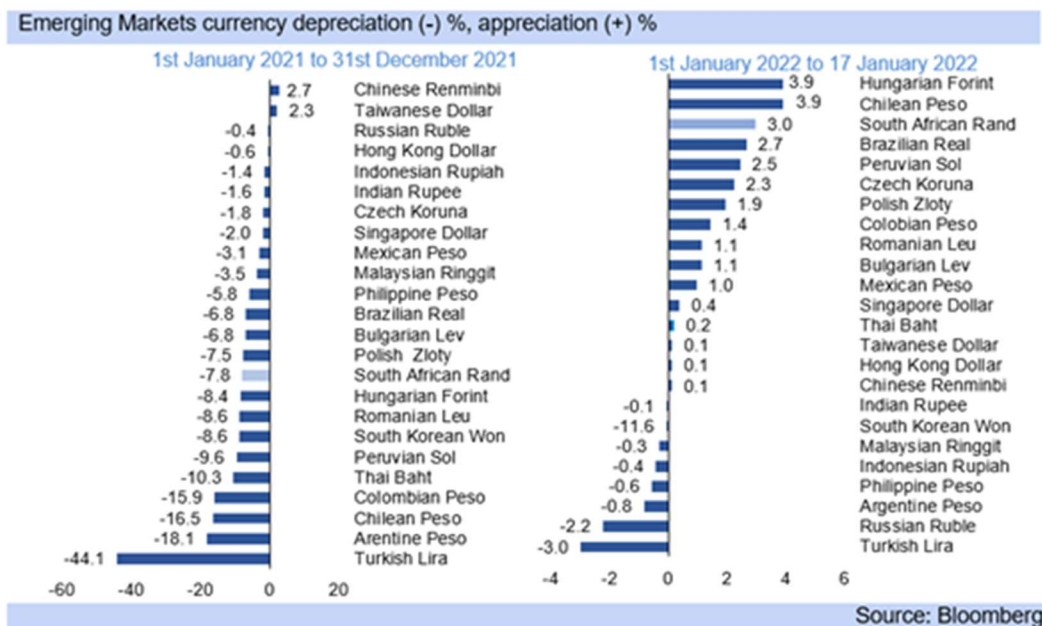


SA Economics



Monday 17 January 2022

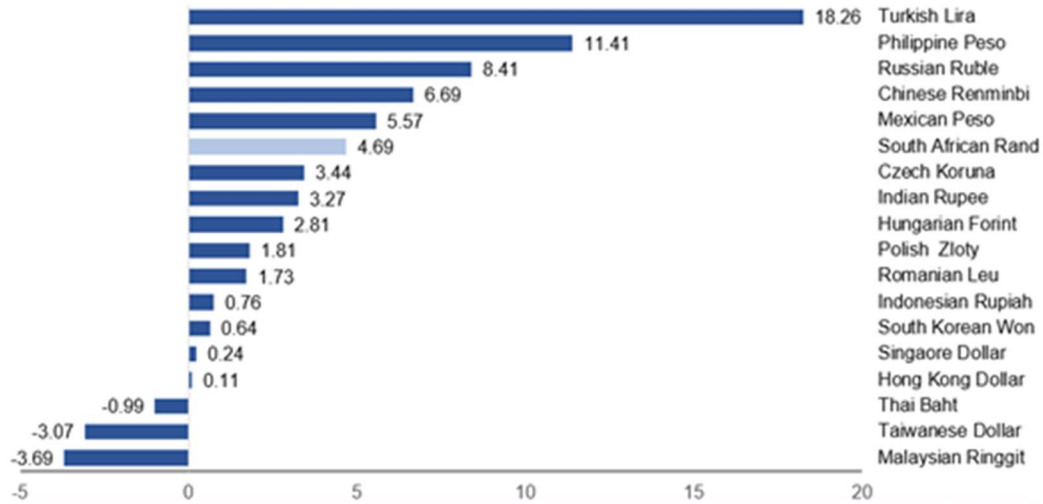
Rand note: the rand continues to display typical January strengthening patterns, consolidating now below R15.50/USD but likely to attempt R15.20/USD this month



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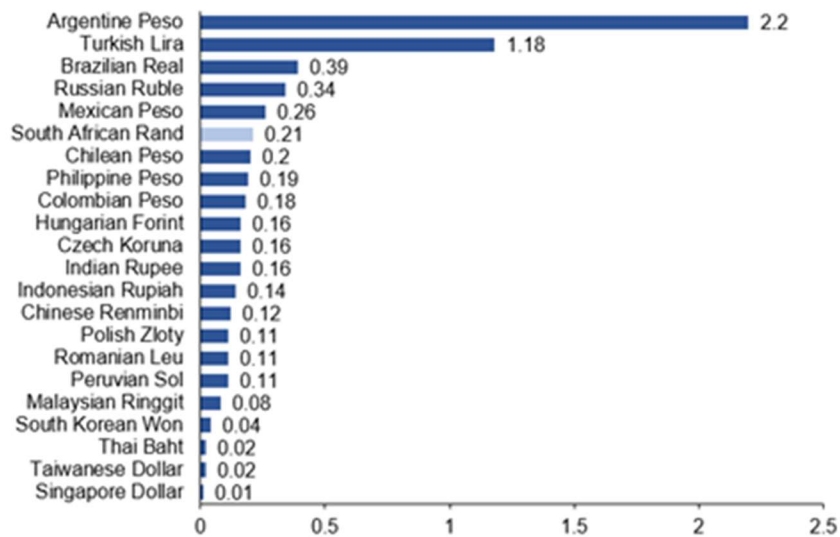


Emerging Markets Implied Rates – values 17 January 2022



Source: Bloomberg

Emerging Markets Interest Return – values 17 January 2022

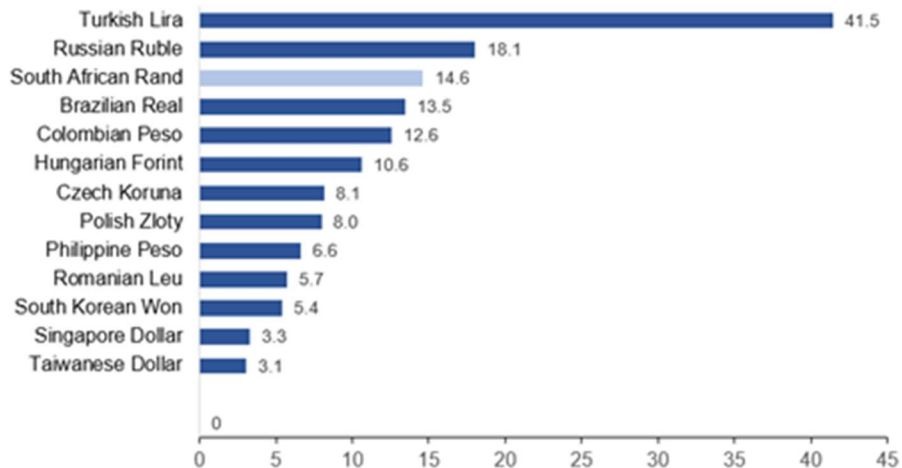


Source: Bloomberg

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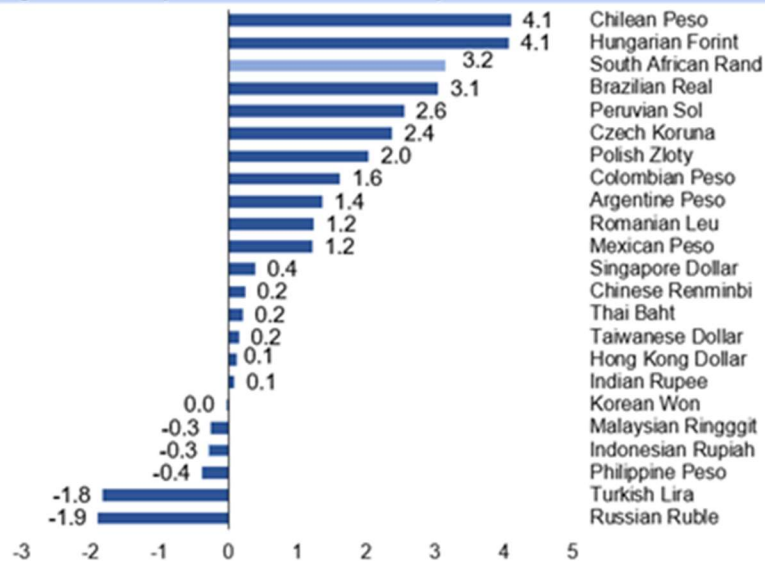


Emerging Markets Implied Volatilities – values 17 January 2022



Source: Bloomberg

Emerging Markets Carry Return – values 17 January 2022



Source: Bloomberg

- The rand has reached R15.29/USD today, as it continues to attempt to gain the key resistance level of R15.20/USD, but is being firmly rebuffed from this major level. The domestic currency so far averages R15.67/USD for the first few weeks of this quarter.

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- Foreigners are positive overall on SA markets this year to date, purchasing R4.4bn of SA bonds (net of sales), and R1.2bn in equities (also on a net basis) in the middle of last week. Overall foreign inflows into South African portfolio assets this year so far total R3.0bn.
- This has supported the rand's strength, along with easing monetary policy in the world's largest emerging market economy. China's first cut in its key interest (one year loan) rate since April 2020, of 10bp, occurred as its economic growth slowed, lifting sentiment for EMs.
- While the global monetary policy trend is for reducing accommodation, by tapering QE and hiking interest rates, China's move has positively impacted global financial market sentiment further and is aimed at supporting economic growth in the world's second largest economy.
- China's modest inflation, and concerns over its economic growth outlook on its property market's weakness, and the negative impact of Omicron on its economic activity, has seen the emerging market cut interest rates, with further moves expected.
- In contrast, the US is on a firm path to withdraw its easy monetary policy as its very high inflation environment worries policy makers, while its economy and labour markets have shown good recovery and are expected to make further gains.
- Indeed, US CPI inflation may not have peaked at its current forty year high of 7.0% y/y, with Q1.22 at risk of a further lift. In contrast, China's CPI inflation came out at 1.5% y/y in December, below November's 2.3% y/y and the market's expected 1.7% y/y.
- Omicron has spread rapidly through China, with it maintaining a zero covid strategy which is feared to likely quell consumption growth contributions to Q1.22. Broader monetary easing is likely on rate cuts and a lowering in its reserve requirement ratio for banks.
- However, China's structural changes to its economy have seen more serious growth concerns than can be addressed with monetary easing, and provides some risk to the global growth outlook, along with overly harsh US rate hikes, with the rand likely to remain volatile this year.

Please scroll down to the second section below

SA Economics

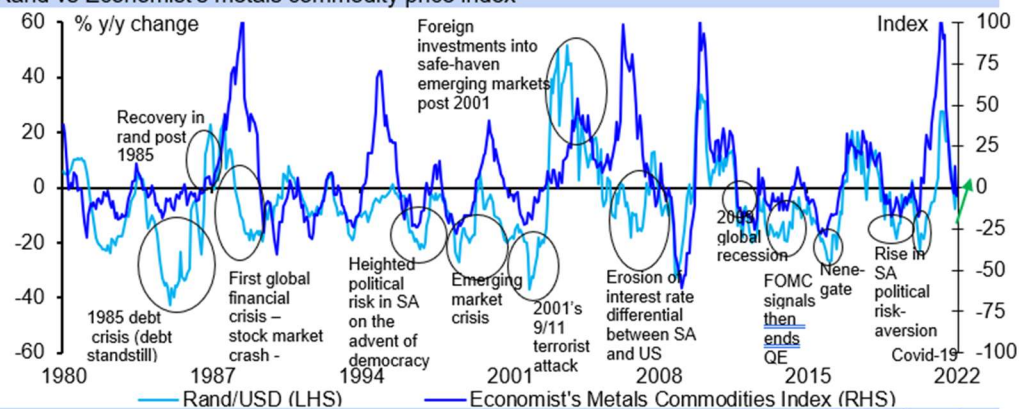


Expected Case: Exchange Rate forecasts

	2022				2023				2024			
	Q1.22	Q2.22	Q3.22	Q4.22	Q1.22	Q2.22	Q1.22	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	21.23	21.68	22.58	22.93	22.94	23.06	23.31	22.59	22.31	23.02	23.74	23.02
EUR/ZAR	17.83	17.94	18.43	18.58	18.76	19.56	20.38	19.75	19.50	20.13	20.75	20.13
ZAR/JPY	7.48	7.53	7.48	7.64	7.61	7.23	6.75	6.77	6.86	6.65	6.45	6.65
CHF/ZAR	16.90	16.85	17.14	17.05	17.03	17.47	17.91	17.36	17.14	17.69	18.24	17.69
AUD/ZAR	11.47	11.70	12.05	12.05	12.09	12.40	12.71	12.32	12.17	12.56	12.95	12.56
GBP/USD	1.37	1.39	1.42	1.47	1.48	1.45	1.43	1.43	1.43	1.43	1.43	1.43
EUR/USD	1.15	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	118	115	110	107	107	107	107	107

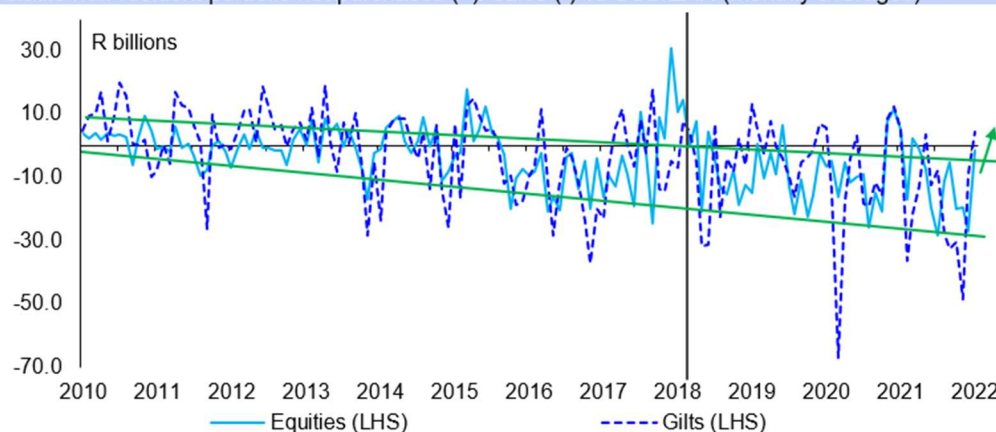
Note: averages, Source: Investec, Iress

Rand vs Economist's metals commodity price index



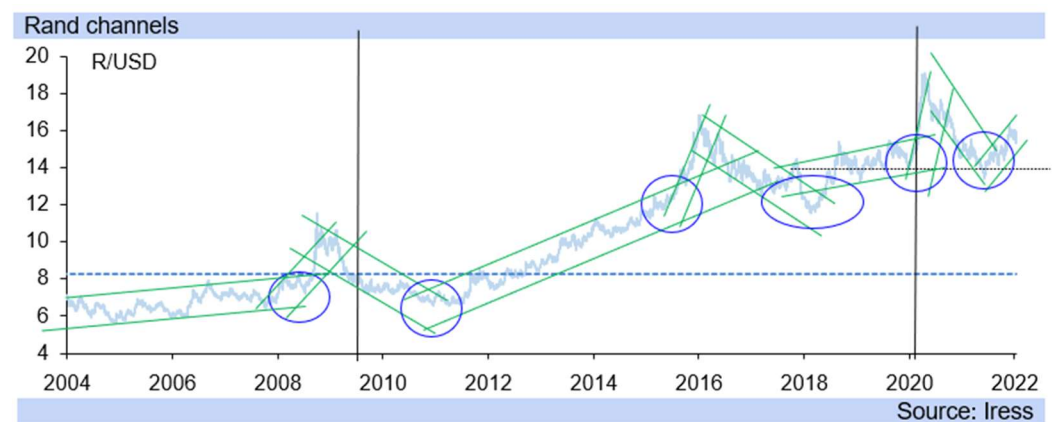
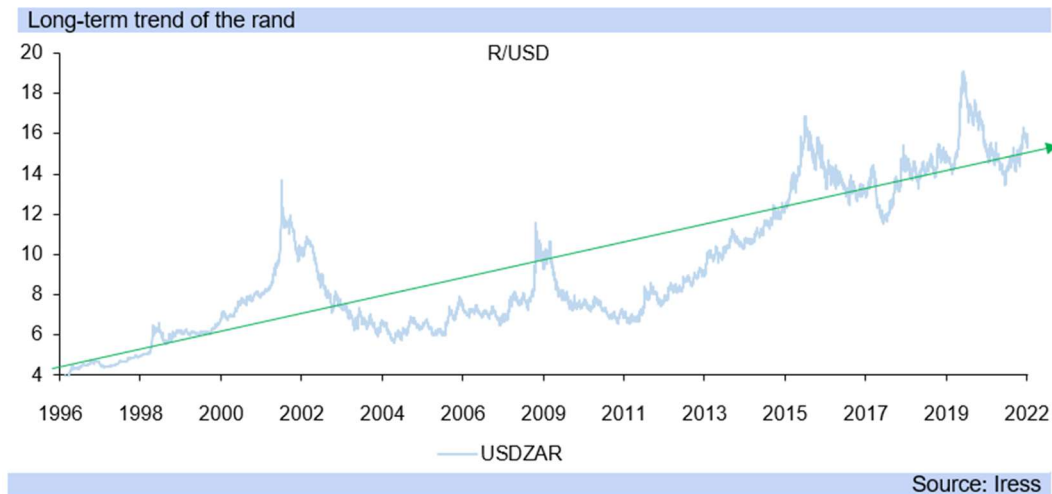
Source: IRESS, Investec

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



Source: Iress, Investec

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- The Fed funds futures have been inching up since the start of the year, and the implied probabilities have risen, indicating greater expected chances of a March US interest rate hike, and additional hikes out to Q1 2023.
- Markets are factoring in expectations of more than three US interest rate hikes now out to 2023, which is adding to pressure on US treasuries' yields, although the US is still not expected to hike in January but is expected to substantially quicken QE tapering.
- South Africa's FRA curve (Forward Rate Agreement curve) is now pricing in a January 25bp hike in SA's repo rate (with the MPC meeting conclusion on the 27th), and another 25bp by March, with market expectations front loading SA rate hikes on the FRA curve.

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- May also is seen as experiencing a further 25bp lift while July rises to close to a 50bp hike, September is pricing in rates at 25bp higher than July and November another rise of the same proportions, which is supporting the rand.
- Higher interest rates tend to benefit currencies from the carry trade and a number of other flows, although South Africa's FRA curve expectations are substantially overdone, and we continue to expect a gentler rate hike trajectory this year of three 25bp lifts.
- Higher commodity prices in December and January have benefited the rand, with SA a key commodity exporter. Metals' prices are up 3% m/m, which will boost the trade account, along with the weak seasonal imports at the start of the year.
- Indeed, the commodity boom over last year and beginning in H2.20 has seen South Africa's trade balance run a strong monthly surplus trend, and the country's terms of trade have consequently been positive, supporting the rand.
- While markets see increased certainty currently, and certainty of direction for monetary policy in the US, many challenges from 2021 have been brought into 2022, including supply chain pressures and potential for higher costs, which risk both inflation and growth forecasts.
- This year is expected to hold significant volatility for markets with the risk that market sentiment sours towards the middle of the year, driving the rand weaker than the expected seasonal weakness factored into our forecasts.

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Economic Scenarios: note 1% lower probability on lite down case on Fitch stable outlook, expected case rises by 1%

		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)	3.25	3.25	3.25	3.25	3.50	3.50	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 inflows, strong fiscal consolidation (government debt falls back to low ratios of 2000s). Strong global growth, commodity boom. Stabilisation of credit ratings, then credit rating upgrades.								
Up case 2%	USD/Rand (average)	15.20	15.10	15.00	14.90	14.90	14.70	14.60	14.50
	Repo rate (end rate)	3.50	3.50	3.50	3.75	4.00	4.00	4.00	4.25
	Quick rebound from Covid-19 pandemic, rising confidence and investment levels - structural problems worked down. No further credit rating downgrades, rating outlooks move to stable and eventually positive, strong fiscal consolidation (government debt projections fall substantially). Global risk-on, global demand quickly returns to trend growth. Limited impact of expropriation without compensation) to abandoned, unused, labour tenants' and government land (individuals are new owners and receive title deeds) does not have a negative effect on economy - no nationalisation.								
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	4.00	4.25	4.50	4.75	4.75	5.00	5.00
	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 stabilises then improves. 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.								
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)	4.00	4.25	4.50	4.75	5.25	5.50	6.00	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, rand weakness, 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	6.50
	Lengthy global recession, global financial crisis – insufficient monetary and other policy supports to growth domestically and internationally. Depression in SA, unprecedented rand weakness. Nationalisation of private sector property (title deeds not transferred to individuals). 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

SA Economics



Lite Down Case: Exchange Rate forecasts												
	2022				2023				2024			
	Q1.22	Q2.22	Q3.22	Q4.22	Q1.22	Q2.22	Q1.22	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	23.72	24.76	25.16	25.38	25.17	25.03	24.60	24.31	24.02	24.31
EUR/ZAR	18.06	18.40	19.36	20.07	20.57	21.53	22.00	21.88	21.50	21.25	21.00	21.25
ZAR/JPY	7.39	7.34	7.12	7.07	6.94	6.57	6.25	6.11	6.22	6.29	6.37	6.29
CHFZAR	17.11	17.28	18.01	18.41	18.68	19.23	19.34	19.23	18.90	18.68	18.46	18.68
AUDZAR	11.62	12.00	12.65	13.01	13.26	13.65	13.73	13.65	13.42	13.26	13.10	13.26
GBP/USD	1.37	1.39	1.42	1.47	1.48	1.45	1.43	1.43	1.43	1.43	1.43	1.43
EUR/USD	1.15	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	118	115	110	107	107	107	107	107

Note: averages, Source: Investec, Iress

Up Case: Exchange Rate forecasts												
	2022				2023				2024			
	Q1.22	Q2.22	Q3.22	Q4.22	Q1.22	Q2.22	Q1.22	Q4.22	Q1.24	Q2.24	Q3.24	Q4.24
USD/ZAR	15.20	15.10	15.00	14.90	14.90	14.70	14.60	14.50	14.50	14.40	14.40	14.30
GBP/ZAR	20.82	20.99	21.37	21.83	22.05	21.32	20.88	20.74	20.74	20.59	20.59	20.45
EUR/ZAR	17.48	17.37	17.44	17.69	18.03	18.08	18.25	18.13	18.13	18.00	18.00	17.88
ZAR/JPY	7.63	7.78	7.90	8.02	7.92	7.82	7.53	7.38	7.38	7.43	7.43	7.48
CHFZAR	16.57	16.31	16.22	16.23	16.37	16.15	16.04	15.93	15.93	15.82	15.82	15.71
AUDZAR	11.25	11.33	11.40	11.47	11.62	11.47	11.39	11.31	11.31	11.23	11.23	11.15
GBP/USD	1.37	1.39	1.42	1.47	1.48	1.45	1.43	1.43	1.43	1.43	1.43	1.43
EUR/USD	1.15	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	118	115	110	107	107	107	107	107

Note averages, Source: Investec, Iress

Severe Down Case: Exchange Rate forecasts												
	2022				2023				2024			
	Q1.22	Q2.22	Q3.22	Q4.22	Q1.22	Q2.22	Q1.22	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	23.35	24.93	26.37	27.38	27.12	27.46	27.96	28.17	28.24	28.39	28.31
EUR/ZAR	18.40	19.32	20.34	21.38	22.39	23.00	24.00	24.44	24.63	24.69	24.81	24.75
ZAR/JPY	7.25	6.99	6.77	6.64	6.38	6.15	5.73	5.47	5.43	5.42	5.39	5.40
CHFZAR	17.44	18.14	18.92	19.61	20.33	20.55	21.10	21.48	21.65	21.70	21.81	21.76
AUDZAR	11.84	12.60	13.30	13.86	14.43	14.59	14.98	15.25	15.37	15.41	15.48	15.44
GBP/USD	1.37	1.39	1.42	1.47	1.48	1.45	1.43	1.43	1.43	1.43	1.43	1.43
EUR/USD	1.15	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	118	115	110	107	107	107	107	107

Note: averages, Source: Investec, Iress

SA Economics



Extreme Up Case: Exchange Rate forecasts												
	2022				2023				2024			
	Q1.22	Q2.22	Q1.22	Q2.22	Q1.22	Q2.22	Q1.22	Q2.22	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	19.86	19.46	19.66	20.07	20.13	19.43	19.02	18.73	18.45	18.30	18.02	17.59
EUR/ZAR	16.68	16.10	16.04	16.27	16.46	16.48	16.63	16.38	16.13	16.00	15.75	15.38
ZAR/JPY	8.00	8.39	8.59	8.72	8.68	8.58	8.27	8.17	8.29	8.36	8.49	8.70
CHFZAR	15.81	15.12	14.92	14.93	14.95	14.73	14.62	14.40	14.18	14.07	13.85	13.52
AUDZAR	10.73	10.50	10.49	10.55	10.61	10.45	10.37	10.22	10.06	9.98	9.83	9.59
GBP/USD	1.37	1.39	1.42	1.47	1.48	1.45	1.43	1.43	1.43	1.43	1.43	1.43
EUR/USD	1.15	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	118	115	110	107	107	107	107	107
Note: averages, Source: Investec, Iress												