



# SA Economics

Tuesday 15 November 2022

Rand note: the FOMC is unofficially sounding more dovish, generating some reduction in risk-off



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



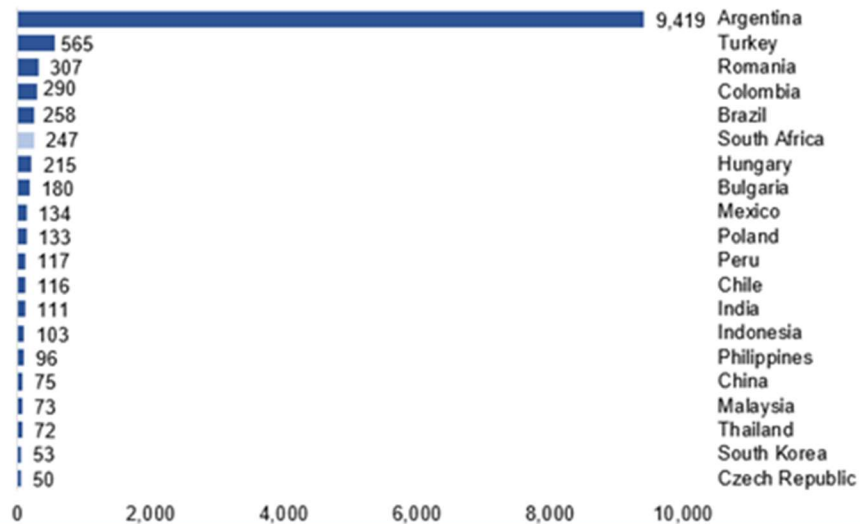
Source: Bloomberg

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



Source: Bloomberg

Emerging Markets CDS (risk) Spreads – values 15 November 2022



Source: Bloomberg

Expected Case: Exchange Rate forecasts

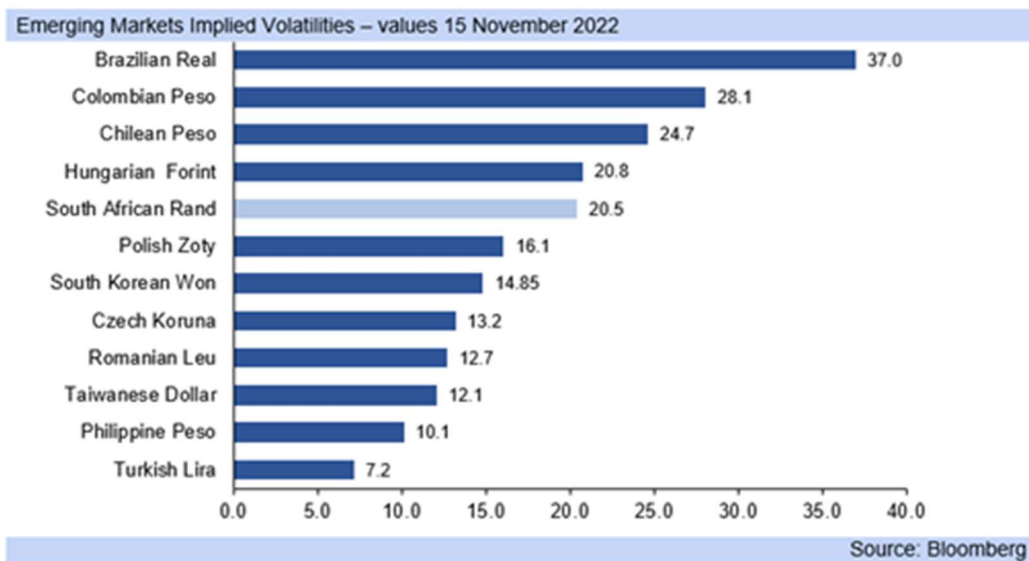
	2022				2023				2024			
	Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24
USD/ZAR	15.21	15.59	17.05	17.50	16.80	16.35	16.10	16.30	16.10	16.35	16.70	16.50
GBP/ZAR	20.40	19.59	20.05	19.88	19.49	19.46	19.56	19.89	19.96	20.44	22.04	22.77
EUR/ZAR	17.07	16.60	17.16	17.27	16.72	16.51	16.58	17.03	17.39	18.80	19.71	20.30
ZAR/JPY	7.65	8.33	8.11	8.50	8.87	8.90	8.76	8.40	8.07	7.34	6.89	6.67
CHF/ZAR	16.47	16.16	17.64	17.58	16.97	16.60	16.42	16.46	16.95	17.58	18.35	18.13
AUD/ZAR	11.02	11.14	11.65	11.11	10.92	10.95	11.11	11.57	12.08	12.75	13.03	12.87
GBP/USD	1.34	1.26	1.18	1.14	1.16	1.19	1.22	1.22	1.24	1.25	1.32	1.38
EUR/USD	1.12	1.06	1.01	0.99	1.00	1.01	1.03	1.05	1.08	1.15	1.18	1.23
USD/JPY	116	130	138	149	149	146	141	137	130	120	115	110

Note: averages, Source: Investec, Iress

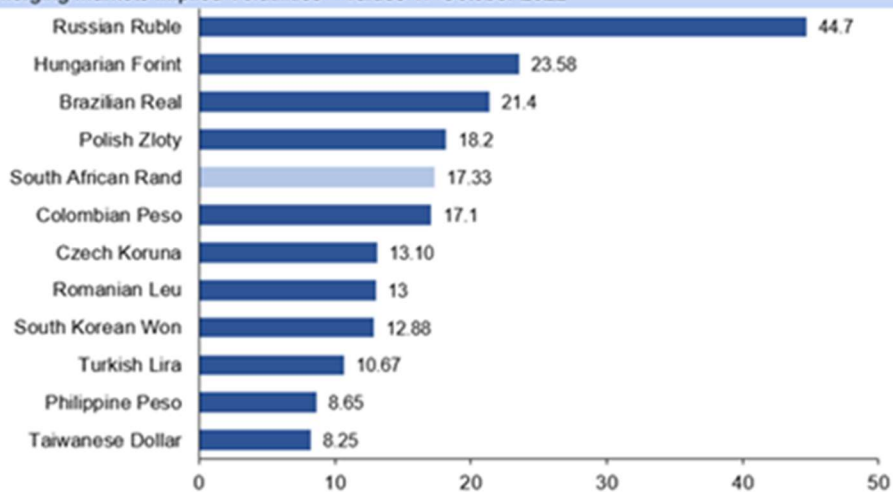
- The rand has continued to run stronger this week, reaching R17.14/USD yesterday, as expectations consolidate that the US will slow its rate hike cycle to 50bp in December, with recent comments from a key Fed member helping the US dollar weaken.
- In particular, the Federal Reserve Bank's Vice Chair, Lael Brainard, is reported to have said on Monday this week that she "think(s) it will probably be appropriate, soon, to move to a slower pace of increases."
- "But I think what's really important to emphasize is we've done a lot, but we have additional work to do...By moving forward at a pace that's more deliberate, we'll be able to assess more data and be better able to adjust the path of rates to bring inflation down."
- The FOMC's vice Chair added, "(t)here are likely to be lags and it's going to take some time for that cumulative tightening to flow through," adding a more cautious note to the formation of monetary policy than has come from Chair Powell so far. She added the below:
- "It's really going to be an exercise on watching the data carefully and trying to assess how much restraint there is and how much additional restraint is going to be necessary, and sustained for how long, and those are the kinds of judgments that lie ahead for us".

- Markets have reacted positively to the caution, which has stimulated some small risk taking, driving the domestic currency towards R17.00/USD with the possibility that it could pierce R17.00/USD in the next few weeks on additional wind back in US FOMC hawkishness.
- While the comments are not official Fed statements, they align closer to market expectations for a slowdown to a 50bp hike in December versus the recent 75bp moves, and so add to some small market cheer. For the rand the drop in the CDS spread is also positive.
- Volatility and a degree of uncertainty are likely to persist however into the December meeting, with financial markets still very reactive to incoming US economic data, but there is space for further improvement in risk appetite, and so for the domestic currency.
- Averaging R18.00/USD for the first six weeks of Q4.22, around R17.00/USD for the next six weeks will bring Q4.22 to R17.50/USD, although the path will likely be volatile, with a slew of key US readings out before the 14<sup>th</sup> of December interest rate communication of the FOMC.

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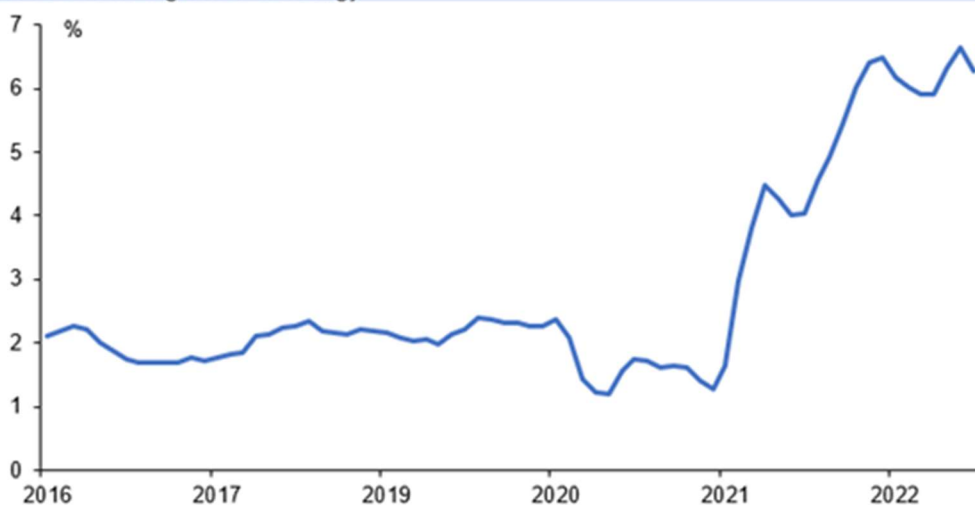


#### Emerging Markets Implied Volatilities – values 17 October 2022



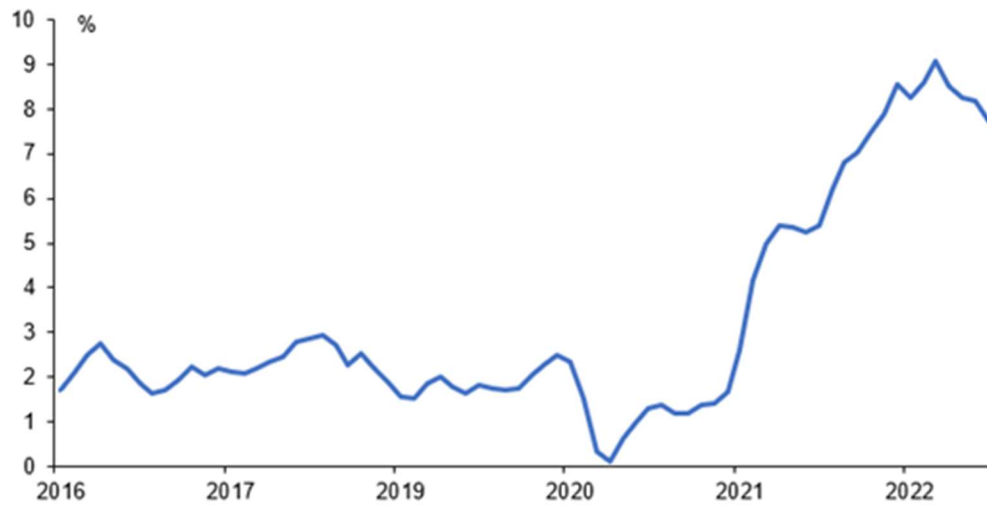
Source: Bloomberg

#### US CPI excluding food and energy



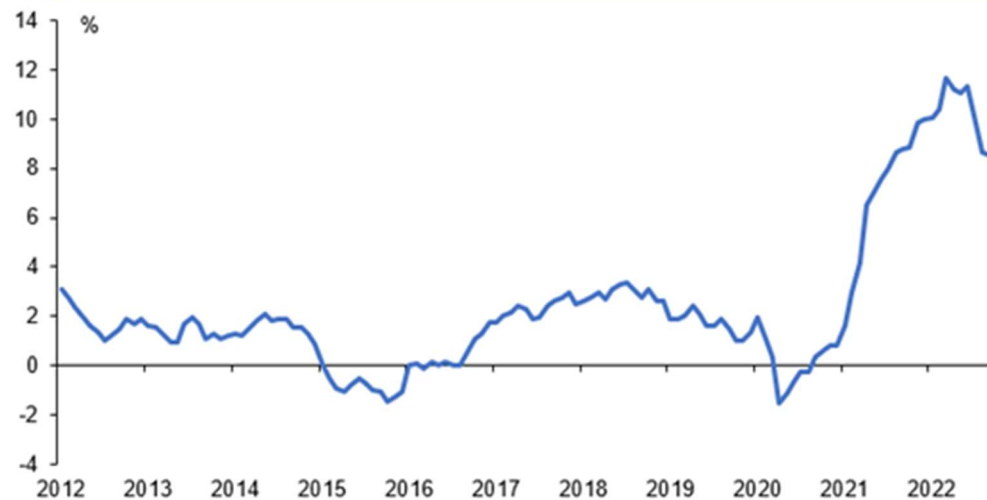
Source: Bloomberg

### US CPI



Source: Bloomberg

### US PPI



Source: Bloomberg

- US PPI inflation is due out today, having dropped from 9.7% in March, to 7.2% by September excluding food and energy prices, although today a flat outcome is expected, and will be watched for a lift indicating greater than anticipated broadening of price pressures.
- Following on will be US retail sales data tomorrow for October, while home sales also for October and the Philadelphia Fed Business outlook for November will all provide important readings on the economy after the rate hikes to date, which have lagged effects.
- This comes after last week's US CPI inflation data, which printed below expectations at 7.7% y/y for October, down from 8.2% y/y, versus the expected 7.9% y/y outcome, which has added to market optimism of smaller US rate hikes quicker than expected.

- President Joe Biden is reported to have said in response that his “economic plan is showing results” adding, “(i)t will take time to get inflation back to normal levels -- and we could see setbacks along the way -- but we will keep at it and help families with the cost of living.”
- The US CPI inflation rate excluding food and energy cooled in October to 6.3% y/y from 6.6% y/y, also below expectations, which were for a 6.5% y/y outcome, and adding to the positive sentiment building in markets that the inflation wave is starting to break.
- However, potentially higher oil prices still add ambiguity to the outlook, with OPEC warning of ‘considerable uncertainties’ for the oil market, including “additional energy-supply disruptions” in Europe on increased energy sanctions.
- Adding to the complexity markets face, China itself has recently released orders to support its property sector, including a ‘16-point plan to boost the real estate market’ from measures to tackle developers’ liquidity crises to reducing down-payments, aiding market risk sentiment.
- Markets will remain highly sensitive to the Fed’s interest rate trajectory, and in this light also gained cheer from the FOMC (alternate member) and head of Chicago Fed, Charles Evans, highlighting “I do think there's benefits to adjusting the pace as soon as we can”.
- “If you don't begin to think about adjusting the pace, taking account of lags, and you just keep increasing rates by a large amount every time you get a disappointing report,” then “next thing you know, you're at a very high federal funds rate.”

**Economic Scenarios: note updated probabilities**

		Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.23
<b>Extreme</b>	USD/Rand (average)	15.21	15.59	17.05	16.40	15.50	14.50	14.00	13.60
<b>Up case</b>	Repo rate (end rate)	4.25	4.75	6.25	5.25	4.25	3.75	3.75	3.50
<b>1%</b>	SA economic growth very quickly rises to 3–5%, then 5–7%. Good governance, growth-creating reforms (structural 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. Strong global growth, risk-on, commodity boom. Rapid upgrades of credit ratings to investment grade. No grey listing. Quick transition to renewable energy from fossil fuels.								
<b>Up case</b>	USD/Rand (average)	15.22	15.59	17.05	17.00	16.40	15.50	15.00	14.70
<b>4%</b>	Repo rate (end rate)	4.25	4.75	6.25	5.50	4.75	4.25	4.25	4.25
	Economic growth averages 3.3% over five-year period, but lifts towards 5.0% y/y by period end, rising confidence and investment levels, structural 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. Credit rating upgrades on fiscal consolidation, markedly lower borrowings. Substantial transition to renewable energy away from fossil fuel usage, comprehensive measures to alleviate climate change impact on economy. No grey listing.								
<b>Base</b>	USD/Rand (average)	15.21	15.59	17.05	17.50	16.80	16.35	16.10	16.30
<b>case</b>	Repo rate (end rate)	4.25	4.75	6.25	7.25	7.25	7.25	6.50	6.50
<b>48%</b>	Economic growth modest (1.9% average over 5 years) but lifts towards 3.0% y/y by end period on reforms, global financial market risk sentiment is neutral to positive. South Africa follows fiscal consolidation (debt to GDP stabilisation) leading to positive outlooks, then likely credit rating upgrades. The rand stabilises, then strengthens somewhat. Inflation is impacted by the course of weather patterns via food price inflation. A transition to renewable energy and slow move away from fossil fuel usage occurs and measures to alleviate the impact of climate change on the economy are modestly implemented. The Russian/Ukraine conflict eases and does not exacerbate. Little expropriation without compensation. Temporary grey listing.								
<b>Lite</b>	USD/Rand (average)	15.21	15.59	17.05	18.30	18.50	18.00	18.20	17.90
<b>(domestic)</b>	Repo rate (end rate)	4.25	4.75	6.25	7.50	8.00	8.50	9.00	9.00
<b>Down</b>	Weak GDP growth (0.9% average over 5-years), swing toward left leaning policies. Business confidence depressed, substantial electricity and water shedding, very weak rail capacity, civil and political unrest, very little investment growth, recession. Increased state borrowings, risk of credit rating downgrades rises, then occurs later in period. Some expropriation of private sector property without compensation with a negative impact on the economy. High inflation on unfavorable weather conditions, marked rand weakness. Little transition to renewable energy or measures to alleviate climate change. Grey listed.								
<b>case</b>									
<b>36%</b>									
<b>Severe</b>	USD/Rand (average)	15.21	15.59	17.05	18.70	19.30	19.50	19.70	19.90
<b>down</b>	Repo rate (end rate)	4.25	4.75	6.25	8.00	9.00	10.00	10.50	10.50
<b>case</b>	Lengthy global recession, global financial crisis – insufficient monetary and other support domestically and internationally. ANC coalition with the extreme left in 2024. Widespread, severe services load shedding, severe civil and political unrest. Government borrows from increasingly wider sources, SA rated single B from all three key agencies, then CCC grade, increased risk of default, sinks deeper into a debt trap. Failure to transition to renewable energy and to sufficient measures to alleviate the impact of climate change. Very high inflation on very adverse weather conditions, severe rand weakness. Expropriation of private property without compensation with a marked negative economic impact. Grey listed								
<b>11%</b>									

Note: Event risk begins Q4.22. 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	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24
USD/ZAR	15.21	15.59	17.05	18.30	18.50	18.00	18.20	17.90	18.10	18.20	18.20	18.00
GBP/ZAR	20.40	19.59	20.06	20.79	21.46	21.42	22.11	21.84	22.44	22.75	24.02	24.84
EUR/ZAR	17.07	16.60	17.16	18.06	18.41	18.18	18.75	18.71	19.55	20.93	21.48	22.14
ZAR/JPY	7.65	8.33	8.12	8.13	8.05	8.08	7.75	7.65	7.18	6.59	6.32	6.11
CHF/ZAR	16.47	16.16	17.64	18.39	18.69	18.27	18.56	18.07	19.05	19.57	20.00	19.78
AUD/ZAR	11.02	11.14	11.65	11.62	12.03	12.06	12.56	12.71	13.58	14.20	14.20	14.04
GBP/USD	1.34	1.26	1.18	1.14	1.16	1.19	1.22	1.22	1.24	1.25	1.32	1.38
EUR/USD	1.12	1.06	1.01	0.99	1.00	1.01	1.03	1.05	1.08	1.15	1.18	1.23
USD/JPY	116	130	138	149	149	146	141	137	130	120	115	110

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	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24
USD/ZAR	15.21	15.59	17.05	18.70	19.30	19.50	19.70	19.90	20.10	20.00	19.80	19.60
GBP/ZAR	20.40	19.59	20.06	21.25	22.39	23.21	23.94	24.28	24.92	25.00	26.14	27.05
EUR/ZAR	17.07	16.60	17.16	18.46	19.20	19.70	20.29	20.80	21.71	23.00	23.36	24.11
ZAR/JPY	7.65	8.33	8.12	7.96	7.72	7.46	7.16	6.88	6.47	6.00	5.81	5.61
CHFZAR	16.47	16.16	17.64	18.79	19.50	19.79	20.09	20.09	21.16	21.51	21.76	21.54
AUDZAR	11.02	11.14	11.65	11.87	12.55	13.07	13.59	14.13	15.08	15.60	15.44	15.29
GBP/USD	1.34	1.26	1.18	1.14	1.16	1.19	1.22	1.22	1.24	1.25	1.32	1.38
EUR/USD	1.12	1.06	1.01	0.99	1.00	1.01	1.03	1.05	1.08	1.15	1.18	1.23
USD/JPY	116	130	138	149	149	146	141	137	130	120	115	110

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	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24
USD/ZAR	15.21	15.59	17.05	17.00	16.40	15.50	15.00	14.70	14.50	14.90	15.00	14.50
GBP/ZAR	20.40	19.59	20.06	19.32	19.02	18.45	18.23	17.93	17.98	18.63	19.80	20.01
EUR/ZAR	17.07	16.60	17.16	16.78	16.32	15.66	15.45	15.36	15.66	17.14	17.70	17.84
ZAR/JPY	7.65	8.33	8.12	8.75	9.09	9.39	9.40	9.32	8.97	8.05	7.67	7.59
CHFZAR	16.47	16.16	17.64	17.08	16.57	15.73	15.30	14.84	15.26	16.02	16.48	15.93
AUDZAR	11.02	11.14	11.65	10.79	10.66	10.39	10.35	10.44	10.88	11.62	11.70	11.31
GBP/USD	1.34	1.26	1.18	1.14	1.16	1.19	1.22	1.22	1.24	1.25	1.32	1.38
EUR/USD	1.12	1.06	1.01	0.99	1.00	1.01	1.03	1.05	1.08	1.15	1.18	1.23
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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	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24
USD/ZAR	15.21	15.59	17.05	16.40	15.50	14.50	14.00	13.60	13.30	13.10	13.10	12.90
GBP/ZAR	20.40	19.59	20.06	18.63	17.98	17.26	17.01	16.59	16.49	16.38	17.29	17.80
EUR/ZAR	17.07	16.60	17.16	16.19	15.42	14.65	14.42	14.21	14.36	15.07	15.46	15.87
ZAR/JPY	7.65	8.33	8.12	9.07	9.61	10.03	10.07	10.07	9.77	9.16	8.78	8.53
CHFZAR	16.47	16.16	17.64	16.48	15.66	14.72	14.28	13.73	14.00	14.09	14.40	14.18
AUDZAR	11.02	11.14	11.65	10.41	10.08	9.72	9.66	9.66	9.98	10.22	10.22	10.06
GBP/USD	1.34	1.26	1.18	1.14	1.16	1.19	1.22	1.22	1.24	1.25	1.32	1.38
EUR/USD	1.12	1.06	1.01	0.99	1.00	1.01	1.03	1.05	1.08	1.15	1.18	1.23
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