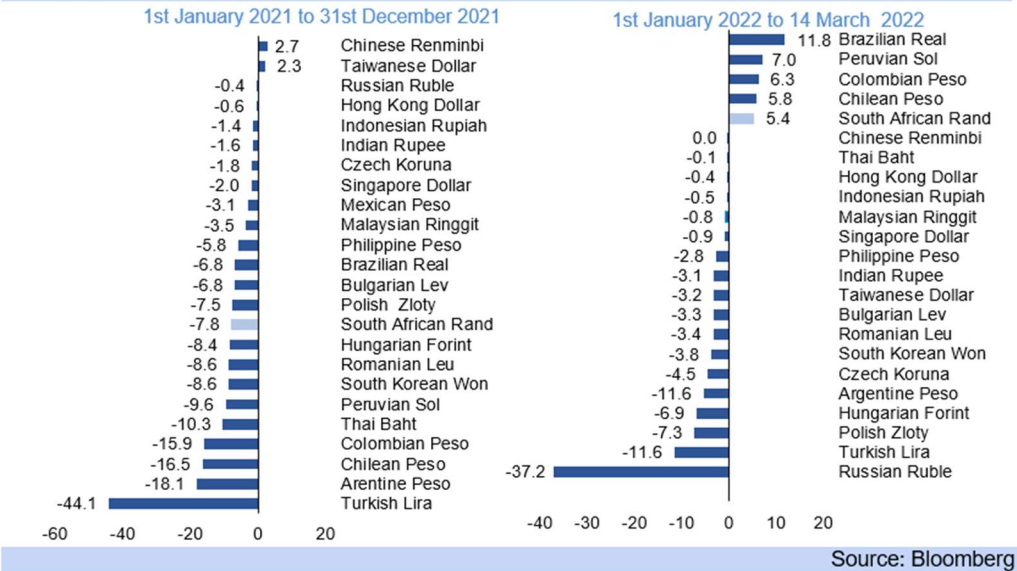


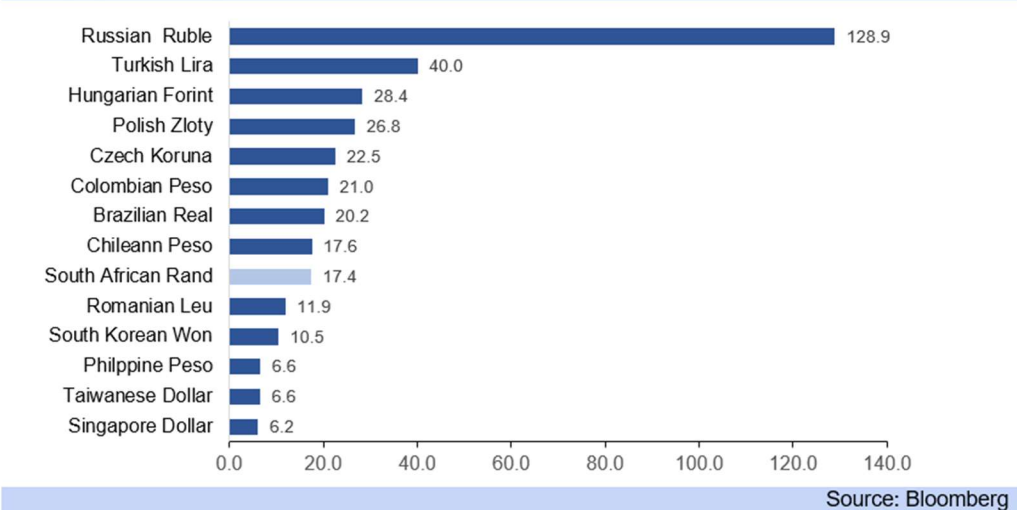
Monday 14 March 2022

Rand note: the rand is still supported by higher valued commodity exports and SA rate hike expectations ahead of the first US interest rate hike this week in the current cycle

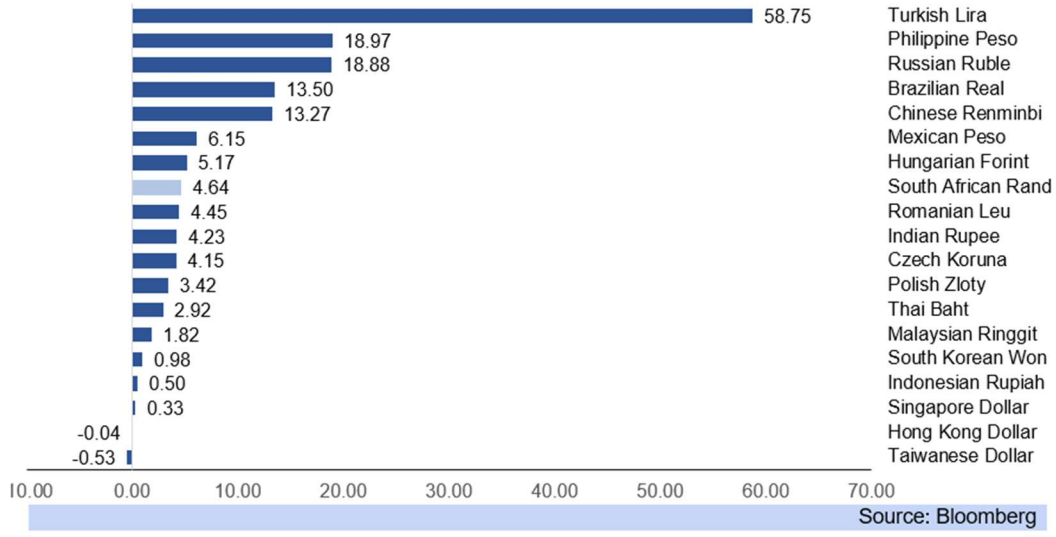
#### Emerging Markets currency depreciation (-) %, appreciation (+) %



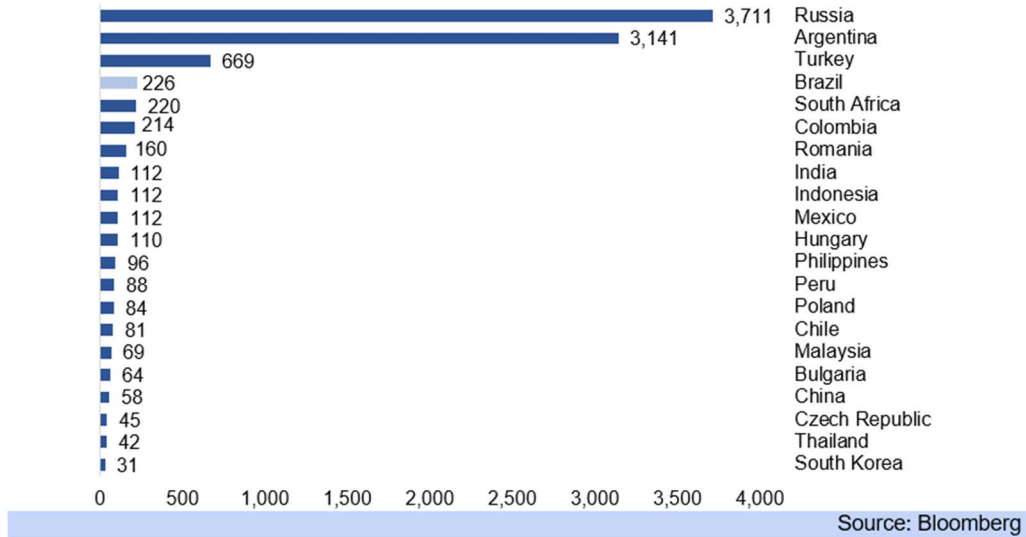
#### Emerging Markets Implied Volatilities – values 14 March 2022

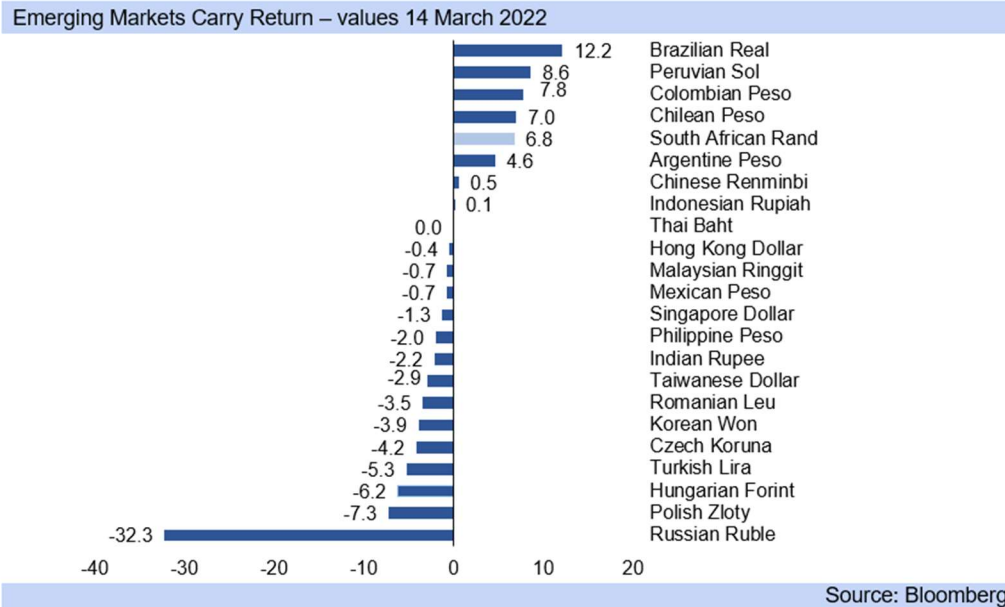


Emerging Markets Implied Rates – values 14 March 2022



Emerging Markets CDS Spreads – values 14 March 2022





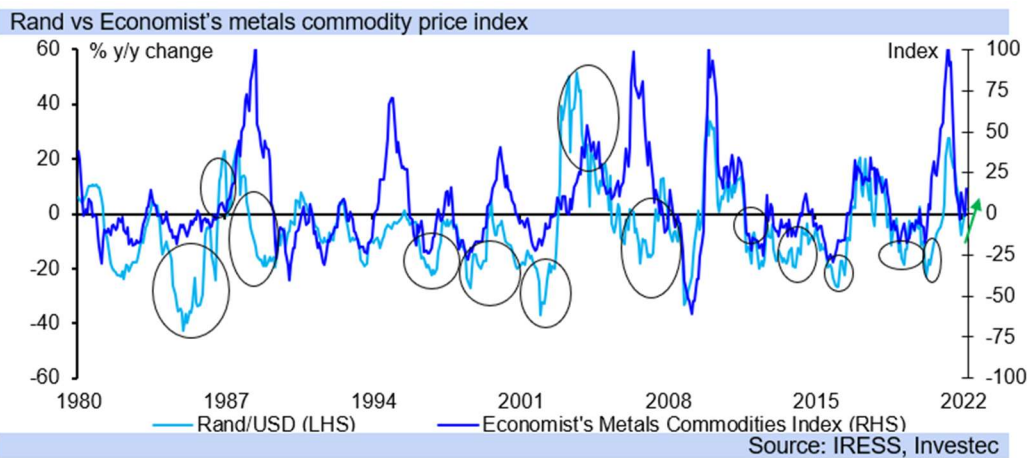
- The rand has strengthened both against the euro and the pound, at R16.38/EUR and R19.60/GBP respectively, from R17.12/EUR and R20.52/GBP before the Russian/Ukraine war, and at a similar rate to the dollar, of around R15.12/USD.
- Heavy commodity exporters have been in favour, but SA bond yields have also elevated as well, about 50bp higher than before the conflict in Eastern Europe and the jump up in commodity prices - 20% higher y/y in March, but easing on the week.
- Substantial interest rate hikes continue to be anticipated by SA's markets, also providing rand support, with inflation high globally and elevated locally, and the recent rapid acceleration in commodity prices having pushed up inflation expectations.
- With Russia's invasion of the Ukraine from 24<sup>th</sup> February nearing the third week, markets are now seeing building concerns of stagflation (high inflation, lower growth) and heavy commodity exporters are being favorably viewed – geographically far removed from the war.
- Foreigners have bought R15.5bn worth of SA bonds, net of sales, since the 24<sup>th</sup> February (Iress JSE data), with the same data source showing net foreign sales of SA bonds of -R44.7bn, although bond settlement data from the JSE reduces this to -R10.5bn (Bloomberg).
- The -R10.5bn outflow is settled bond data, and so is regarded by the JSE as the indication of capital flows, whereas the daily data on bond trading refers to reported transactions (viewed as a liquidity indicator), but includes unsettled trades as well as rollovers, inflating the data.
- For metals and minerals prices, the March reading is so far up 40% y/y (Economist commodity price index), on an already elevated period, driven substantially higher by aluminum, coal, iron ore and particularly nickel, while precious metals are also benefitting.
- So too, maize (corn) prices are substantially up on the year, by 26% y/y, a key export for SA, while SA sees substantial sunflower seed imports from Botswana, and soybean imports from Zambia, with about half this amount again from Malawi and Zimbabwe (SAGIS data).

- The rand is averaging close to R15.35/USD this quarter, attempting the R15.00/USD key resistance level a few times in the past two and a half weeks, driven by improved market sentiment to SA as risk aversion has differentiated across EMs.

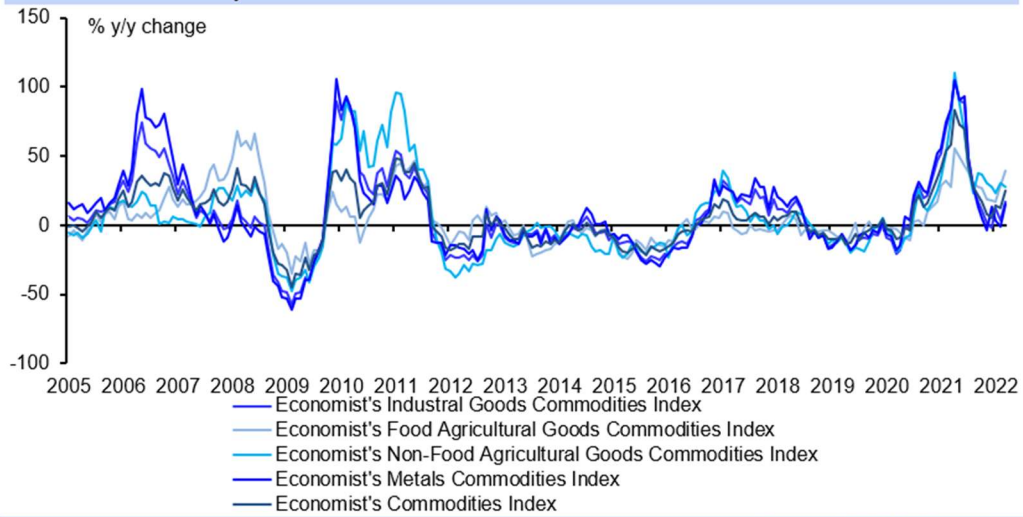
Please scroll down to the second section below

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	15.40	15.50	15.65	15.45	15.30	15.70	16.10	15.60	15.40	15.90	16.40	15.90
GBP/ZAR	21.10	21.55	22.07	21.94	21.88	22.77	23.51	23.09	22.79	23.53	24.27	23.21
EUR/ZAR	17.56	17.83	18.15	18.23	18.21	18.84	19.48	19.03	19.25	19.88	20.50	19.88
ZAR/JPY	7.53	7.61	7.60	7.77	7.84	7.64	7.45	7.69	7.66	7.23	6.71	6.73
CHF/ZAR	16.92	16.85	17.01	16.98	16.63	17.07	17.50	16.96	16.92	17.47	18.02	17.47
AUD/ZAR	11.24	11.32	11.58	11.59	11.48	11.78	12.08	11.70	12.01	12.40	12.79	12.40
GBP/USD	1.37	1.39	1.41	1.42	1.43	1.45	1.46	1.48	1.48	1.48	1.48	1.46
EUR/USD	1.14	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

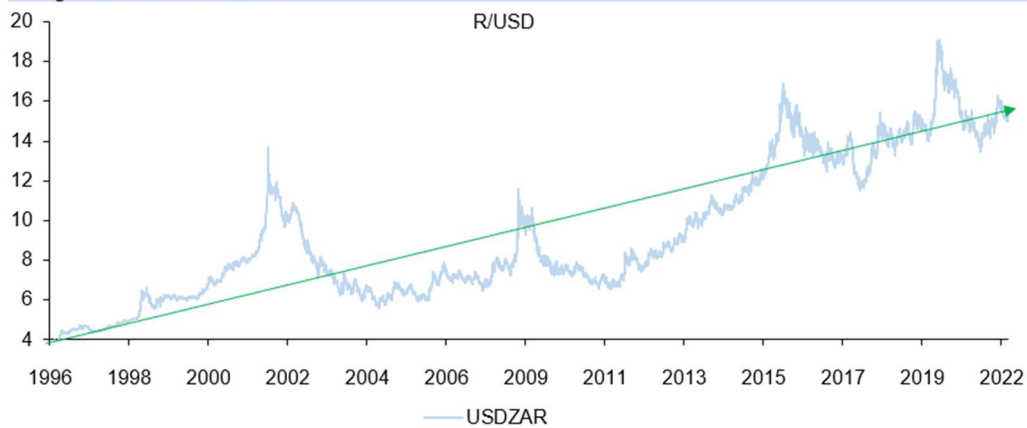


### Economist's commodity indices



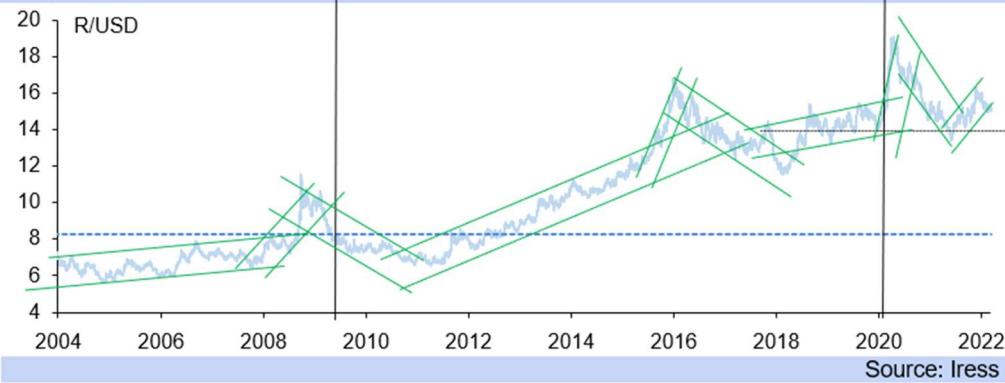
Source: IRESS, Economist

### Long-term trend of the rand



Source: Iress

### Rand channels



Source: Iress

- With SA's MPC meeting on 24<sup>th</sup> of this month, and the Fed's on the 16<sup>th</sup>, this week's US monetary policy communication will be important for market confidence, as support for a gentle upwards trajectory in the feds fund target rate would provide market support.
- Indeed, clear communication from the FOMC on its readiness to provide support on noticeable growth weakening effects from the Russian/Ukraine war, as well as a balanced approach to containing extremely high inflation, would be market positive.
- US CPI inflation printed 7.9% y/y last week, and a heady 6.4% y/y excluding high food and energy prices, while US PPI inflation is expected at 10% y/y on Wednesday, spiking higher from January's 9.7% y/y. The inflationary environment is at a forty year high.
- The early 1980s was the last time inflation was at the current rates in the US for the headline price of living. However, oil prices have subsided, with WTI at US\$104/bbl and Brent at US\$108/bbl from highs last week, which will cool inflation expectations somewhat.
- The WTI reached US\$124/bbl and Brent US\$128/bbl last week, but global growth concerns have escalated, and the lockdown of China's Shenzhen city until Sunday as COVID-19 cases climb has taken some of the impetus out of the oil price.
- Markets have also cheered somewhat on renewed hopes of diplomatic talks between Russia and the Ukraine on ending the war, with the talks to take place today but heavy bombing of the Ukraine continues, with no ceasefire in sight yet. However, hopes are building again.
- Last year, the rand weakened from R14.69/USD at its start, to R16.17/USD by 31<sup>st</sup> December, with a current account (CA) surplus of 3.7% of GDP. The CA surplus dropped from 4.5% of GDP in Q1.21 to 1.9% of GDP in Q4.21 as the commodity boom slowed.
- The current account surplus is likely to have expanded in Q1.22 (the data is not yet available for Q1.22's CA surplus), pulling the rand stronger, with the recent March Bloomberg consensus expecting a CA of only 0.4% of GDP this year, which would limit rand strength.
- February's trade data is not out, but January saw a strong narrowing of the trade surplus, to R3.6bn from R29.0bn in December, while February will see a marked expansion. Commodity prices have cooled recently and positive news on the war would further aid this.



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)	14.50	14.00	13.80	13.70	13.60	13.40	13.30	13.10
	Repo rate (end rate)	4.00	4.00	4.00	3.75	3.75	3.75	3.50	3.50
	Impact of Covid-19 pandemic 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 nationalisation. High business confidence and fixed investment growth, substantial FDI, strong fiscal consolidation (government debt falls back to low ratios of 2000s). Very subdued domestic inflation on extreme rand strength, rapid capacity expansion and very favourable weather conditions. <b>Strong global growth, commodity boom. Stabilisation of credit ratings, then upgrades</b>								
Up case 2%	USD/Rand (average)	15.00	15.10	15.00	14.90	14.90	14.70	14.60	14.50
	Repo rate (end rate)	4.00	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. <b>No further credit rating downgrades, rating outlooks stabilise and then become positive on fiscal consolidation (debt projections fall substantially).</b> 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 provision of <u>of</u> .								
Base case 49%	USD/Rand (average)	15.40	15.50	15.65	15.45	15.30	15.70	16.10	15.60
	Repo rate (end rate)	4.00	4.25	4.25	4.50	4.75	4.75	5.00	5.25
	Recovery from the sharp global economic slowdown by 2024 in real terms – <b>sufficient global and domestic monetary and other policy supports to growth and financial markets occur and risk sentiment neutral to positive.</b> Expropriation of private sector property is limited and does not have a negative impact on the economy or on market sentiment. <b>SA remains in the BB category rating bracket for Moody's – fiscal consolidation (debt to GDP stabilisation) occurs.</b> 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 Down case 42%	USD/Rand (average)	15.70	16.00	16.65	16.90	17.00	17.50	17.60	17.50
	Repo rate (end rate)	4.25	4.50	4.75	5.00	5.25	5.50	5.75	6.00
	The international environment (incl. risk sentiment) is that of the base case. <b>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.</b> Recession occurs. Very limited expropriation of private commercial sector property without compensation, with some negative impact on the economy. Business confidence depressed, severe rand weakness and higher inflation (also 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)	16.00	16.80	17.50	18.00	18.50	18.70	19.20	19.55
	Repo rate (end rate)	4.50	4.75	5.00	5.25	5.75	6.00	6.50	7.00
	Lengthy global recession, global financial crisis – insufficient monetary and other policy supports to growth domestically and internationally. Depression in SA, unprecedented rand weakness, very high inflation (very adverse weather). A somewhat wiser level of nationalisation of private sector commercial property. <b>SA rated single B from all three key agencies, with further rating downgrades eventually into CCC grade and the risk of moving towards default.</b> 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 Q1.22. Source: Investec									

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	15.70	16.00	16.65	16.90	17.00	17.50	17.60	17.50	17.20	17.00	16.80	17.00
GBP/ZAR	21.51	22.24	23.48	24.00	24.31	25.38	25.70	25.90	25.46	25.16	24.86	24.82
EUR/ZAR	17.90	18.40	19.31	19.94	20.23	21.00	21.30	21.35	21.50	21.25	21.00	21.25
ZAR/JPY	7.39	7.38	7.15	7.10	7.06	6.86	6.82	6.86	6.86	6.76	6.55	6.29
CHF/ZAR	17.25	17.39	18.10	18.57	18.48	19.02	19.13	19.02	18.90	18.68	18.46	18.68
AUD/ZAR	11.46	11.68	12.32	12.68	12.75	13.13	13.20	13.13	13.42	13.26	13.10	13.26
GBP/USD	1.37	1.39	1.41	1.42	1.43	1.45	1.46	1.48	1.48	1.48	1.48	1.46
EUR/USD	1.14	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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