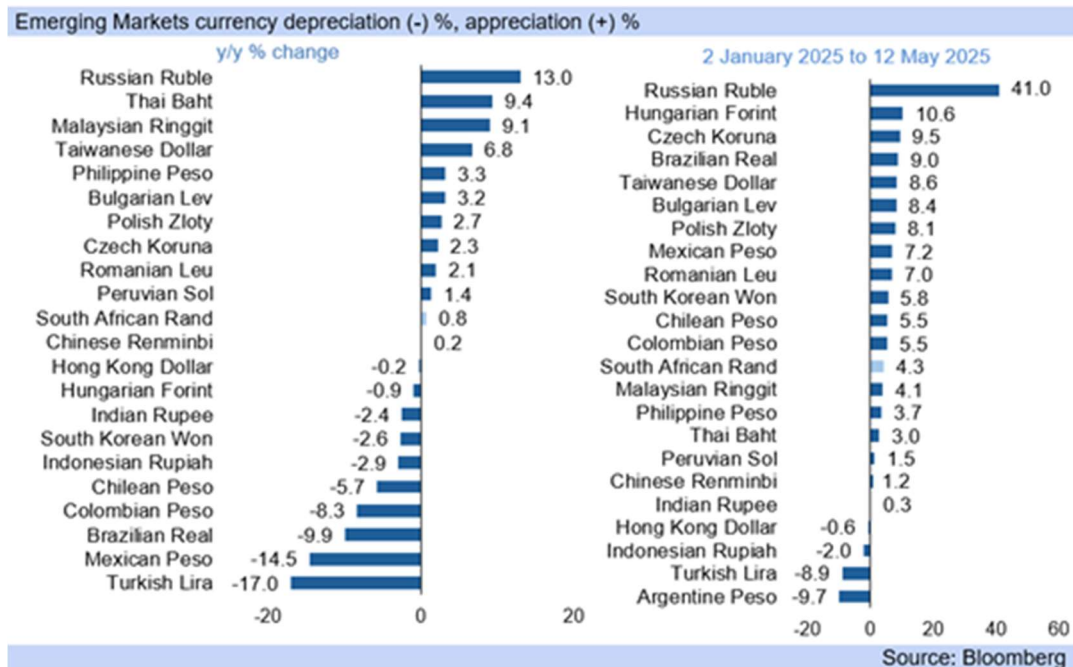


SA Economics

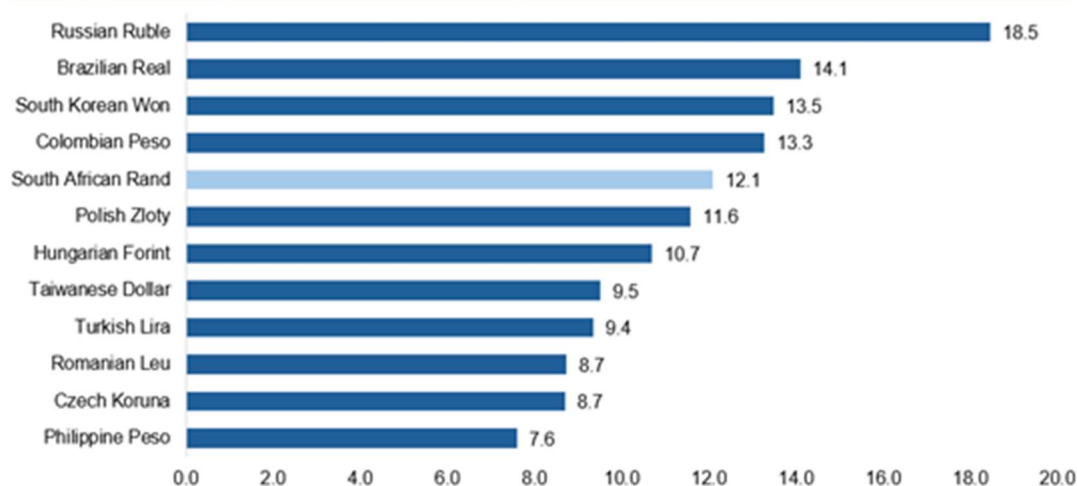


Rand note: the rand is poised for further strength if the inflation target is lowered

Monday 19 May 2025

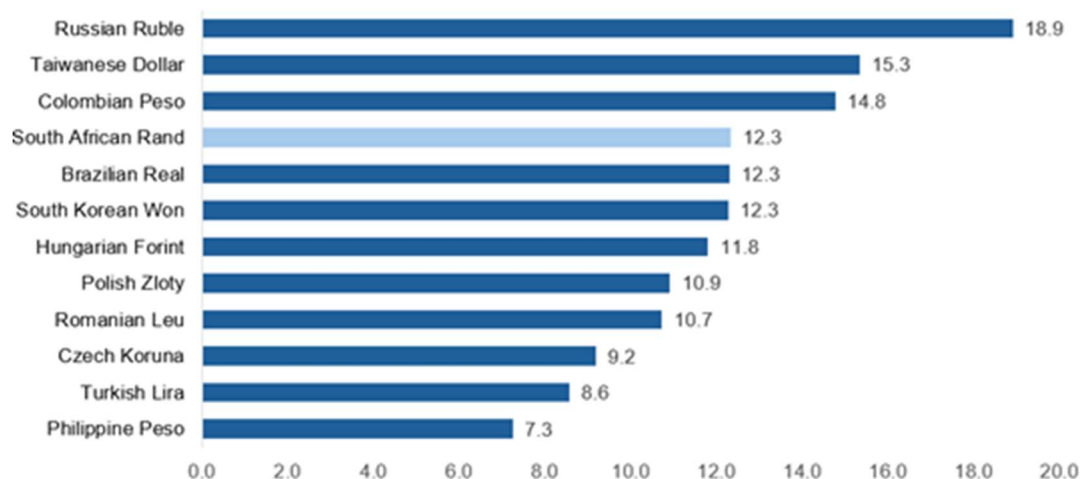


Emerging Markets Implied Volatilities – values 19 May 2025

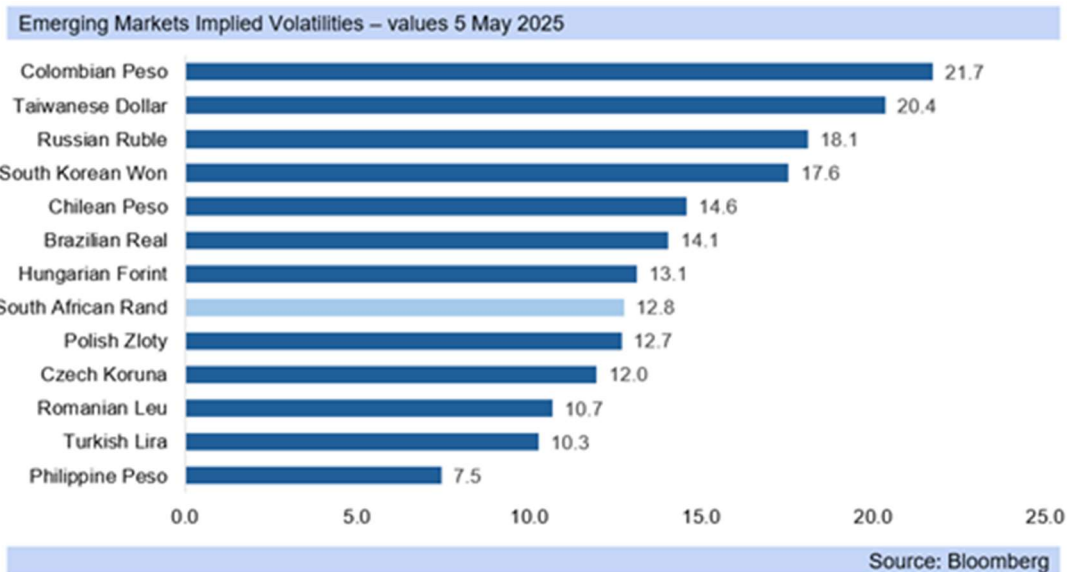


Source: Bloomberg

Emerging Markets Implied Volatilities – values 12 May 2025



Source: Bloomberg



| Expected Case: Exchange Rate forecasts | | | | | | | | | | | | |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | 2025 | | | | 2026 | | | | 2027 | | | |
| | Q1.25 | Q2.25 | Q3.25 | Q4.25 | Q1.26 | Q2.26 | Q3.26 | Q4.26 | Q1.27 | Q2.27 | Q3.27 | Q4.27 |
| USD/ZAR | 18.50 | 18.60 | 18.45 | 18.00 | 17.90 | 18.00 | 18.10 | 18.00 | 17.90 | 18.00 | 18.10 | 17.90 |
| GBP/ZAR | 23.29 | 24.22 | 24.54 | 24.12 | 24.25 | 24.66 | 24.98 | 24.84 | 24.34 | 24.12 | 23.89 | 23.27 |
| EUR/ZAR | 19.47 | 20.72 | 21.13 | 20.88 | 21.03 | 21.42 | 21.72 | 21.60 | 21.30 | 21.42 | 21.36 | 21.12 |
| ZAR/JPY | 8.24 | 7.86 | 7.86 | 8.06 | 7.96 | 7.78 | 7.60 | 7.50 | 7.54 | 7.44 | 7.35 | 7.37 |
| CHF/ZAR | 20.58 | 21.95 | 22.24 | 21.86 | 21.91 | 22.20 | 22.39 | 22.15 | 21.57 | 21.18 | 20.57 | 19.89 |
| AUD/ZAR | 11.61 | 11.55 | 11.90 | 11.70 | 11.72 | 11.88 | 12.04 | 12.06 | 12.35 | 12.42 | 12.49 | 12.35 |
| GBP/USD | 1.26 | 1.30 | 1.33 | 1.34 | 1.36 | 1.37 | 1.38 | 1.38 | 1.36 | 1.34 | 1.32 | 1.30 |
| EUR/USD | 1.05 | 1.11 | 1.15 | 1.16 | 1.18 | 1.19 | 1.20 | 1.20 | 1.19 | 1.19 | 1.18 | 1.18 |
| USD/JPY | 152 | 146 | 145 | 145 | 143 | 140 | 138 | 135 | 135 | 134 | 133 | 132 |

Note: averages, Source: Investec, Iress

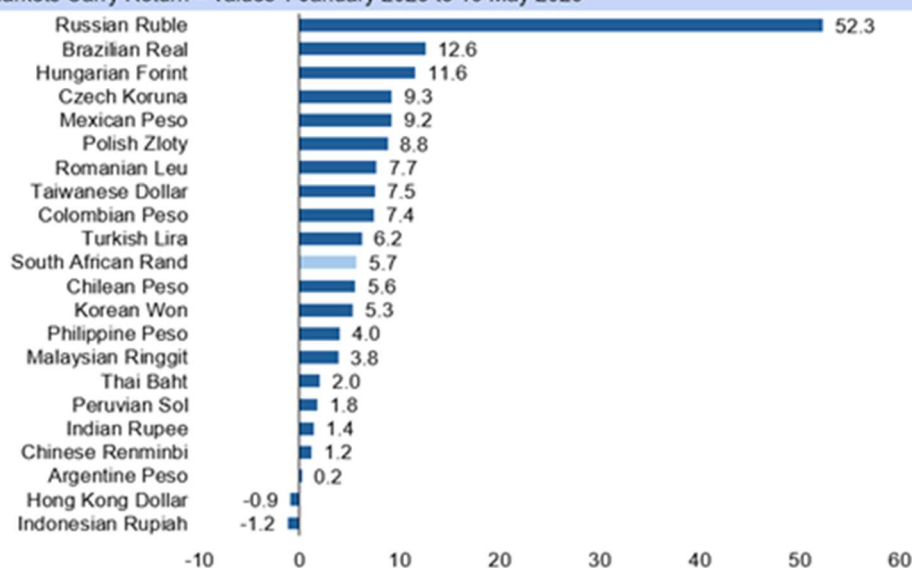
- The rand continues to attempt to break through the R18.00/USD mark, a major resistance level, reaching R17.99/USD temporarily on Friday, then rebounding back above R18.00/USD, and at R18.01/USD today, ahead of the budget.
- Markets are anticipating the announcement of a new inflation target, with the range currently 3-6% y/y and the midpoint of 4.5% y/y. National Treasury is likely to prefer a gradual descent, as opposed to the SARB's preference of close to 3.0% y/y.
- National Treasury sets the inflation target, and the Reserve Bank is mandated to achieve it, with National Treasury in charge of deciding what the range and or target point will be, and having said a change is imminent.
- However, National Treasury has also warned in the past that "you don't get there (a lower inflation target) in a manner which is painless", "What is clear is

that if we revise the target, the target can only be revised lower.” “But ... (t)o get there is tough.”

- Finance Minister Godongwana has previously asked National Treasury and the Reserve Bank to determine the full impact on consumers and the economy first before any changes are made to the inflation target.
- The announcement could come as early as this week, on Wednesday, with National Treasury having said “South Africa’s inflation target is out of sync”. A modest revision to 3-5% y/y with a midpoint would probably be preferable for National Treasury.
- This is in contrast to the Reserve Bank’s previously stated choice of closer to South Africa’s key trading partner’s inflation targets of 2.0% y/y (US, EU, China, UK), but first moving to 3.0% y/y before the drop to 2.0% y/y.
- A compromise of a new target range of 5-2% y/y is possible, with a midpoint then of 3.5% y/y. CPI inflation is already below this, at 2.7% y/y, and likely to be below 3.0% y/y for Q2.25. However, base effects in Q3.25 will push inflation above 3.5% y/y.
- A new target midpoint of 3.5% y/y would likely mean no further interest rate cuts for this year. The rand would likely strengthen further towards R17.50/USD as the US cuts. Currently two -25bp US interest rate cuts are expected in H2.25.

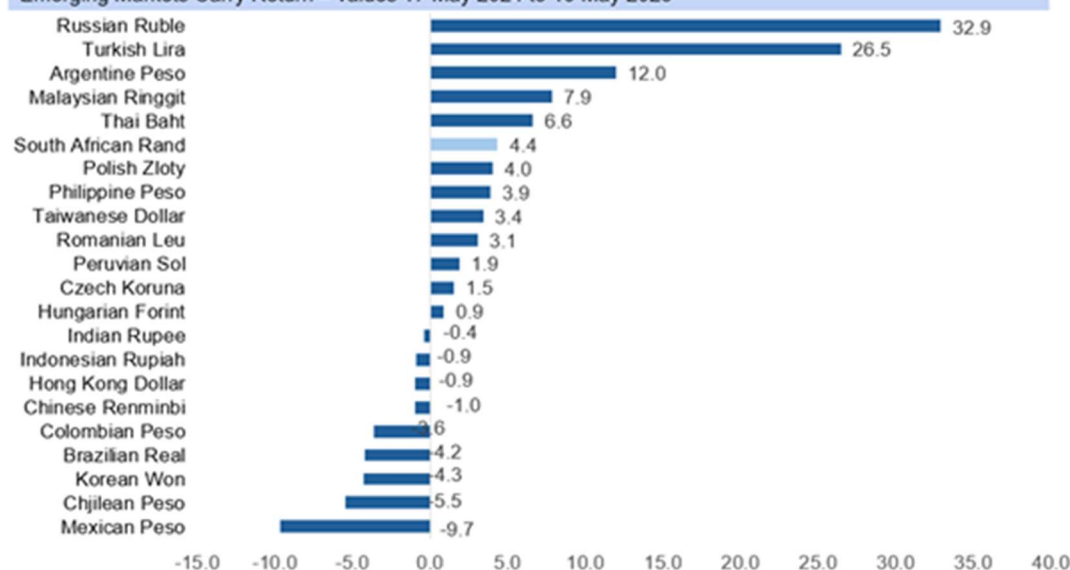
Please scroll down to the second section below

Emerging Markets Carry Return – values 1 January 2025 to 19 May 2025



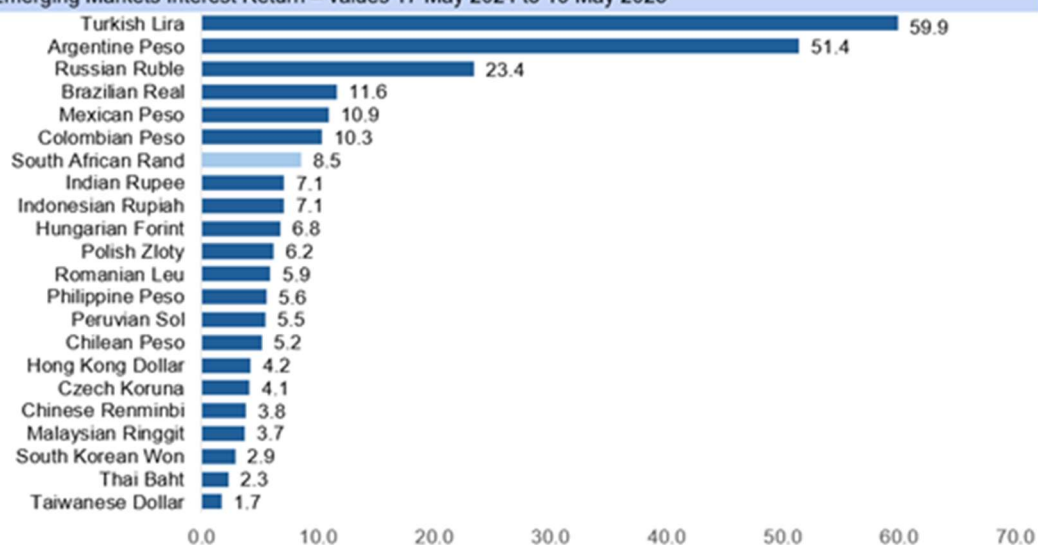
Source: Bloomberg

Emerging Markets Carry Return – values 17 May 2024 to 19 May 2025



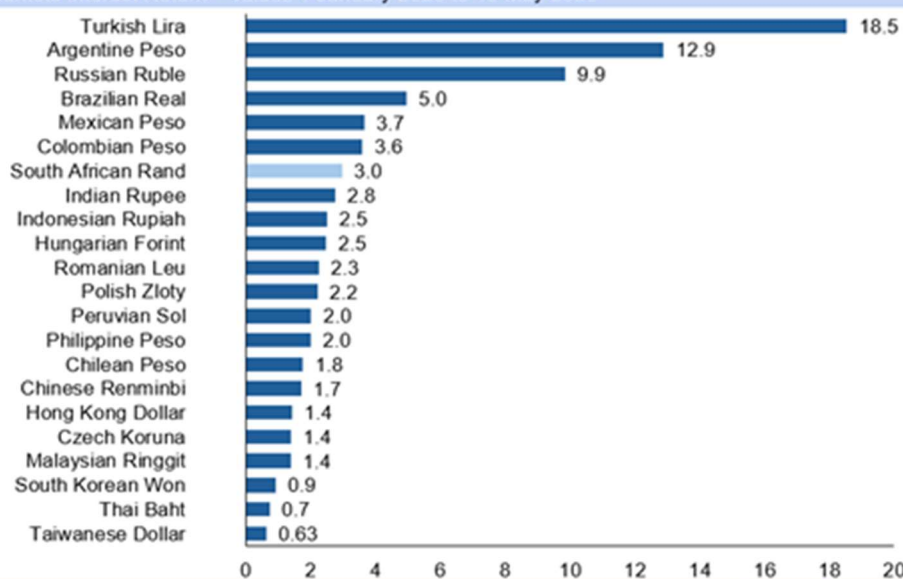
Source: Bloomberg

Emerging Markets Interest Return – values 17 May 2024 to 19 May 2025

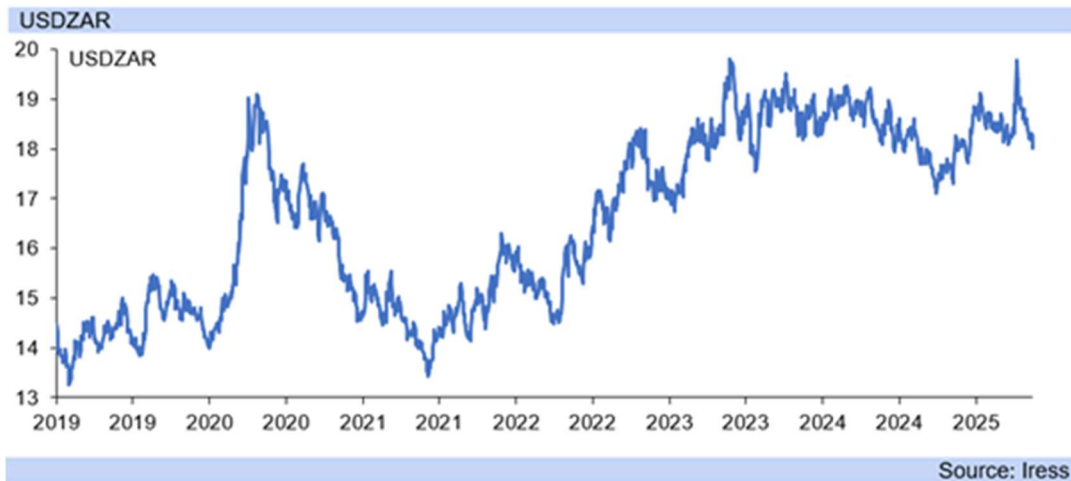


Source: Bloomberg

Emerging Markets Interest Return – values 1 January 2025 to 19 May 2025



Source: Bloomberg



- Given the negative impact on consumers of missing out on further interest rate cuts in the current cycle, National Treasury could aim for more caution and announce the new target range at 5.5% -2.5% y/y instead, moving the mid-point down to 4.0% y/y.
- Also key for South Africa, S&P's country review on Friday saw the credit rating agency affirm South Africa's BB- foreign currency rating and BB/B local currency rating, maintaining a positive outlook on the potential for reform.
- S&P notes "the potential for stronger growth ... despite trade- and tariff-related headwinds, alongside government debt consolidation if the coalition government can accelerate economic and fiscal reforms while addressing infrastructure pressures".
- Adding, "(w)e could raise the ratings if an improving track record of effective reforms resulted in the strengthening of economic growth, and reduced government debt and contingent liabilities".
- "Despite the re-tabling of the budget and the likely removal of VAT, the government plans to continue with fiscal consolidation, and fiscal financing benefits from access to deep domestic markets and an actively traded currency."
- "Despite the significant disagreements, the coalition government of national unity (GNU) has managed to remain intact, which we believe bodes well for broad policy continuity and enhanced reform momentum."

- “The ratings ... benefit from the country's sizable and sophisticated financial system that provides a deep funding base for the government. The country also has relatively strong institutions, with good checks and balances, particularly” the SARB.
- “The ratings are constrained by relatively low GDP per capita and low GDP growth rates, as well as sizable fiscal deficits and high government debt. The positive outlook reflects the potential for stronger growth than we currently expect”.
- This is “despite trade- and tariff-related headwinds, alongside government debt consolidation, if the coalition government can accelerate economic and fiscal reforms while addressing infrastructure pressures”, as S&P remains positive on SA.

| Economic Scenarios: | | Q1.25 | Q2.25 | Q3.25 | Q4.25 | Q1.26 | Q2.26 | Q3.26 | Q4.26 |
|---|----------------------|-------|-------|-------|-------|-------|-------|-------|-------|
| Extreme Up case 2% | USD/Rand (average) | 18.50 | 17.00 | 16.00 | 15.30 | 15.00 | 14.90 | 14.80 | 14.65 |
| | Repo rate (end rate) | 7.50 | 7.00 | 6.50 | 6.25 | 6.00 | 5.50 | 5.25 | 5.00 |
| SA economic growth rises to 3-5%, then 5-7%. Good governance, growth-creating reforms, structural (including infrastructure) 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. Short grey listing. Strong global growth, risk-on, commodity boom. Rapid upgrades of credit ratings. Strong transition away from fossil fuel usage, a quick transition to renewable energy, very comprehensive measures to alleviate climate change impact on economy. Geopolitical tensions subside. | | | | | | | | | |
| Up case 15% | USD/Rand (average) | 18.50 | 17.50 | 16.60 | 16.30 | 16.10 | 16.00 | 16.05 | 16.10 |
| | Repo rate (end rate) | 7.50 | 7.25 | 7.00 | 6.75 | 6.50 | 6.25 | 6.00 | 5.75 |
| Economic growth eventually lifts towards 5.0%, rising confidence and investment levels, structural (including infrastructure) 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. Positive outlooks on credit ratings turn into upgrades on substantial fiscal consolidation, debt projections fall substantially. Grey listed for a moderate period. Substantial transition to renewable energy away from fossil fuel usage, comprehensive measures to alleviate climate change impact on economy. Geopolitical tensions ease. | | | | | | | | | |
| Base case 50% | USD/Rand (average) | 18.50 | 18.60 | 18.45 | 18.00 | 17.90 | 18.00 | 18.10 | 18.00 |
| | Repo rate (end rate) | 7.50 | 7.50 | 7.25 | 7.00 | 6.75 | 6.75 | 6.75 | 6.75 |
| Economic growth modest but lifts towards 3.0% y/y over five years on sufficient domestic policy support measures but is still limited by structural (including infrastructure such as freight transport) constraints. Global financial market risk sentiment is neutral to positive. South Africa is in the BB credit rating category bracket as fiscal consolidation (debt to GDP stabilisation) occurs, leading to some positive outlooks. The rand stabilises and strengthens somewhat, inflation is impacted by the course of weather patterns via food price inflation. A modest transition to renewable energy occurs and measures to alleviate the impact of climate change on the economy are implemented. Little expropriation without compensation occurs and has no significant negative effect on economy, there is no nationalisation. South Africa's grey listing lifted in the period. Geopolitical tensions persist but do not exacerbate. | | | | | | | | | |
| Lite (domestic) Down case 32% | USD/Rand (average) | 18.50 | 19.80 | 20.00 | 20.50 | 20.80 | 21.00 | 20.60 | 20.40 |
| | Repo rate (end rate) | 7.50 | 8.00 | 8.50 | 8.75 | 9.50 | 9.50 | 9.50 | 9.25 |
| The international environment (incl. risk sentiment) is that of the base case. South Africa fails to see government debt projections stabilise, falls into single B (local and foreign currency) credit ratings from all three agencies. Recession occurs. Business confidence remains depressed, load shedding and freight (infrastructure) constraints worsen, weak investment, civil and political unrest. High inflation on unfavorable weather conditions, marked rand weakness. Little transition to renewable energy or measures to alleviate the impact of climate change. Very limited expropriation of private sector property without compensation, with a slight negative impact on the economy. Substantial fiscal consolidation ultimately occurs, preventing ratings falling into the C grades. The greylisting is lengthy. | | | | | | | | | |
| Severe down case 1% | USD/Rand (average) | 18.50 | 20.50 | 20.90 | 21.10 | 21.50 | 21.90 | 21.80 | 21.20 |
| | Repo rate (end rate) | 7.50 | 9.00 | 9.75 | 11.00 | 11.50 | 11.00 | 10.75 | 10.50 |
| Lengthy global recession, global financial crisis - insufficient monetary and other support domestically and internationally. Very high inflation on very adverse weather conditions, severe rand weakness. SA rated single B from all three key agencies, downgraded into CCC grade, increased risk of default, lengthy recession occurs. Government borrows from increasingly wider sources, sinks deeper into a debt trap, widespread, severe services load shedding, severe civil and political unrest. Failure to transition to renewable energy and measures to alleviate the impact of climate change on the economy. Limited expropriation of private sector property without compensation with a noticeable negative economic impact. SA is blacklisted. Geopolitical tensions worsen. | | | | | | | | | |

Note: Event risk begins Q2 25. Source: Investec

| Lite Down Case: Exchange Rate forecasts | | | | | | | | | | | | |
|---|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | 2025 | | | | 2026 | | | | 2027 | | | |
| | Q1.25 | Q2.25 | Q3.25 | Q4.25 | Q1.26 | Q2.26 | Q3.26 | Q4.26 | Q1.27 | Q2.27 | Q3.27 | Q4.27 |
| USD/ZAR | 18.50 | 19.80 | 20.00 | 20.50 | 20.80 | 21.00 | 20.60 | 20.40 | 20.30 | 20.40 | 20.50 | 20.30 |
| GBP/ZAR | 23.29 | 25.78 | 26.60 | 27.47 | 28.18 | 28.77 | 28.43 | 28.15 | 27.61 | 27.34 | 27.06 | 26.39 |
| EUR/ZAR | 19.47 | 22.06 | 22.90 | 23.78 | 24.44 | 24.99 | 24.72 | 24.48 | 24.16 | 24.28 | 24.19 | 23.95 |
| ZAR/JPY | 8.24 | 7.39 | 7.25 | 7.07 | 6.85 | 6.67 | 6.67 | 6.62 | 6.65 | 6.57 | 6.49 | 6.50 |
| CHF/ZAR | 20.58 | 23.37 | 24.10 | 24.90 | 25.46 | 25.90 | 25.48 | 25.11 | 24.46 | 24.00 | 23.30 | 22.56 |
| AUD/ZAR | 11.61 | 12.30 | 12.90 | 13.33 | 13.62 | 13.86 | 13.70 | 13.67 | 14.01 | 14.08 | 14.15 | 14.01 |
| GBP/USD | 1.26 | 1.30 | 1.33 | 1.34 | 1.36 | 1.37 | 1.38 | 1.38 | 1.36 | 1.34 | 1.32 | 1.30 |
| EUR/USD | 1.05 | 1.11 | 1.15 | 1.16 | 1.18 | 1.19 | 1.20 | 1.20 | 1.19 | 1.19 | 1.18 | 1.18 |
| USD/JPY | 152 | 146 | 145 | 145 | 143 | 140 | 138 | 135 | 135 | 134 | 133 | 132 |

Note: averages, Source: Investec, Iress

Severe Down Case: Exchange Rate forecasts

| | 2025 | | | | 2026 | | | | 2027 | | | |
|---------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | Q1.25 | Q2.25 | Q3.25 | Q4.25 | Q1.26 | Q2.26 | Q3.26 | Q4.26 | Q1.27 | Q2.27 | Q3.27 | Q4.27 |
| USD/ZAR | 18.50 | 20.50 | 20.90 | 21.10 | 21.50 | 21.90 | 21.80 | 21.20 | 21.10 | 21.20 | 21.30 | 21.10 |
| GBP/ZAR | 23.29 | 26.69 | 27.80 | 28.27 | 29.13 | 30.00 | 30.08 | 29.26 | 28.70 | 28.41 | 28.12 | 27.43 |
| EUR/ZAR | 19.47 | 22.84 | 23.93 | 24.48 | 25.26 | 26.06 | 26.16 | 25.44 | 25.11 | 25.23 | 25.13 | 24.90 |
| ZAR/JPY | 8.24 | 7.14 | 6.94 | 6.87 | 6.63 | 6.39 | 6.31 | 6.37 | 6.40 | 6.32 | 6.24 | 6.26 |
| CHF/ZAR | 20.58 | 24.19 | 25.19 | 25.63 | 26.31 | 27.01 | 26.97 | 26.09 | 25.42 | 24.94 | 24.20 | 23.44 |
| AUD/ZAR | 11.61 | 12.73 | 13.48 | 13.72 | 14.08 | 14.45 | 14.50 | 14.20 | 14.56 | 14.63 | 14.70 | 14.56 |
| GBP/USD | 1.26 | 1.30 | 1.33 | 1.34 | 1.36 | 1.37 | 1.38 | 1.38 | 1.36 | 1.34 | 1.32 | 1.30 |
| EUR/USD | 1.05 | 1.11 | 1.15 | 1.16 | 1.18 | 1.19 | 1.20 | 1.20 | 1.19 | 1.19 | 1.18 | 1.18 |
| USD/JPY | 152 | 146 | 145 | 145 | 143 | 140 | 138 | 135 | 135 | 134 | 133 | 132 |

Note: averages. Source: Investec, Iress

Up Case: Exchange Rate forecasts

| Top 10 Currencies by Exchange Rate Volatility | | | | | | | | | | | | |
|---|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | 2025 | | | | 2026 | | | | 2027 | | | |
| | Q1.25 | Q2.25 | Q3.25 | Q4.25 | Q1.26 | Q2.26 | Q3.26 | Q4.26 | Q1.27 | Q2.27 | Q3.27 | Q4.27 |
| USD/ZAR | 18.50 | 17.50 | 16.60 | 16.30 | 16.10 | 16.00 | 16.05 | 16.10 | 16.15 | 16.10 | 16.20 | 16.10 |
| GBP/ZAR | 23.29 | 22.79 | 22.08 | 21.84 | 21.82 | 21.92 | 22.15 | 22.22 | 21.96 | 21.57 | 21.38 | 20.93 |
| EUR/ZAR | 19.47 | 19.49 | 19.01 | 18.91 | 18.92 | 19.04 | 19.26 | 19.32 | 19.22 | 19.16 | 19.12 | 19.00 |
| ZAR/JPY | 8.24 | 8.36 | 8.73 | 8.90 | 8.85 | 8.75 | 8.57 | 8.39 | 8.36 | 8.32 | 8.21 | 8.20 |
| CHF/ZAR | 20.58 | 20.65 | 20.01 | 19.80 | 19.71 | 19.73 | 19.86 | 19.82 | 19.46 | 18.94 | 18.41 | 17.89 |
| AUD/ZAR | 11.61 | 10.87 | 10.71 | 10.60 | 10.55 | 10.56 | 10.67 | 10.79 | 11.14 | 11.11 | 11.18 | 11.11 |
| GBP/USD | 1.26 | 1.30 | 1.33 | 1.34 | 1.36 | 1.37 | 1.38 | 1.38 | 1.36 | 1.34 | 1.32 | 1.30 |
| EUR/USD | 1.05 | 1.11 | 1.15 | 1.16 | 1.18 | 1.19 | 1.20 | 1.20 | 1.19 | 1.19 | 1.18 | 1.18 |
| USD/JPY | 152 | 146 | 145 | 145 | 143 | 140 | 138 | 135 | 135 | 134 | 133 | 132 |

Note averages. Source: Investec, Iress

Extreme Up Case: Exchange Rate forecasts

| | 2025 | | | | 2026 | | | | 2027 | | | |
|---------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | Q1.25 | Q2.25 | Q3.25 | Q4.25 | Q1.26 | Q2.26 | Q3.26 | Q4.26 | Q1.27 | Q2.27 | Q3.27 | Q4.27 |
| USD/ZAR | 18.50 | 17.00 | 16.00 | 15.30 | 15.00 | 14.90 | 14.80 | 14.65 | 14.60 | 14.55 | 14.50 | 14.30 |
| GBP/ZAR | 23.29 | 22.14 | 21.28 | 20.50 | 20.33 | 20.41 | 20.42 | 20.22 | 19.86 | 19.50 | 19.14 | 18.59 |
| EUR/ZAR | 19.47 | 18.94 | 18.32 | 17.75 | 17.63 | 17.73 | 17.76 | 17.58 | 17.37 | 17.31 | 17.11 | 16.87 |
| ZAR/JPY | 8.24 | 8.60 | 9.06 | 9.48 | 9.50 | 9.40 | 9.29 | 9.22 | 9.25 | 9.21 | 9.17 | 9.23 |
| CHFZAR | 20.58 | 20.06 | 19.28 | 18.58 | 18.36 | 18.37 | 18.31 | 18.03 | 17.59 | 17.12 | 16.48 | 15.89 |
| AUDZAR | 11.61 | 10.56 | 10.32 | 9.95 | 9.83 | 9.83 | 9.84 | 9.82 | 10.07 | 10.04 | 10.01 | 9.87 |
| GBP/USD | 1.26 | 1.30 | 1.33 | 1.34 | 1.36 | 1.37 | 1.38 | 1.38 | 1.36 | 1.34 | 1.32 | 1.30 |
| EUR/USD | 1.05 | 1.11 | 1.15 | 1.16 | 1.18 | 1.19 | 1.20 | 1.20 | 1.19 | 1.19 | 1.18 | 1.18 |
| USD/JPY | 152 | 146 | 145 | 145 | 143 | 140 | 138 | 135 | 135 | 134 | 133 | 132 |

Note: averages. Source: Investec, Iress