54	7.44	7.35	7.37
CHF/ZAR	20.58	21.95	22.24	21.86	21.91	22.20	22.39	22.15	21.57	21.18	20.57	19.89
AUD/ZAR	11.61	11.55	11.90	11.70	11.72	11.88	12.04	12.06	12.35	12.42	12.49	12.35
GBP/USD	1.26	1.30	1.33	1.34	1.36	1.37	1.38	1.38	1.36	1.34	1.32	1.30
EUR/USD	1.05	1.11	1.15	1.16	1.18	1.19	1.20	1.20	1.19	1.19	1.18	1.18
USD/JPY	152	146	145	145	143	140	138	135	135	134	133	132

Note: averages, Source: Investec, Iress

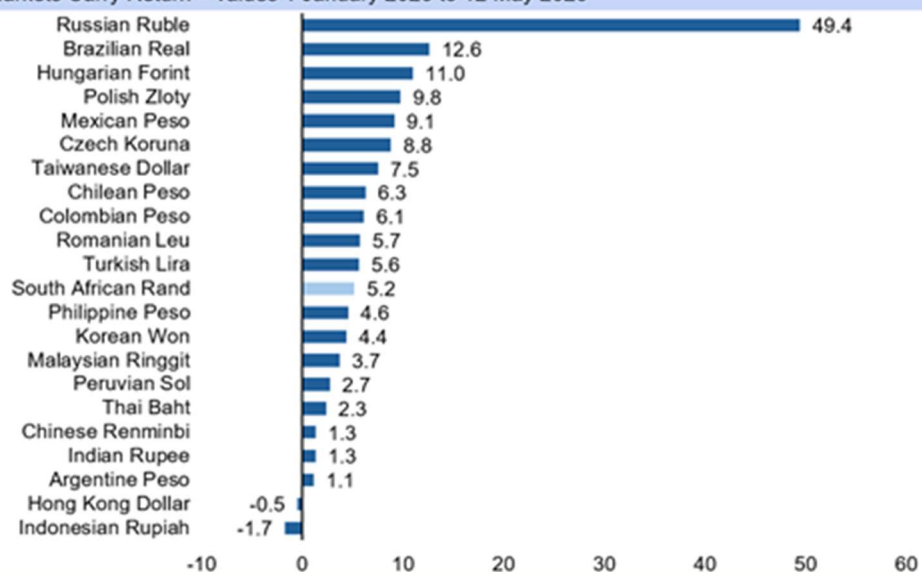
- The rand has been more settled recently, reaching R18.20/USD and averaging 18.77/USD to date for the quarter, likely to continue to attempt to gradually track down to R18.00/USD over the rest of the quarter, but can still see volatility.
- Markets have benefited from the US and China reaching a trade deal over the weekend, with reciprocal tariffs reported to fall by 115%, and a 90 day pause on the recent new tariffs, with room for further negotiations.
- President Trump highlighted the meetings as a “total reset” in US China trade relations, with other officials noting “a great deal of productivity” and that “It’s important to understand how quickly we were able to come to an agreement.”
- Highlighting this “reflects that perhaps the differences were not as large as many may have thought”, with the US dollar seeing some recovery. Financial

markets have pulled back on US interest rate expectations as growth concerns receded somewhat.

- Two US interest rate cuts are now factored in by financial markets for the US, down from three earlier in the month, with September expected to see this year's first cut (-25bp) followed by another -25bp in December.
- The improvement in market expectations now over global and US economic growth has added to the rand's recent strength, as risk aversion has dropped from elevated levels in earlier weeks, although risks remain to the downside.
- Financial markets have nevertheless moved into risk-on as the sharp reduction in US/Chinese tariffs in particular allays concerns about the potential for recession, with worries over the US having dulled investor sentiment this year.
- US inflation data is out this week, and with the recent moderation in the key PCE deflator, disinflation is expected to persist overall, also supportive of interest rate cuts in the US this year, and so of the rand.
- The rand will remain dependent on international events, particularly that of the US, while weak domestic growth, high state borrowings, insufficient infrastructure repair at Transnet and populism, have also kept the rand from its PPP of near R16.00/USD.

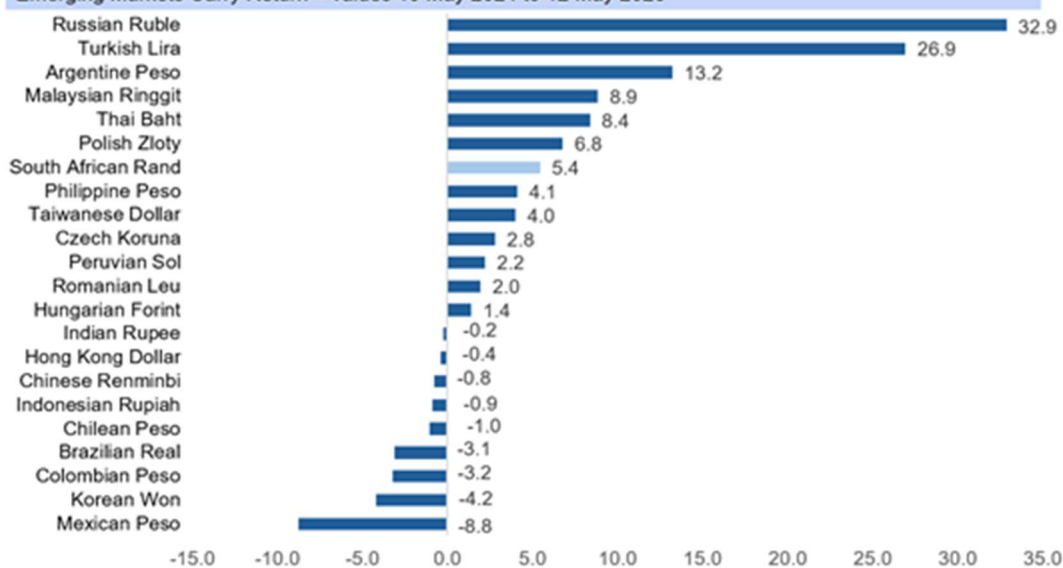
Please scroll down to the second section below

Emerging Markets Carry Return – values 1 January 2025 to 12 May 2025



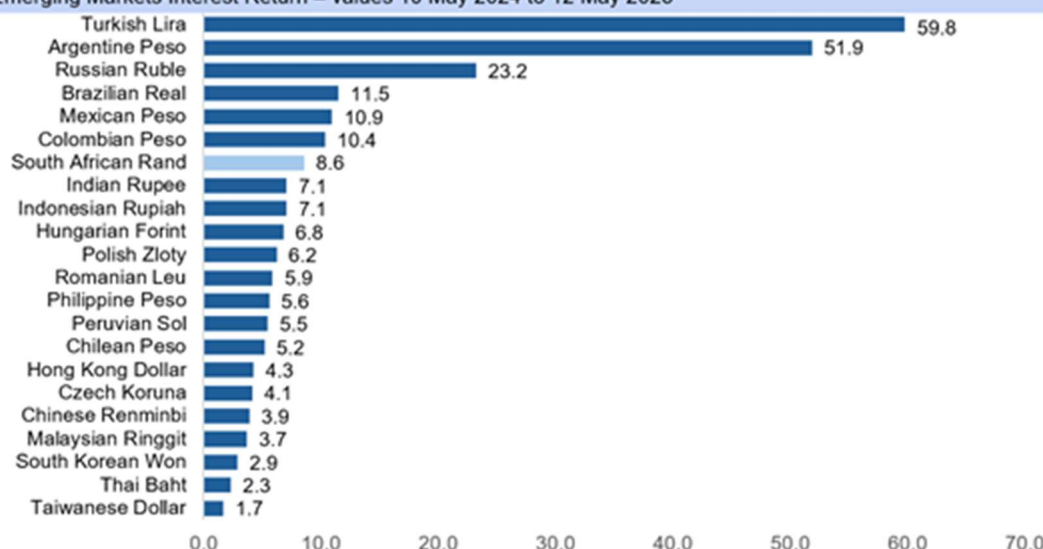
Source: Bloomberg

Emerging Markets Carry Return – values 10 May 2024 to 12 May 2025



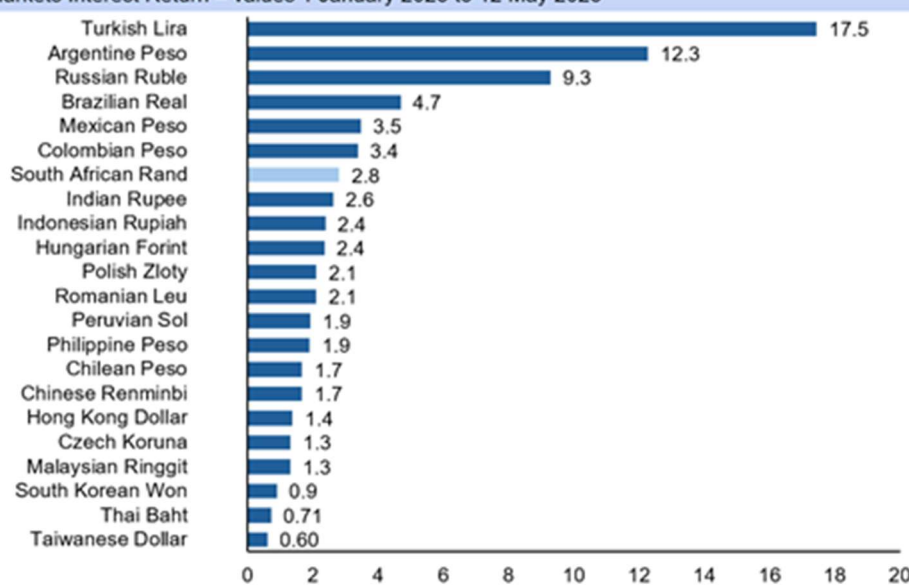
Source: Bloomberg

Emerging Markets Interest Return – values 10 May 2024 to 12 May 2025

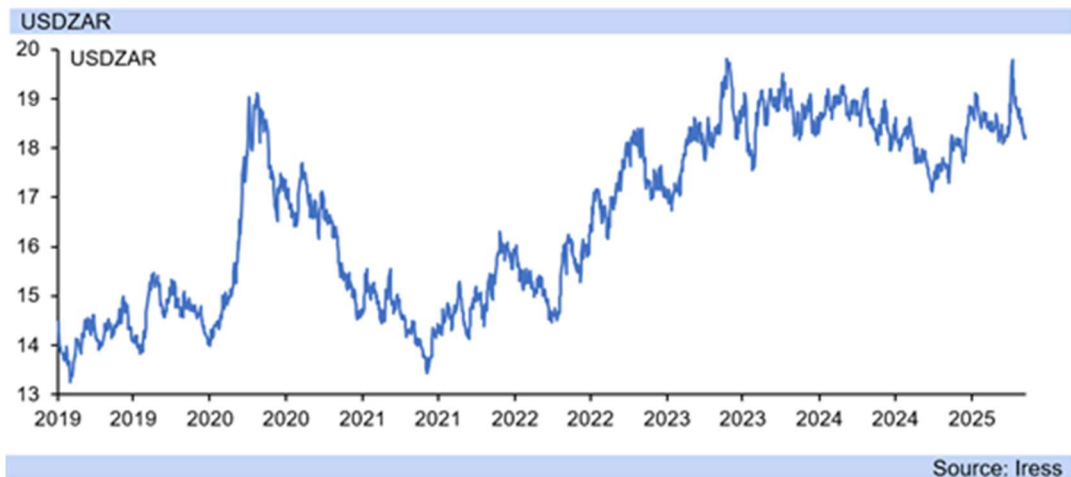


Source: Bloomberg

Emerging Markets Interest Return – values 1 January 2025 to 12 May 2025



Source: Bloomberg



- The oil price has seen a rebound, to US\$65/bbl, and commodities' prices in general have lifted on the substantial progress made by the US and China, pointing to more demand for commodities than was previously feared this year.
- With the rand a commodities' currency, the outcome has also benefitted the domestic currency, while only two interest rate cuts are expected this year in SA's repo rate, this may drop to one as the US rate cut perceived trajectory has reduced.
- Metal prices in particular have seen a lift, South Africa's key export, while the gold price has moderated, as the main safe haven investment has now instead seen less support as worries over a collapse in global economic activity have receded.
- The US economy is not out of the woods yet, and key data this week includes retail sales, with markets expecting a slowdown to 0.1% m/m in April, from 1.4% m/m in March. A better than expected outcome would also be key for markets.
- Also on the list for publication in this week, the US sees various measures of business activity, likely to paint a mixed if not downside picture, although sentiment readings will likely improve from mid-May on the positive trade developments.
- Risks remain in the global and US economy, as trade relationships can turn quickly, although the US administration has shown it has been quick to institute

heavy tariffs, then roll them back when trade partners seek to align to the US's policy agendas.

- In South Africa, next week's budget has reportedly seen broad support across the GNU, and is expected to be passed, although some factions of the ANC continue to seek the expulsion of the DA from the GNU, creating lingering investor risk.
- Political risk remains a key concern for investors, fuelled by disagreements over legislation rapidly past at the end of the last administration before the national elections at the end of May, with populist policies depressing business confidence.
- While global events have driven the rand stronger recently, the underlying risks to domestic performance remain and have been key in seeing polled support for the ANC crumbling as the party holds a tight rein overall on policies and legislation.



Economic Scenarios:		Q1.25	Q2.25	Q3.25	Q4.25	Q1.26	Q2.26	Q3.26	Q4.26
<b>Extreme Up case 2%</b>	USD/Rand (average)	18.50	17.00	16.00	15.30	15.00	14.90	14.80	14.65
	Repo rate (end rate)	7.50	7.00	6.50	6.25	6.00	5.50	5.25	5.00
SA economic growth rises to 3-5%, then 5-7%. Good governance, growth-creating reforms, structural (including infrastructure) constraints eradicated, strong property rights, no nationalisation or expropriation without compensation. High business confidence and fixed investment growth, substantial FDI, fiscal consolidation drives debt to low ratios of 2000s. Very subdued domestic inflation on extreme rand strength, very favourable weather conditions. Short grey listing. Strong global growth, risk-on, commodity boom. Rapid upgrades of credit ratings. Strong transition away from fossil fuel usage, a quick transition to renewable energy, very comprehensive measures to alleviate climate change impact on economy. Geopolitical tensions subside.									
<b>Up case 15%</b>	USD/Rand (average)	18.50	17.50	16.60	16.30	16.10	16.00	16.05	16.10
	Repo rate (end rate)	7.50	7.25	7.00	6.75	6.50	6.25	6.00	5.75
Economic growth eventually lifts towards 5.0%, rising confidence and investment levels, structural (including infrastructure) constraints eroded, global growth strong, global financial markets risk-on. No nationalisation or expropriation without compensation. Low domestic inflation on favourable weather and global conditions, rand strength, lower state-controlled price inflation on increased privatisation. Positive outlooks on credit ratings turn into upgrades on substantial fiscal consolidation, debt projections fall substantially. Grey listed for a moderate period. Substantial transition to renewable energy away from fossil fuel usage, comprehensive measures to alleviate climate change impact on economy. Geopolitical tensions ease.									
<b>Base case 50%</b>	USD/Rand (average)	18.50	18.60	18.45	18.00	17.90	18.00	18.10	18.00
	Repo rate (end rate)	7.50	7.50	7.25	7.00	6.75	6.75	6.75	6.75
Economic growth modest but lifts towards 3.0% y/y over five years on sufficient domestic policy support measures but is still limited by structural (including infrastructure such as freight transport) constraints. Global financial market risk sentiment is neutral to positive. South Africa is in the BB credit rating category bracket as fiscal consolidation (debt to GDP stabilisation) occurs, leading to some positive outlooks. The rand stabilises and strengthens somewhat, inflation is impacted by the course of weather patterns via food price inflation. A modest transition to renewable energy occurs and measures to alleviate the impact of climate change on the economy are implemented. Little expropriation without compensation occurs and has no significant negative effect on economy, there is no nationalisation. South Africa's grey listing lifted in the period. Geopolitical tensions subside but do not exacerbate.									
<b>Lite (domestic) Down case 32%</b>	USD/Rand (average)	18.50	19.80	20.00	20.50	20.80	21.00	20.60	20.40
	Repo rate (end rate)	7.50	8.00	8.50	8.75	9.50	9.50	9.50	9.25
The international environment (incl. risk sentiment) is that of the base case. South Africa fails to see government debt projections stabilise, falls into single B (local and foreign currency) credit ratings from all three agencies. Recession occurs. Business confidence remains depressed, load shedding and freight (infrastructure) constraints worsen, weak investment, civil and political unrest. High inflation on unfavorable weather conditions, marked rand weakness. Little transition to renewable energy or measures to alleviate the impact of climate change. Very limited expropriation of private sector property without compensation, with a slight negative impact on the economy. Substantial fiscal consolidation ultimately occurs, preventing ratings falling into the C grades. The greylisting is lengthy.									
<b>Severe down case 1%</b>	USD/Rand (average)	18.50	20.50	20.90	21.10	21.50	21.90	21.80	21.20
	Repo rate (end rate)	7.50	9.00	9.75	11.00	11.50	11.00	10.75	10.50
Lengthy global recession, global financial crisis - insufficient monetary and other support domestically and internationally. Very high inflation on very adverse weather conditions, severe rand weakness. SA rated single B from all three key agencies, downgraded into CCC grade, increased risk of default, lengthy recession occurs. Government borrows from increasingly wider sources, sinks deeper into a debt trap, widespread, severe services load shedding, severe civil and political unrest. Failure to transition to renewable energy and measures to alleviate the impact of climate change on the economy. Limited expropriation of private sector property without compensation with a noticeable negative economic impact. SA is blacklisted. Geopolitical tensions worsen.									

Note: Event risk begins Q2 25. Source: Investec

Lite Down Case: Exchange Rate forecasts												
	2025				2026				2027			
	Q1.25	Q2.25	Q3.25	Q4.25	Q1.26	Q2.26	Q3.26	Q4.26	Q1.27	Q2.27	Q3.27	Q4.27
USD/ZAR	18.50	19.80	20.00	20.50	20.80	21.00	20.60	20.40	20.30	20.40	20.50	20.30
GBP/ZAR	23.29	25.78	26.60	27.47	28.18	28.77	28.43	28.15	27.61	27.34	27.06	26.39
EUR/ZAR	19.47	22.06	22.90	23.78	24.44	24.99	24.72	24.48	24.16	24.28	24.19	23.95
ZAR/JPY	8.24	7.39	7.25	7.07	6.85	6.67	6.67	6.62	6.65	6.57	6.49	6.50
CHF/ZAR	20.58	23.37	24.10	24.90	25.46	25.90	25.48	25.11	24.46	24.00	23.30	22.56
AUD/ZAR	11.61	12.30	12.90	13.33	13.62	13.86	13.70	13.67	14.01	14.08	14.15	14.01
GBP/USD	1.26	1.30	1.33	1.34	1.36	1.37	1.38	1.38	1.36	1.34	1.32	1.30
EUR/USD	1.05	1.11	1.15	1.16	1.18	1.19	1.20	1.20	1.19	1.19	1.18	1.18
USD/JPY	152	146	145	145	143	140	138	135	135	134	133	132

Note: averages, Source: Investec, Iress

## Severe Down Case: Exchange Rate forecasts

	2025				2026				2027			
	Q1.25	Q2.25	Q3.25	Q4.25	Q1.26	Q2.26	Q3.26	Q4.26	Q1.27	Q2.27	Q3.27	Q4.27
USD/ZAR	18.50	20.50	20.90	21.10	21.50	21.90	21.80	21.20	21.10	21.20	21.30	21.10
GBP/ZAR	23.29	26.69	27.80	28.27	29.13	30.00	30.08	29.26	28.70	28.41	28.12	27.43
EUR/ZAR	19.47	22.84	23.93	24.48	25.26	26.06	26.16	25.44	25.11	25.23	25.13	24.90
ZAR/JPY	8.24	7.14	6.94	6.87	6.63	6.39	6.31	6.37	6.40	6.32	6.24	6.26
CHF/ZAR	20.58	24.19	25.19	25.63	26.31	27.01	26.97	26.09	25.42	24.94	24.20	23.44
AUD/ZAR	11.61	12.73	13.48	13.72	14.08	14.45	14.50	14.20	14.56	14.63	14.70	14.56
GBP/USD	1.26	1.30	1.33	1.34	1.36	1.37	1.38	1.38	1.36	1.34	1.32	1.30
EUR/USD	1.05	1.11	1.15	1.16	1.18	1.19	1.20	1.20	1.19	1.19	1.18	1.18
USD/JPY	152	146	145	145	143	140	138	135	135	134	133	132

Note: averages. Source: Investec, Iress

## Up Case: Exchange Rate forecasts

Top 10 Currencies by Exchange Rate Volatility												
	2025				2026				2027			
	Q1.25	Q2.25	Q3.25	Q4.25	Q1.26	Q2.26	Q3.26	Q4.26	Q1.27	Q2.27	Q3.27	Q4.27
USD/ZAR	18.50	17.50	16.60	16.30	16.10	16.00	16.05	16.10	16.15	16.10	16.20	16.10
GBP/ZAR	23.29	22.79	22.08	21.84	21.82	21.92	22.15	22.22	21.96	21.57	21.38	20.93
EUR/ZAR	19.47	19.49	19.01	18.91	18.92	19.04	19.26	19.32	19.22	19.16	19.12	19.00
ZAR/JPY	8.24	8.36	8.73	8.90	8.85	8.75	8.57	8.39	8.36	8.32	8.21	8.20
CHF/ZAR	20.58	20.65	20.01	19.80	19.71	19.73	19.86	19.82	19.46	18.94	18.41	17.89
AUD/ZAR	11.61	10.87	10.71	10.60	10.55	10.56	10.67	10.79	11.14	11.11	11.18	11.11
GBP/USD	1.26	1.30	1.33	1.34	1.36	1.37	1.38	1.38	1.36	1.34	1.32	1.30
EUR/USD	1.05	1.11	1.15	1.16	1.18	1.19	1.20	1.20	1.19	1.19	1.18	1.18
USD/JPY	152	146	145	145	143	140	138	135	135	134	133	132

Note averages, Source: Investec, Iress

### Extreme Up Case: Exchange Rate forecasts

	2025				2026				2027			
	Q1.25	Q2.25	Q3.25	Q4.25	Q1.26	Q2.26	Q3.26	Q4.26	Q1.27	Q2.27	Q3.27	Q4.27
USD/ZAR	18.50	17.00	16.00	15.30	15.00	14.90	14.80	14.65	14.60	14.55	14.50	14.30
GBP/ZAR	23.29	22.14	21.28	20.50	20.33	20.41	20.42	20.22	19.86	19.50	19.14	18.59
EUR/ZAR	19.47	18.94	18.32	17.75	17.63	17.73	17.76	17.58	17.37	17.31	17.11	16.87
ZAR/JPY	8.24	8.60	9.06	9.48	9.50	9.40	9.29	9.22	9.25	9.21	9.17	9.23
CHFZAR	20.58	20.06	19.28	18.58	18.36	18.37	18.31	18.03	17.59	17.12	16.48	15.89
AUDZAR	11.61	10.56	10.32	9.95	9.83	9.83	9.84	9.82	10.07	10.04	10.01	9.87
GBP/USD	1.26	1.30	1.33	1.34	1.36	1.37	1.38	1.38	1.36	1.34	1.32	1.30
EUR/USD	1.05	1.11	1.15	1.16	1.18	1.19	1.20	1.20	1.19	1.19	1.18	1.18
USD/JPY	152	146	145	145	143	140	138	135	135	134	133	132

Note: averages. Source: Investec, Iress