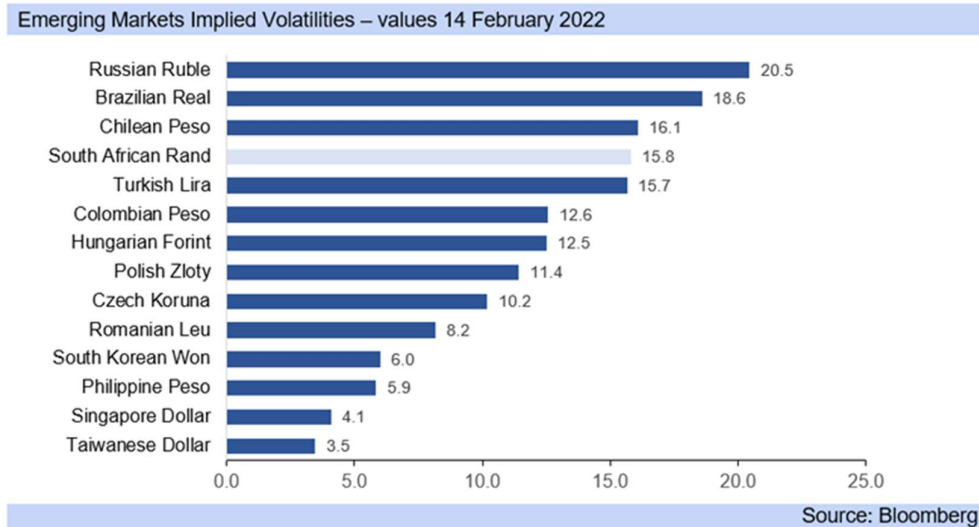
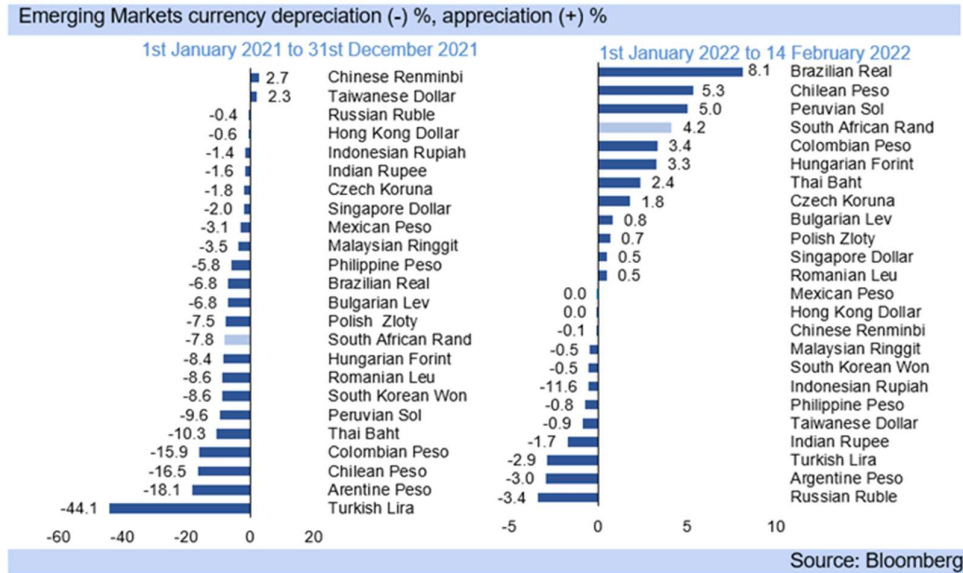
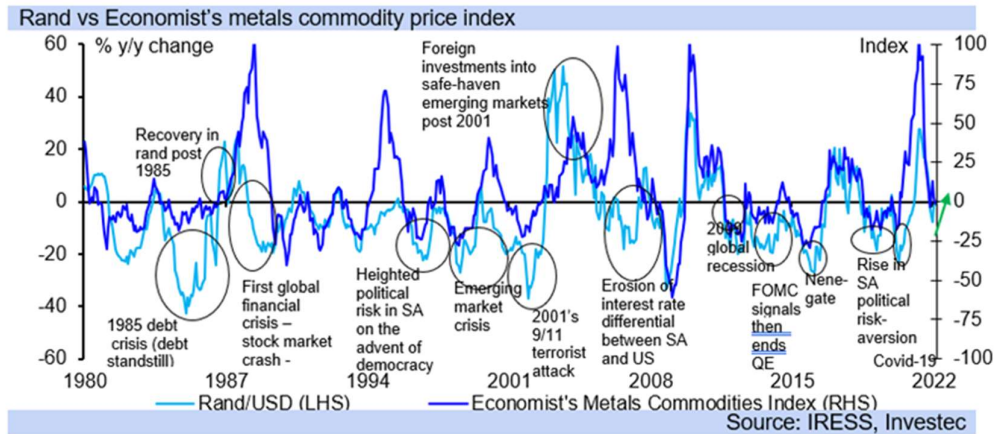


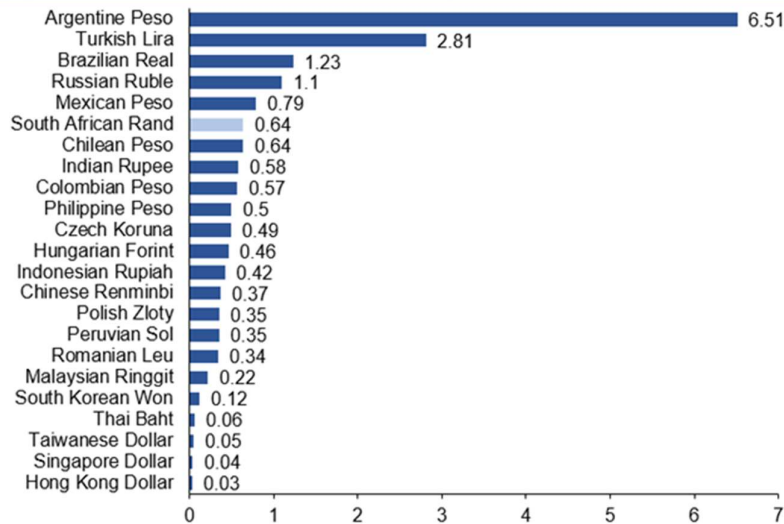
Monday 14 February 2022

Rand note: the rand continues to benefit from the beginning of the years seasonality, with high bond yields and improving fiscal metrics still proving some attraction on SA





Emerging Markets Interest Return – values 14 February 2022



Source: Bloomberg

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	15.50	15.60	15.85	15.65	15.50	15.90	16.30	15.80	15.60	16.10	16.60	16.10
GBP/ZAR	21.24	21.84	22.82	23.01	22.94	23.69	24.78	24.17	23.71	24.31	24.90	23.99
EUR/ZAR	17.67	17.94	18.39	18.62	18.76	19.56	20.38	19.75	19.50	20.13	20.75	20.13
ZAR/JPY	7.48	7.56	7.51	7.67	7.74	7.55	7.36	7.59	7.56	7.14	6.63	6.65
CHF/ZAR	17.03	16.96	17.23	17.20	17.22	17.67	18.11	17.56	17.14	17.69	18.24	17.69
AUD/ZAR	11.32	11.54	12.05	12.05	11.94	12.24	12.55	12.17	12.17	12.56	12.95	12.56
GBP/USD	1.37	1.40	1.44	1.47	1.48	1.49	1.52	1.53	1.52	1.51	1.50	1.49
EUR/USD	1.14	1.15	1.16	1.19	1.21	1.23	1.25	1.25	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

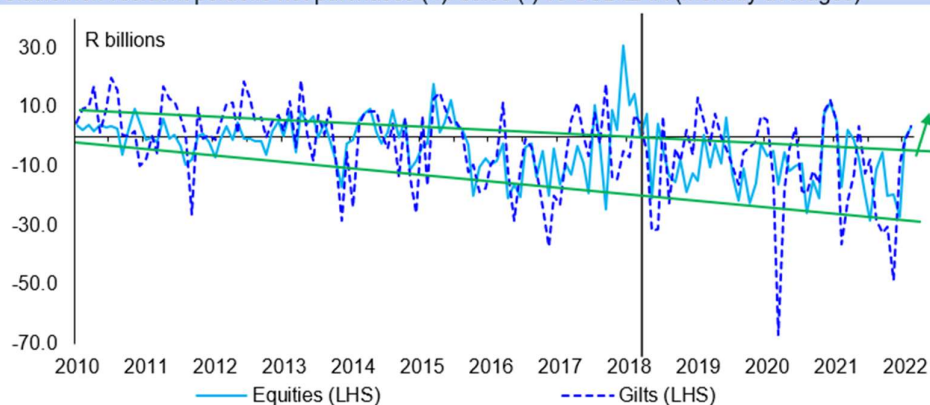
- South Africa continues to see investor appetite, particularly on the domestic side for government debt, while the rand is performing well compared to other emerging market currencies, all against the US dollar.
- Currently the domestic currency is 4.5% stronger since the start of the year. On a year on year (y/y) basis it is -3.6% weaker, but sits in the midst of the emerging market

basket of currencies, all generally weakened by the US monetary policy normalisation process.

- A year ago the rand was around R14.40/USD, but then weakened through March as the domestic currency experienced some usual seasonal patterns of weakness into the second quarter, although in the second quarter itself the domestic currency bucked this trend.
- By June the rand had reached R13.40/USD, driven by the combined favourable global market sentiment and SA's strong trade performance, as SA's markedly positive terms of trade (or the ratio of exports to imports) was lifted by strong commodity export prices.
- The rand also benefitted from strong global growth expectations, which underpinned market sentiment, and so an investor risk-on environment, as global monetary and fiscal policies remained highly supportive for economic growth.
- However, the third wave of COVID-19 infections, and political tensions as key figures attempted to escape prosecution for corruption, pushed the rand back above R14.00/USD by end June last year, as investor appetite into EM portfolio investments differentiated.
- The rand then weakened on the radical destruction of economic activity and infrastructure in a number of areas in SA in July's riots, reaching R15.00/USD briefly in July, and then was subsequently afflicted by market concerns over possible FOMC hawkishness.
- That is, the remainder of 2021 and early 2022 saw the rand impacted by concerns over US QE tapering and interest rate hikes, with the global macro-economic environment for 2022 set to be the least supported by policy measures since the pandemic began.
- The rand weakened beyond R16.00/USD by end 2021, pulling back in January on traditional increased risk appetite, but also on increased certainty on US monetary policy. The domestic currency is likely to remain volatile, unlikely to see substantial strength this year.

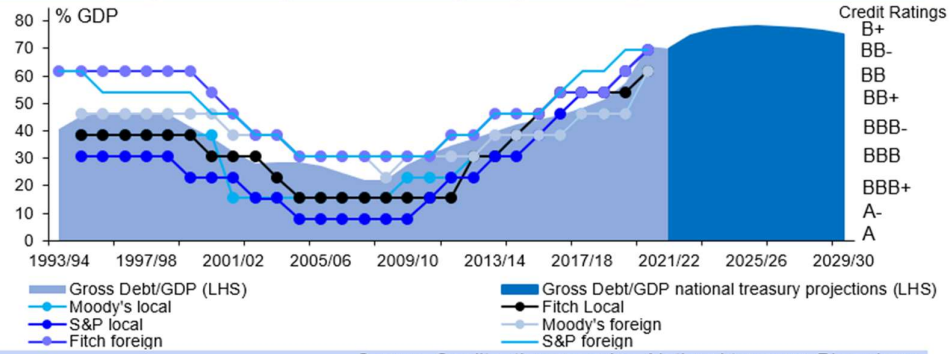
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Volatile non-resident portfolio net purchases (+)/ sales (-) vs USD/ZAR (monthly averages)



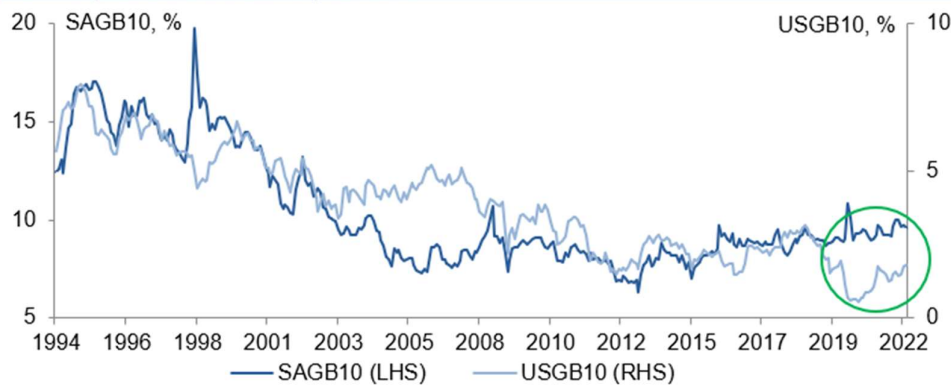
Source: Iress, Investec

Local currency long-term sovereign debt credit ratings vs. government gross loan debt as % GDP



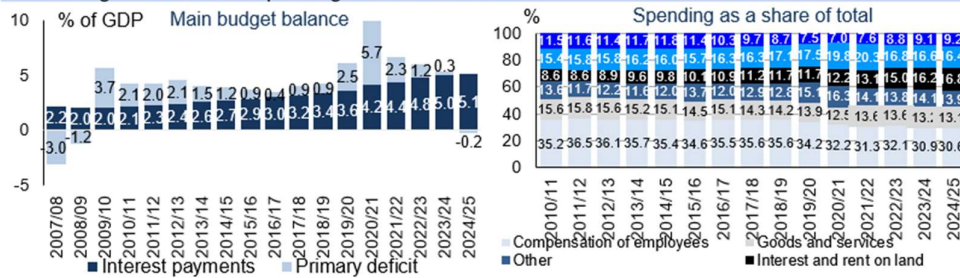
Source: Credit rating agencies, National treasury, Bloomberg

SA 10-year bond vs US 10-year bond



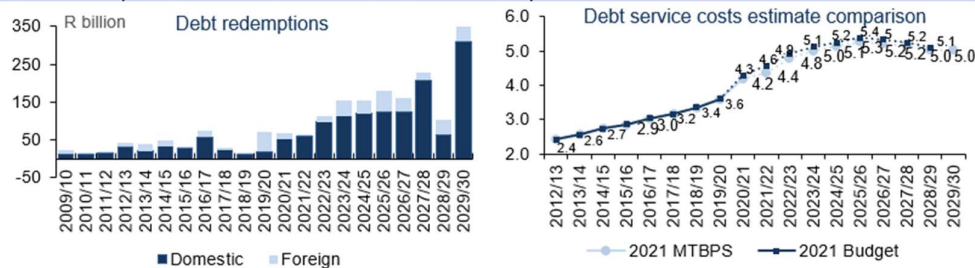
Source: Iress

Main budget balance and spending as a share of total



Source: National Treasury

Debt redemptions and debt service costs estimate comparison



Source: National Treasury

- That does not mean commodity prices will collapse this year, far from it under the expected case. Instead, the rand has gained support from commodity prices, which should persist over H1.22, and into H2.22 although some moderation at times may occur as volatility persist.
- This has counterbalanced quite a bit of the negative drag from the rapid US monetary policy normalisation process under way, with the rand continuing to attempt to near the R15.00/USD mark but not very assertively, while the Budget next week is not expected to upset it.
- IRESS data shows foreigners bought R4.7bn worth of SA's portfolio assets this year (bonds R2.0bn, equities R2.7bn) all net of sales, and this positive sentiment is also buoying the rand, with rand bond yields still offering high breakeven (inflation adjusted) rates.
- Currently, SA's 10-year breakeven inflation rate (market measure of expected inflation) is at 5.95%, still well above the US's market measure of expected average inflation of 2.47% which jumped up from 2.4% earlier in the month as January's US inflation print of 7.5% y/y shocked.
- With the breakeven rates for both SA and the US in excess respectively of SA's 3-6% target range with a midpoint of 4.5%, and the US implicit inflation target of 2%, markets are still stressed about future inflation outcomes, and in SA show less anchoring to the inflation target.
- SA's breakeven inflation rate in early February 2021 was 4.8% in comparison. While the current high breakeven rate appears out of line, SA's high inflation rate at 5.9% is causing some concern, and translating immediately through into markets.
- The JSE data on settled non-resident trades in South African bonds reported by Bloomberg, with data for cumulated periods adjusted for backdated spot trades (but includes cancelled trades), gives different results to the IRESS reported data from the JSE for daily trades.
- Nevertheless, the Bloomberg data also shows net foreign inflows into South Africa's bond market since the start of year, as foreigners increased bond holdings on a net basis (purchases net of sales), attracted by SA's high yields, while fiscal metrics improve.
- South Africa's high yields are somewhat out of kilter with its improving, and projected improvements in its fiscal metrics since last year, with the yield on the ten year government bond still elevated above 9.00%, attractive to investors, but also with risks involved.

Economic Scenarios: note tighter rate interest rate hike cycle for SA, increased inflation focus

		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. Strong global growth, commodity boom. Stabilisation of credit ratings, then upgrades.								
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. No further credit rating downgrades, rating outlooks stabilise and then 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 provision of.								
Base case 49%	USD/Rand (average)	15.50	15.60	15.85	15.65	15.50	15.90	16.30	15.80
	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- sufficient global and domestic monetary and other policy supports to growth and financial markets occur and risk sentiment neutral 1 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 for Moody's - 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 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 (including 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. Expropriation of some 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). Nationalisation of private sector property (individuals do not receive title deeds). SA rated single B from all three key agencies, with further rating downgrades eventually occurring into CCC grade and lower to D (default) as government finances deteriorate (debt projections elevate even further - fail to ever stabilise). 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	22.40	23.98	24.84	25.16	26.08	26.75	26.78	26.14	25.67	25.20	25.33
EUR/ZAR	17.90	18.40	19.31	20.11	20.57	21.53	22.00	21.88	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	18.89	19.44	19.56	19.44	18.90	18.68	18.46	18.68
AUD/ZAR	11.46	11.84	12.65	13.01	13.09	13.48	13.55	13.48	13.42	13.26	13.10	13.26
GBP/USD	1.37	1.40	1.44	1.47	1.48	1.49	1.52	1.53	1.52	1.51	1.50	1.49
EUR/USD	1.14	1.15	1.16	1.19	1.21	1.23	1.25	1.25	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	16.00	16.80	17.50	18.00	18.50	18.70	19.20	19.55	19.70	19.75	19.85	19.80
GBP/ZAR	21.92	23.52	25.20	26.46	27.38	27.86	29.18	29.91	29.94	29.82	29.78	29.50
EUR/ZAR	18.24	19.32	20.30	21.42	22.39	23.00	24.00	24.44	24.63	24.69	24.81	24.75
ZAR/JPY	7.25	7.02	6.80	6.67	6.49	6.42	6.25	6.14	5.99	5.82	5.54	5.40
CHF/ZAR	17.58	18.26	19.02	19.78	20.56	20.78	21.33	21.72	21.65	21.70	21.81	21.76
AUD/ZAR	11.68	12.43	13.30	13.86	14.25	14.40	14.78	15.05	15.37	15.41	15.48	15.44
GBP/USD	1.37	1.40	1.44	1.47	1.48	1.49	1.52	1.53	1.52	1.51	1.50	1.49
EUR/USD	1.14	1.15	1.16	1.19	1.21	1.23	1.25	1.25	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	15.00	15.10	15.00	14.90	14.90	14.70	14.60	14.50	14.50	14.40	14.40	14.30
GBP/ZAR	20.55	21.14	21.60	21.90	22.05	21.90	22.19	22.19	22.04	21.74	21.60	21.31
EUR/ZAR	17.25	17.37	17.40	17.73	18.03	18.08	18.25	18.13	18.13	18.00	18.00	17.88
ZAR/JPY	7.73	7.81	7.93	8.05	8.05	8.16	8.22	8.28	8.14	7.99	7.64	7.48
CHF/ZAR	16.35	16.41	16.30	16.37	16.56	16.33	16.22	16.11	15.93	15.82	15.82	15.71
AUD/ZAR	11.10	11.17	11.40	11.47	11.47	11.32	11.24	11.17	11.31	11.23	11.23	11.15
GBP/USD	1.37	1.40	1.44	1.47	1.48	1.49	1.52	1.53	1.52	1.51	1.50	1.49
EUR/USD	1.14	1.15	1.16	1.19	1.21	1.23	1.25	1.25	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	14.50	14.00	13.80	13.70	13.60	13.40	13.30	13.10	12.90	12.80	12.60	12.30
GBP/ZAR	19.87	19.60	19.87	20.14	20.13	19.97	20.22	20.04	19.61	19.33	18.90	18.33
EUR/ZAR	16.53	16.10	16.01	16.30	16.46	16.48	16.63	16.38	16.13	16.00	15.75	15.38
ZAR/JPY	8.00	8.43	8.62	8.76	8.82	8.96	9.02	9.16	9.15	8.98	8.73	8.70
CHF/ZAR	15.93	15.22	15.00	15.05	15.11	14.89	14.78	14.56	14.18	14.07	13.85	13.52
AUD/ZAR	10.59	10.36	10.49	10.55	10.47	10.32	10.24	10.09	10.06	9.98	9.83	9.59
GBP/USD	1.37	1.40	1.44	1.47	1.48	1.49	1.52	1.53	1.52	1.51	1.50	1.49
EUR/USD	1.14	1.15	1.16	1.19	1.21	1.23	1.25	1.25	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