

Monday 11 April 2022

Rand note: less volatility likely this year, and over the medium-term (expected case) than in the last few years

Expected Case: Exchange Rate forecasts												
	2022				2023				2024			
	Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.22	Q1.24	Q2.24	Q3.24	Q4.24
USD/ZAR	15.25	14.95	15.20	15.10	15.00	15.40	15.80	15.30	15.10	15.60	16.10	15.60
GBP/ZAR	20.46	20.78	21.43	21.44	21.45	22.33	23.07	22.64	22.35	23.09	23.83	22.78
EUR/ZAR	17.10	17.19	17.63	17.82	17.85	18.48	19.12	18.67	18.88	19.50	20.13	19.50
ZAR/JPY	7.63	7.89	7.83	7.95	8.00	7.79	7.59	7.84	7.81	7.37	6.83	6.86
CHF/ZAR	16.51	16.25	16.52	16.59	16.30	16.74	17.17	16.63	16.59	17.14	17.69	17.14
AUD/ZAR	11.13	10.91	11.25	11.33	11.25	11.55	11.85	11.48	11.78	12.17	12.56	12.17
GBP/USD	1.34	1.39	1.41	1.42	1.43	1.45	1.46	1.48	1.48	1.48	1.48	1.46
EUR/USD	1.12	1.15	1.16	1.18	1.19	1.20	1.21	1.22	1.25	1.25	1.25	1.25
USD/JPY	116	118	119	120	120	120	120	120	118	115	110	107

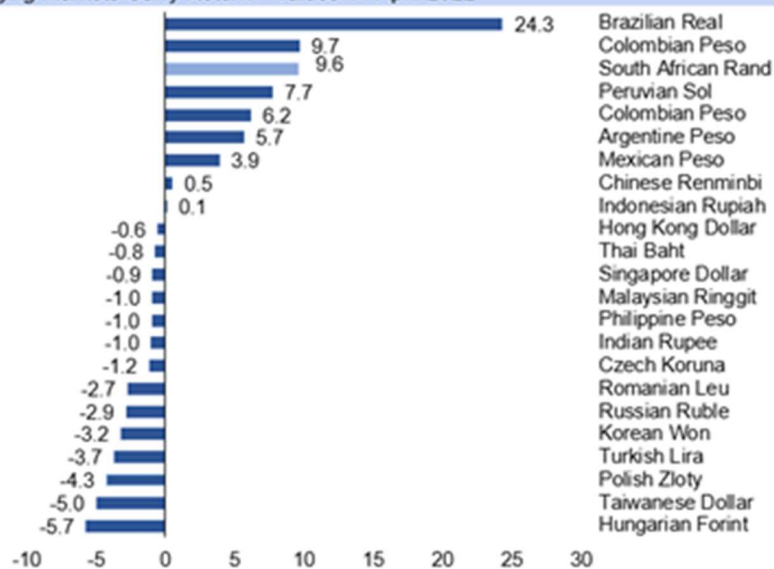
Note: averages, Source: Investec, Iress

Emerging Markets currency depreciation (-) %, appreciation (+) %



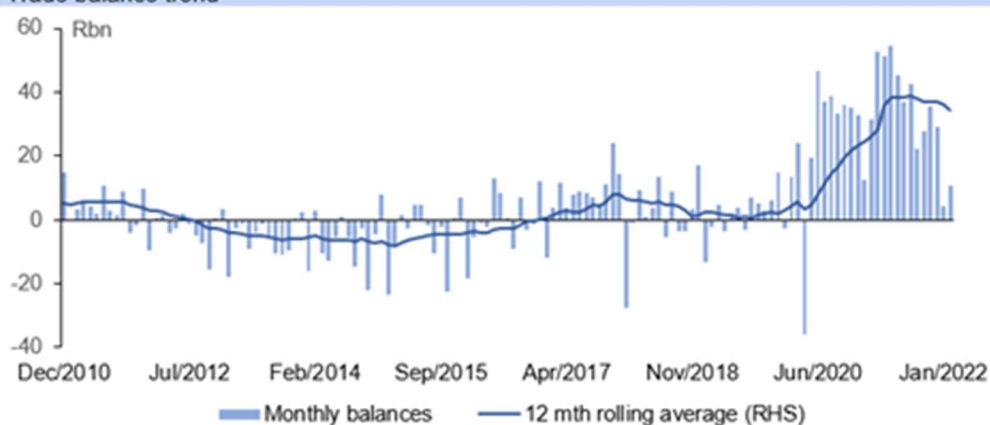
Source: Bloomberg

Emerging Markets Carry Return – values 11 April 2022



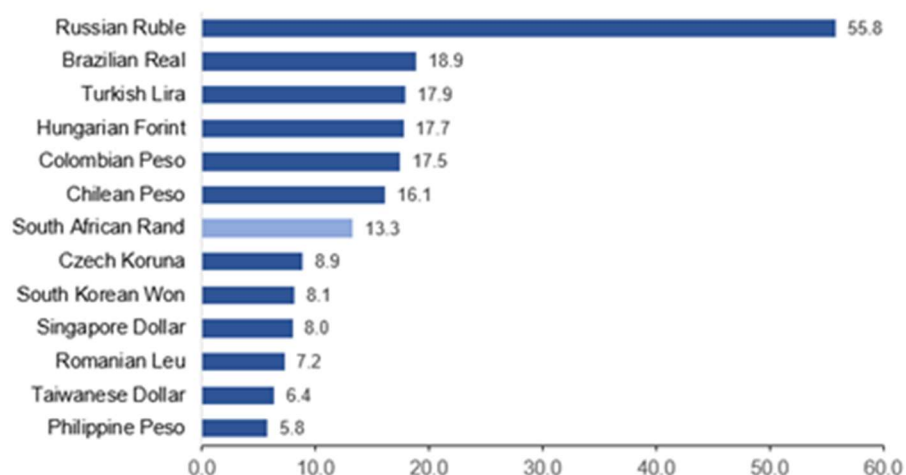
Source: Bloomberg

Trade balance trend



Source: SARS, Investec

Emerging Markets Implied Volatilities – values 11 April 2022

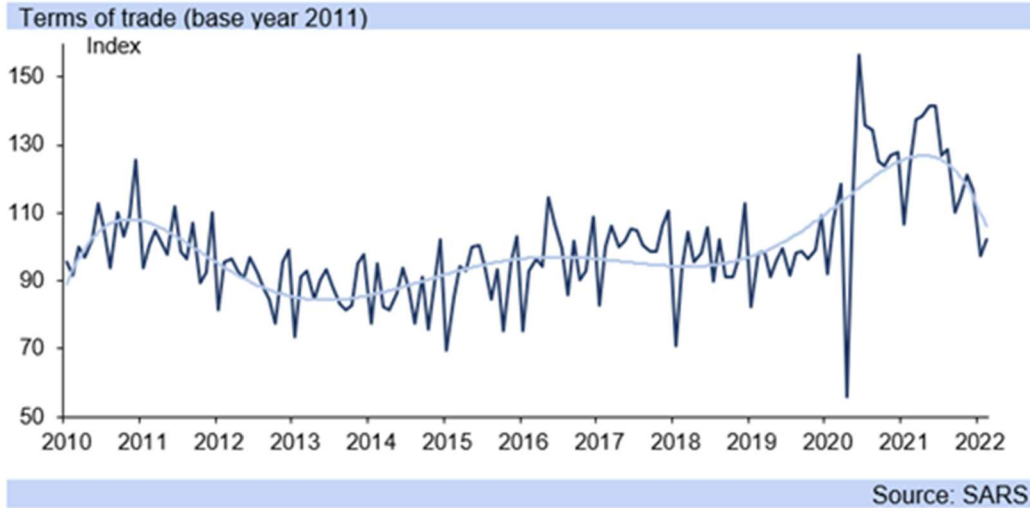


Source: Bloomberg

- The rand remains one of the leading EM currencies, both since the start of the year, and over the past twelve months, benefiting from the differentiation between commodity exporters and importers, early and late cycle rate hikers, credit rating metrics and foreign portfolio flows.
- The rand continues to be rebuffed from sustainably piercing the key resistance level of R14.50/USD, with the domestic currency relatively stable otherwise, trading between R14.53 and R14.82/USD this month, having only briefly pierced R14.50/USD at the end of March.
- The rand's strengthening trend since the start of last year has stalled at the major level, mainly afflicted by the moderation in commodity prices over the last month, but has not lost much support and is showing a degree of relative stability, which is positive for Q2.22.
- Q2.22 is currently likely to see the rand slip further away from R14.50/USD, on average recording around R14.95/USD, as most commodity prices wane further over the second quarter, although this is also likely to be uneven as some commodities lead others.
- Commodity prices are not expected to collapse outright in the second quarter however (base case), and so the rand should avoid severe volatility, instead likely moving towards R14.70/USD mid-month, and towards R14.80/USD around month end.
- The probability of this expected case at 51% runs against a downside, of 46% (lite and severe down case probabilities), with the lite down case probability reducing this year so far as the credit rating agencies became noticeably less negative against SA.
- With the Russian/Ukraine conflict waxing and waning, and SA well removed from any credit rating upgrades yet on a number of weak fundamentals for economic growth, the rand is still at risk of severe weakness (even if less so after the removal of often negative rating outlooks).
- There is uncertainty consequently too, but we nevertheless expected less rand volatility this year (see expected case forecasts) than last year, and certainly the year before, and over the medium-term as the slow progress of the repair of SA's state productive capacity persists.
- This week US inflation will be in focus, with CPI tomorrow and PPI Wednesday, likely to reflect early March and late February commodity price highs, although we continue to

expect Q2.22 will see US inflation moderate on base effects, and more modest commodity prices.

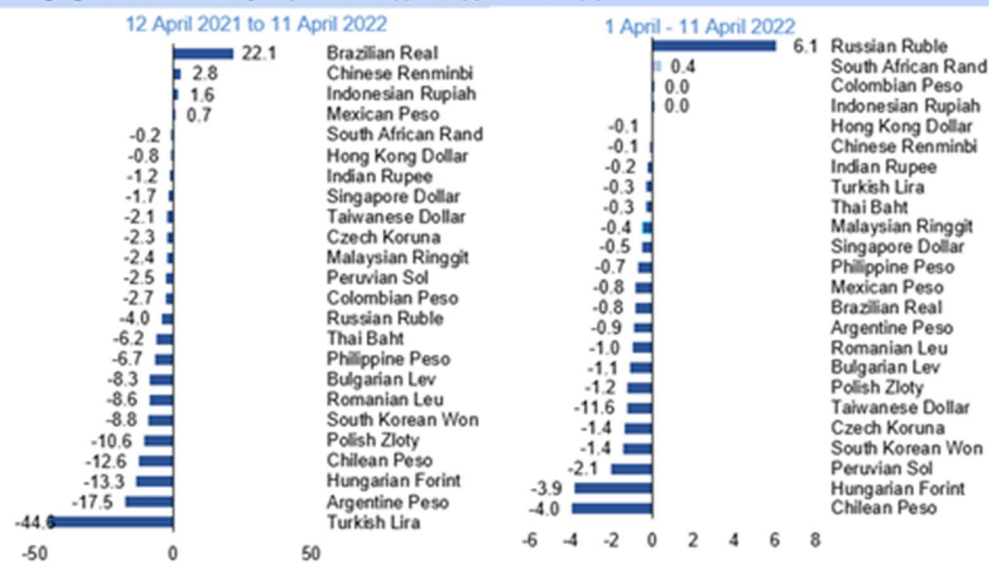
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Top ten exports for February 2022	
Description	Rand (Rbn)
Coal: Briquettes, Ovoids and similar solid fuels manufactured from coal	R10.2
Iron Ores and Concentrates, including roasted iron pyrites – agglomerated	R6.3
Vehicles and accessories – motor vehicles for the transports of persons	R5.5
Platinum, unwrought or in semi-manufactured or powder form – Palladium – unwrought	R5.4
Gold (including gold plated with Platinum)	R5.1
Vehicles and accessories – motor vehicles for the transports of goods	R3.9
Ores – Manganese ores and concentrates	R3.6
Ferro-Alloys – Ferro-Chromium – containing by mass more than 4% of carbon	R3.6
Iron Ores and Concentrates, including roasted iron pyrites – non-agglomerated	R3.3
Fruit and nuts – grapes, fresh or dried	R3.3
Total	R50.2

Source: SARS Customs & Excise

Emerging Markets currency depreciation (-) %, appreciation (+) %



Source: Bloomberg

Top ten imports for February 2022

Description	Rand (Rbn)
Crude, Coal, Petroleum and Electricity	R10.7
Petroleum oils and oils obtained from Bituminous Minerals, excl Crude	R8.2
Original equipment components – for motor vehicles	R4.7
Petroleum oils and oils obtained from Bituminous Minerals, excl Crude – Petrol	R3.1
Original Equipment component – for motor cars for the transport of goods	R2.9
Telephone sets, including telephones for cellular networks	R2.8
Unused postage, revenue or similar stamps of current or new issue in the country	R2.3
Automatic Data Processing Machines and Units	R1.7
Pharmaceutical products – Medicaments, for retail sale – other	R1.6
Cereals – Wheat and Meslin – Other	R1.3
Total	R39.4

Source: SARS Customs & Excise

Rand vs Economist's metals commodity price index



Source: IRESS, Investec

- The FOMC looks at the PCE deflators to inform monetary policy in particular, however the markets are focused on this week's inflation print, and a higher than expected outcome (CPI inflation is expected at 8.4% y/y, PPI 10.6% y/y) would likely spur rate hike expectations.
- Even excluding food and energy costs, US CPI is high, at an inflation rate of 6.4% in February and expected at 6.6% y/y in March, while PPI inflation excluding food and energy is at 8.4%, and expected to see this rate again for March.
- Markets have factored in a 47bp lift in the Fed funds rate in May, close to 50bp, with comments coming out from Fed members strongly supporting a 50bp lift in May, and potentially additional large lifts, although FOMC meetings remain data dependent.
- We continue to expect slower global growth than was expected at the start of 2022, both from the rapid monetary normalisation in the US this year and China's increased lockdown restrictions, along with the negative growth impact to Europe from the Russian/Ukraine war.
- Q2.22 is however expected to see the effects of the war wane, and so commodity prices in general ease with the rand losing this driver of strength over Q2.22 and H2.22, but not a severe collapse in commodity prices, and so of the domestic currency either.
- This is not likely to be the case for all commodity prices. Demand for SA's key export, coal sees support from the necessity of global heating needs, as does food, another necessity, but SA's transport network issues continue to impede the performance of its bulk exports.
- The rand also remains at risk of a weaker interest rate hike cycle in South Africa than in the US, with the domestic currency seeing severe depreciation in the past when the differential between US and SA interest rates have been severely narrowed.
- However, the currency is not expected to see extreme depreciation longer-term (averaging R15.60/USD in 2024, R15.80/USD in 2025, R15.93/USD 2026) as economic growth improves markedly on the repair and reform of SA's economic fundamentals.
- No further credit rating downgrades occur in the expected case and the probability of the up case could increase. However, this year and next could be at risk of greater rand weakness than expected if SA's interest rate environment proves softer than that of the US.

Economic Scenarios: note tighter rate hike cycle for SA

		Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.23
Extreme Up case 1%	USD/Rand (average)	15.21	14.00	13.80	13.70	13.60	13.40	13.30	13.10
	Repo rate (end rate)	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50
	Impact of Covid-19 very rapidly resolved - economic growth of 3-5%, then 5-7% for SA. Good governance, growth-creating reforms (structural constraints overcome), strengthening of property rights - individuals obtain title deeds in EWC - no other EW or nationalisation. High business confidence and fixed investment growth, substantial FDI, strong fiscal consolidation (state debt falls back to low ratios of 2000s). Very subdued domestic inflation on extreme rand strength, rapid capacity expansion and very favourable weather conditions. Strong global growth, commodity boom. Stabilisation of credit ratings, then upgrades.								
Up case 2%	USD/Rand (average)	15.21	14.50	15.00	14.90	14.90	14.70	14.60	14.50
	Repo rate (end rate)	4.25	4.00	4.00	4.00	4.00	4.00	4.25	4.25
	Quick rebound from Covid-19 pandemic, rising confidence and investment levels - structural problems eroded. No further credit rating downgrades, become positive on fiscal consolidation (debt projections fall substantially). Global risk-on, global demand quickly returns to trend growth. Very limited impact of expropriation without compensation) to abandoned, labour tenants' and government land (individuals are new owners and receive title deeds) does not have a negative effect on economy - no nationalisation. Low domestic inflation on favourable weather conditions, rand strength reduction in state-controlled price inflation on increased private privatisation.								
Base case 51%	USD/Rand (average)	15.21	14.95	15.20	15.10	15.00	15.40	15.80	15.30
	Repo rate (end rate)	4.25	4.50	5.00	5.00	5.25	5.50	5.75	5.75
	Recovery from the sharp global economic slowdown by 2024 in real terms- sufficient global and domestic monetary and other policy supports to growth and financial markets occur and risk sentiment neutral to positive. Expropriation of private sector property is limited and does not have a negative impact on the economy or on market sentiment. SA remains in the BB category rating bracket fiscal consolidation (debt to GDP stabilisation) occurs. Civil and political unrest wanes. Inflation impacted by normal course of weather patterns via food price inflation and rand, with modest transition to renewable energy and slow move away from fossil fuel usage, measures to alleviate impact of climate change on economy are modestly implemented.								
Lite (domestic) Down case 40%	USD/Rand (average)	15.21	15.70	16.65	16.90	17.00	17.50	17.60	17.50
	Repo rate (end rate)	4.25	4.75	5.25	5.50	5.75	6.00	6.25	6.50
	The international environment (incl. risk sentiment) is that of the base case. South Africa fails to see its debt projections stabilise and falls into single B credit ratings from all three agencies for local and foreign currency. Recession occurs. Very limited expropriation of private commercial sector property without compensation, with some negative impact on the economy. Business confidence depressed, marked rand weakness and higher inflation (adverse weather), significant load shedding and weak investment growth. Substantial fiscal consolidation ultimately occurs, preventing ratings falling into the C grades.								
Severe down case 6%	USD/Rand (average)	15.21	16.80	17.50	18.00	18.50	18.70	19.20	19.55
	Repo rate (end rate)	4.25	5.00	5.50	5.75	6.00	6.50	7.00	7.00
	Lengthy global recession, global financial crisis - insufficient monetary and other policy supports to growth domestically and internationally. Depression in SA, severe rand weakness, very high inflation (very adverse weather). A somewhat wider level of nationalisation of private sector commercial property. SA rated single B from all three key agencies, with further rating downgrades eventually into CCC grade and the risk of moving towards default. Government borrows from increasingly wider sources as it sinks deeper into a debt trap), eventually include widespread civil unrest, services strike action and strike action.								

Note: Event risk begins Q222. Source: Investec

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Lite Down Case: Exchange Rate forecasts

	2022				2023				2024			
	Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.22	Q1.24	Q2.24	Q3.24	Q4.24
USD/ZAR	15.25	15.70	16.65	16.90	17.00	17.50	17.60	17.50	17.20	17.00	16.80	17.00
GBP/ZAR	20.46	21.82	23.48	24.00	24.31	25.38	25.70	25.90	25.46	25.16	24.86	24.82
EUR/ZAR	17.10	18.06	19.31	19.94	20.23	21.00	21.30	21.35	21.50	21.25	21.00	21.25
ZAR/JPY	7.63	7.52	7.15	7.10	7.06	6.86	6.82	6.86	6.86	6.76	6.55	6.29
CHF/ZAR	16.51	17.07	18.10	18.57	18.48	19.02	19.13	19.02	18.90	18.68	18.46	18.68
AUD/ZAR	11.13	11.46	12.32	12.68	12.75	13.13	13.20	13.13	13.42	13.26	13.10	13.26
GBP/USD	1.34	1.39	1.41	1.42	1.43	1.45	1.46	1.48	1.48	1.48	1.48	1.46
EUR/USD	1.12	1.15	1.16	1.18	1.19	1.20	1.21	1.22	1.25	1.25	1.25	1.25
USD/JPY	116	118	119	120	120	120	120	120	118	115	110	107

Note: averages, Source: Investec, Iress

Up Case: Exchange Rate forecasts												
	2022				2023				2024			
	Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.22	Q1.24	Q2.24	Q3.24	Q4.24
USD/ZAR	15.25	14.50	15.00	14.90	14.90	14.70	14.60	14.50	14.50	14.40	14.40	14.30
GBP/ZAR	20.46	20.16	21.15	21.16	21.31	21.32	21.32	21.46	21.46	21.31	21.31	20.88
EUR/ZAR	17.10	16.68	17.40	17.58	17.73	17.64	17.67	17.69	18.13	18.00	18.00	17.88
ZAR/JPY	7.63	8.14	7.93	8.05	8.05	8.16	8.22	8.28	8.14	7.99	7.64	7.48
CHF/ZAR	16.51	15.76	16.30	16.37	16.20	15.98	15.87	15.76	15.93	15.82	15.82	15.71
AUD/ZAR	11.13	10.59	11.10	11.18	11.18	11.03	10.95	10.88	11.31	11.23	11.23	11.15
GBP/USD	1.34	1.39	1.41	1.42	1.43	1.45	1.46	1.48	1.48	1.48	1.48	1.46
EUR/USD	1.12	1.15	1.16	1.18	1.19	1.20	1.21	1.22	1.25	1.25	1.25	1.25
USD/JPY	116	118	119	120	120	120	120	120	118	115	110	107

Note averages, Source: Investec, Iress

Extreme Up Case: Exchange Rate forecasts												
	2022				2023				2024			
	Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.22	Q1.24	Q2.24	Q3.24	Q4.24
USD/ZAR	15.25	14.00	13.80	13.70	13.60	13.40	13.30	13.10	12.90	12.80	12.60	12.30
GBP/ZAR	20.46	19.46	19.46	19.45	19.45	19.43	19.42	19.39	19.09	18.94	18.65	17.96
EUR/ZAR	17.10	16.10	16.01	16.17	16.18	16.08	16.09	15.98	16.13	16.00	15.75	15.38
ZAR/JPY	7.63	8.43	8.62	8.76	8.82	8.96	9.02	9.16	9.15	8.98	8.73	8.70
CHF/ZAR	16.51	15.22	15.00	15.05	14.78	14.57	14.46	14.24	14.18	14.07	13.85	13.52
AUD/ZAR	11.13	10.22	10.21	10.28	10.20	10.05	9.98	9.83	10.06	9.98	9.83	9.59
GBP/USD	1.34	1.39	1.41	1.42	1.43	1.45	1.46	1.48	1.48	1.48	1.48	1.46
EUR/USD	1.12	1.15	1.16	1.18	1.19	1.20	1.21	1.22	1.25	1.25	1.25	1.25
USD/JPY	116	118	119	120	120	120	120	120	118	115	110	107

Note: averages, Source: Investec, Iress

Severe Down Case: Exchange Rate forecasts												
	2022				2023				2024			
	Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.22	Q1.24	Q2.24	Q3.24	Q4.24
USD/ZAR	15.25	16.80	17.50	18.00	18.50	18.70	19.20	19.55	19.70	19.75	19.85	19.80
GBP/ZAR	20.46	23.35	24.68	25.56	26.46	27.12	28.03	28.93	29.16	29.23	29.38	28.91
EUR/ZAR	17.10	19.32	20.30	21.24	22.02	22.44	23.23	23.85	24.63	24.69	24.81	24.75
ZAR/JPY	7.63	7.02	6.80	6.67	6.49	6.42	6.25	6.14	5.99	5.82	5.54	5.40
CHF/ZAR	16.51	18.26	19.02	19.78	20.11	20.33	20.87	21.25	21.65	21.70	21.81	21.76
AUD/ZAR	11.13	12.26	12.95	13.50	13.88	14.03	14.40	14.66	15.37	15.41	15.48	15.44
GBP/USD	1.34	1.39	1.41	1.42	1.43	1.45	1.46	1.48	1.48	1.48	1.48	1.46
EUR/USD	1.12	1.15	1.16	1.18	1.19	1.20	1.21	1.22	1.25	1.25	1.25	1.25
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