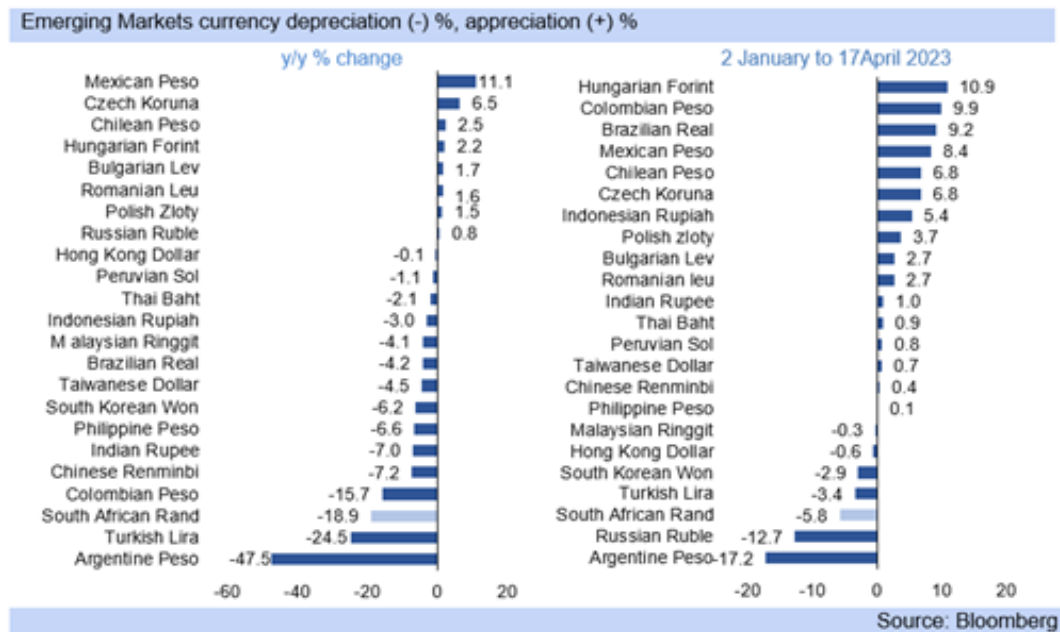


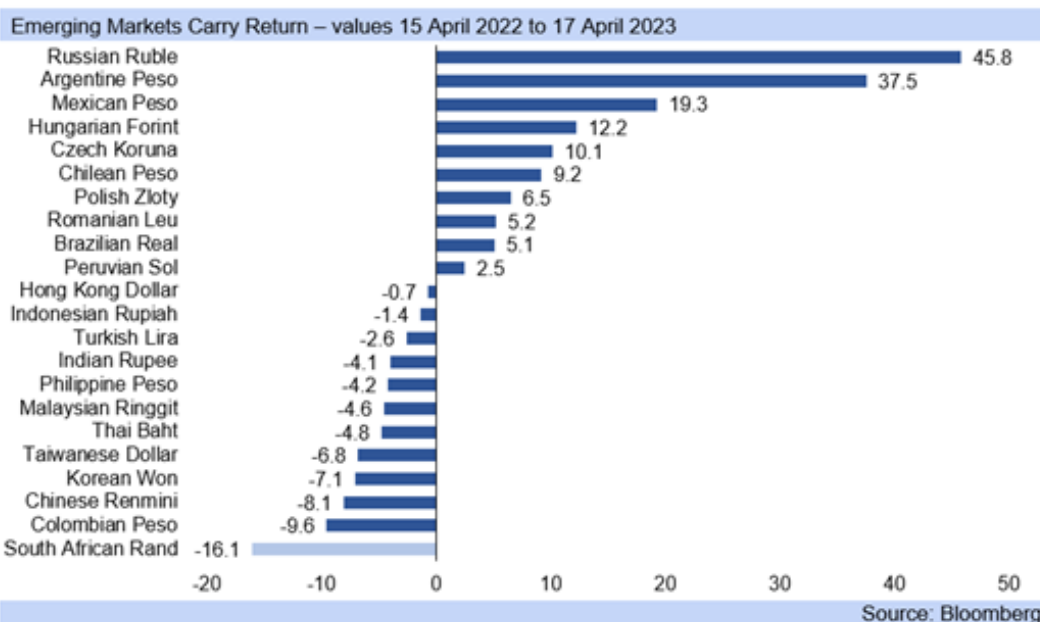
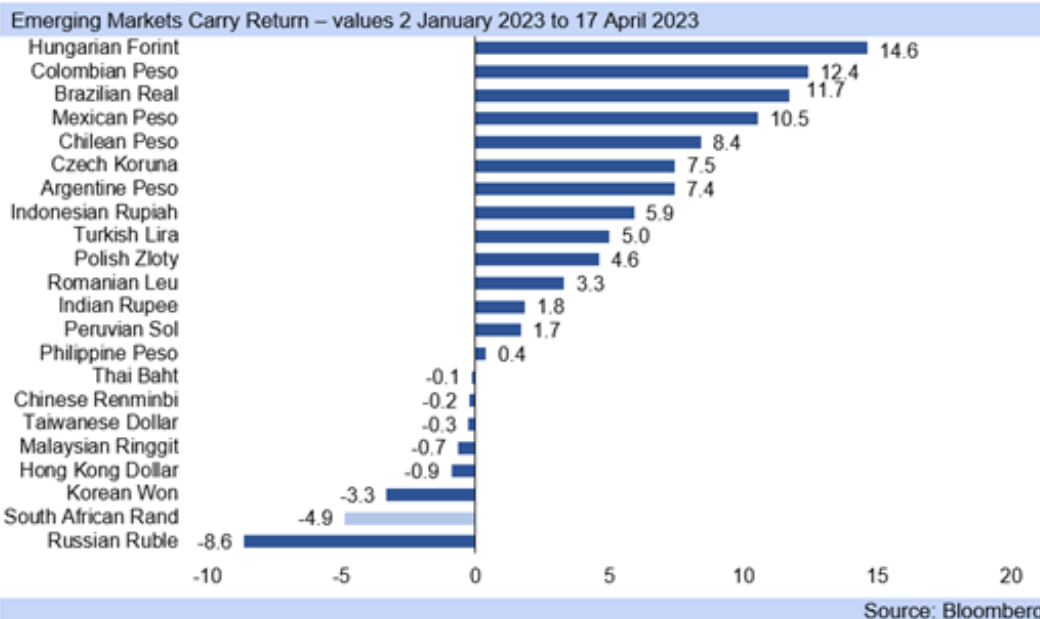
# SA Economics

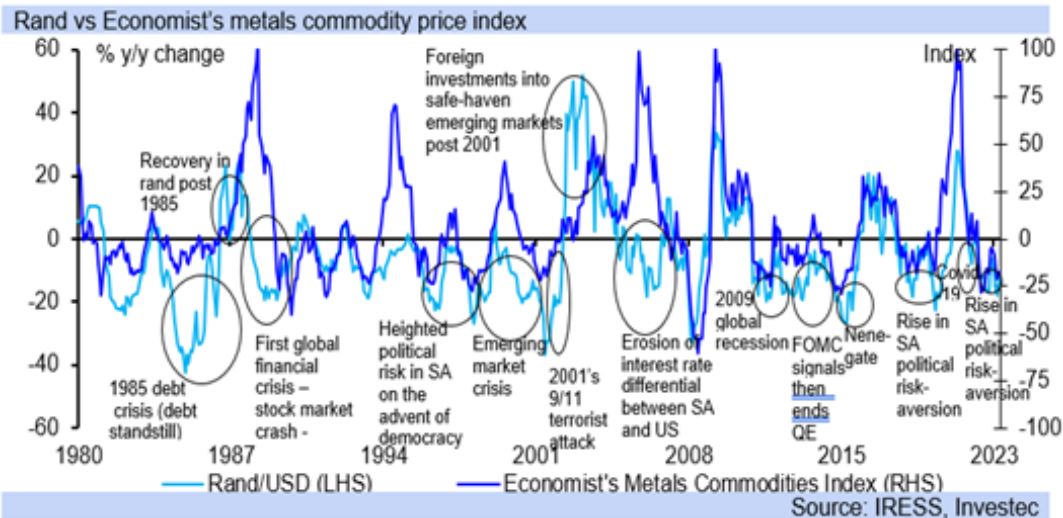


Rand note: rand gains as US rate hike enthusiasm wanes

Monday 17 April 2023







Expected Case: Exchange Rate forecasts												
	2023				2024				2025			
	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24	Q1.25	Q2.25	Q3.25	Q4.25
USD/ZAR	17.76	17.95	17.75	17.55	17.20	17.40	17.60	17.30	17.00	17.00	17.10	16.90
GBP/ZAR	21.59	22.26	22.19	22.11	22.02	22.53	22.97	22.66	22.10	22.10	22.23	21.97
EUR/ZAR	19.06	19.57	19.70	19.83	19.78	20.36	20.77	20.41	19.89	19.89	20.01	19.77
ZAR/JPY	7.45	7.19	7.10	7.12	7.18	7.01	6.88	6.94	7.88	7.76	7.66	7.69
CHF/ZAR	19.20	19.66	19.51	19.16	18.75	19.03	19.33	19.08	18.68	18.68	18.79	18.57
AUD/ZAR	12.14	12.12	12.25	12.46	12.38	12.53	12.76	12.63	12.92	13.09	13.51	13.35
GBP/USD	1.23	1.24	1.25	1.25	1.26	1.27	1.29	1.31	1.30	1.30	1.30	1.30
EUR/USD	1.08	1.10	1.11	1.12	1.13	1.14	1.16	1.18	1.17	1.17	1.17	1.17
USD/JPY	130	129	126	125	124	122	121	120	123	125	128	130

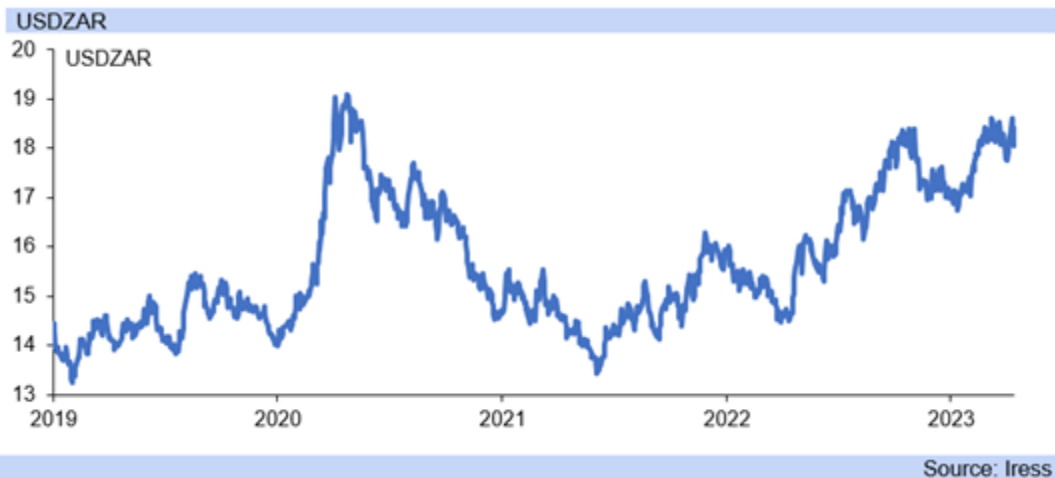
Note: averages, Source: Investec, Iress

- The rand moved stronger last week, as expectations of sharp interest rate hikes in the US continued to fade. The rand temporarily pierced R18.00/USD on Friday, and ran near the key resistance level of R18.00/USD this morning.
- Sentiment on US growth has dimmed for this year, driving the subsidence in interest rate hike expectations, along with concerns still over the impact of the sharply higher US rate hike cycle to date on the health of the US banking system.
- The IMF warns “(b)elow the surface, however, turbulence is building, and the situation is quite fragile, as the recent bout of banking instability reminded us ... the sharp policy tightening ... is hav(ing) serious side effects for the financial sector”.
- “Financial institutions with excess leverage, credit risk or interest rate exposure, too much dependence on short-term funding, or located in jurisdictions with limited fiscal space could become the next target.”
- “So could countries with weaker perceived fundamentals. A sharp tightening of global financial conditions—a “risk-off” shock—could have a dramatic impact on

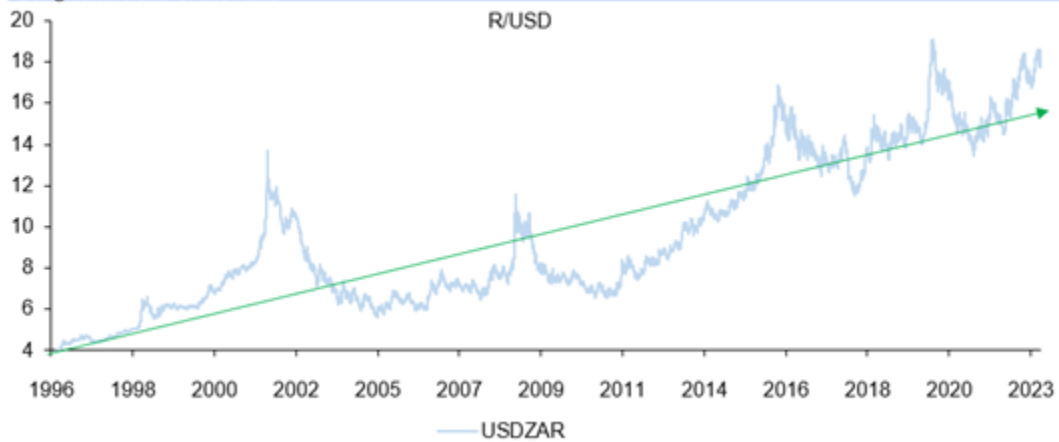
credit conditions and public finances especially in emerging market and developing economies”.

- “(W)ith large capital outflows, a sudden increase in risk premia, a dollar appreciation in a rush toward safety, and major declines in global activity amid lower confidence, household spending, and investment.”
- “In such a severe downside scenario, global GDP per capita could come close to falling— an outcome whose probability we estimate at about 15 percent.” Markets are cautious as the full effect of rate hike cycles have not been felt yet.
- “We are therefore entering a perilous phase during which economic growth remains low by historical standards and financial risks have risen, yet inflation has not yet decisively turned the corner.”
- With financial markets already concerned by higher interest rates, which has driven varying degrees of risk-off sentiment in global financial markets over the past twelve months, the cautious tone taken by multilaterals recently has been seen as positive.

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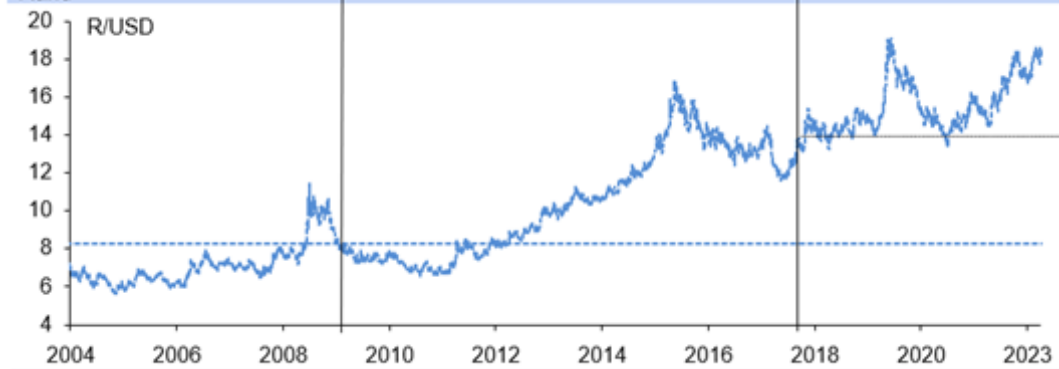


Long-term trend of the rand



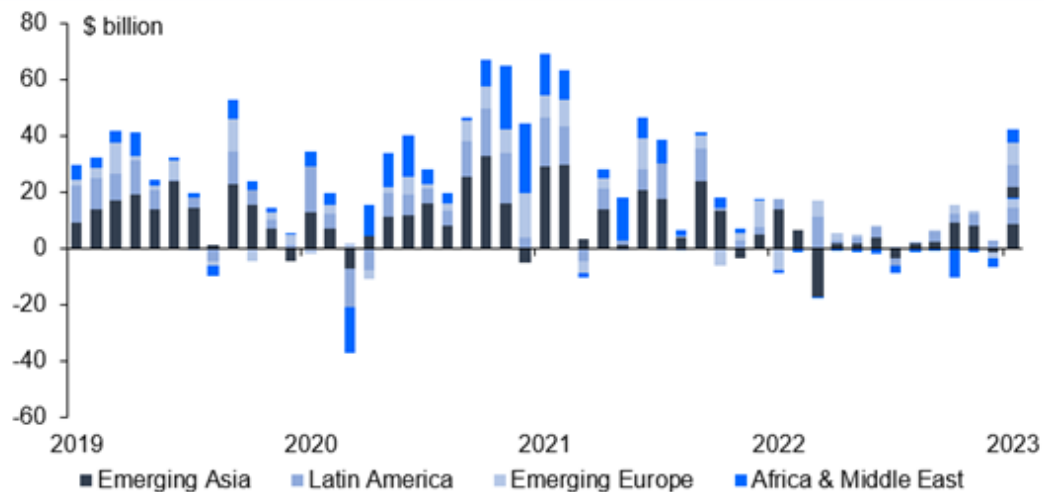
Source: Iress

Rand

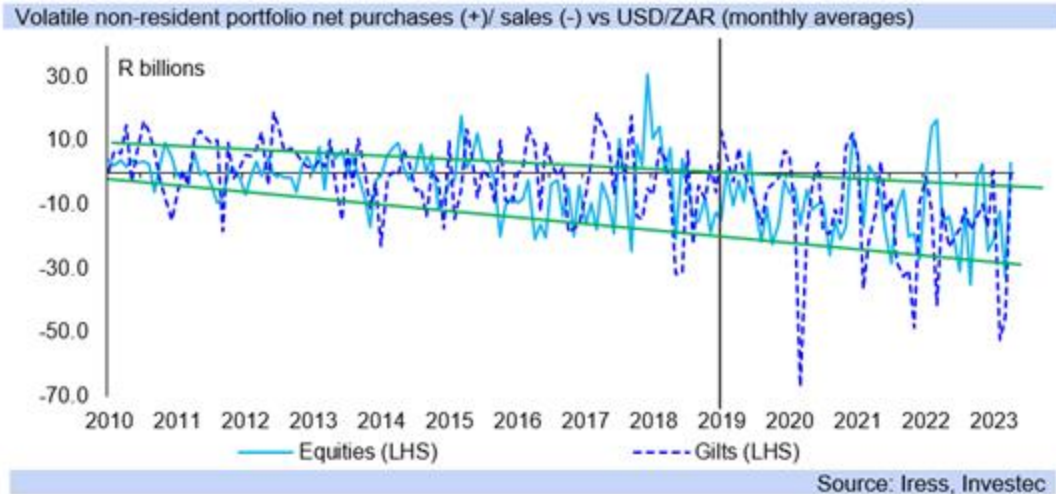


Source: Iress

Total Regional Portfolio Flows (Equity and Debt)



Source: IIF



- That is, after Easter last year the IMF and a number of other multilateral organisations, along with key financial institutions and global research houses, rapidly downgraded economic growth expectations on a rapid rate hike cycle.
- Concerns over recession also built from April last year, increasing towards October, and adding to the risk-averse global financial market environment and so EM currency weakness, particularly for the rand.
- Additionally, the global economy has not weakened as much as has been feared, nor has the US economy in particular, which has also calmed market sentiment somewhat this year.
- Indeed, overall the IMF is sounding more guardedly cheerful about economic prospects than a year ago, although it is nevertheless warning of high risks, but it also acknowledges the better than expected strength of economies.
- “Activity too shows signs of resilience as labor markets remain historically tight in most advanced economies ... both output and inflation estimates have been revised upward for the past two quarters, suggesting stronger-than-expected demand.”
- The IMF, other multilateral organisations, along with key financial institutions and global research houses are not sounding severe alarms over the economic outlook as they did a year ago with widescale, severe downgrades of economic forecasts.
- The outlook is still seen to be risky, but most of the commonly perceived risk has been factored in, compared to a year ago where economic growth forecasts made a sudden about turn substantially lower, fueling strong market concerns.
- The rand has weakened against the US dollar this afternoon, after reaching R18.02/USD, rebuffed from the key resistance level of R18.00/USD, as the US dollar regained some lost ground.



- Looking forward, the direction of the rand will depend heavily on the movement of the USD dollar in the currency pair. A more definitive end to the US rate hike cycle would spur ZAR strength against the USD, although a May US hike is still a possibility.





