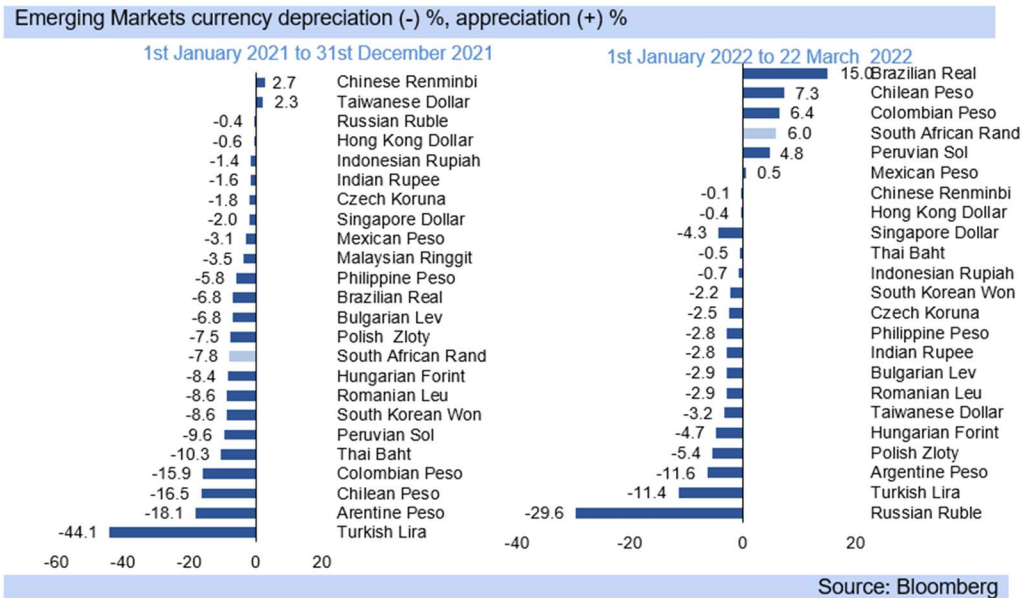
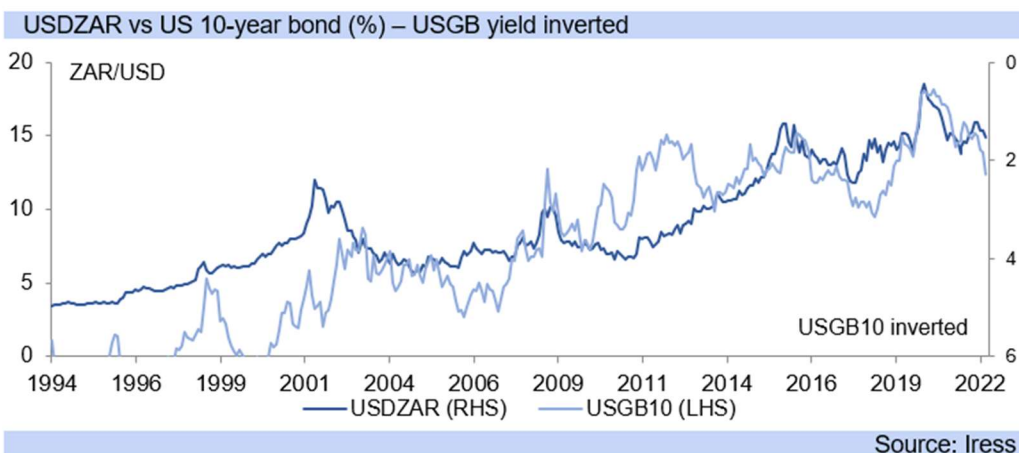
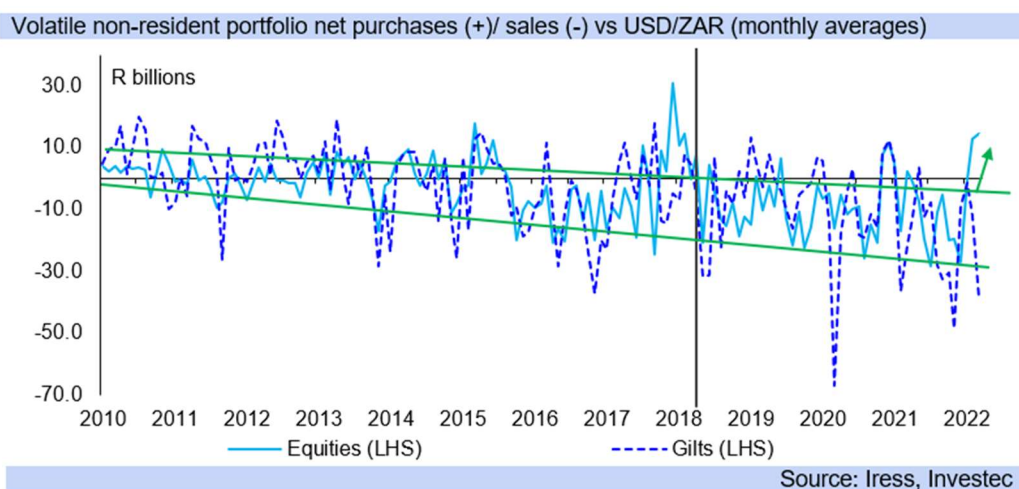
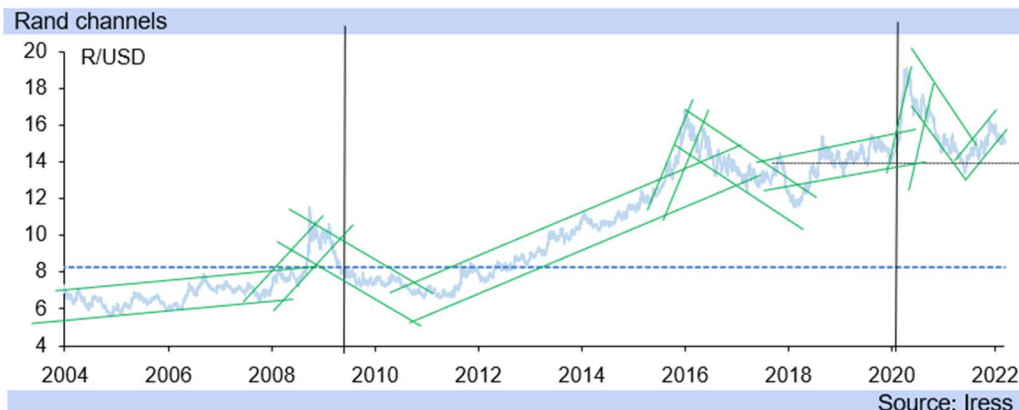


Monday 22 March 2022

Rand note: very hawkish comments from the Fed buoy market expectations for further rate hikes (including in SA), strengthening the rand along with portfolio inflows





- The rand has appreciated over the past few days, buoyed by the strength of the FOMC reading on the US economy, although the rand's gains have been limited by the ongoing conflict in Eastern Europe which is now seen as likely to prove fairly lengthy.
- Currencies have differentiated on the basis of the expected growth impacts from the Russian/Ukraine war, with the Euro -2.93% weaker since the start of the year, and the

Swedish Krona, British pound, Danish Krone down -4.1%, -2.60% and -2.96% in the period.

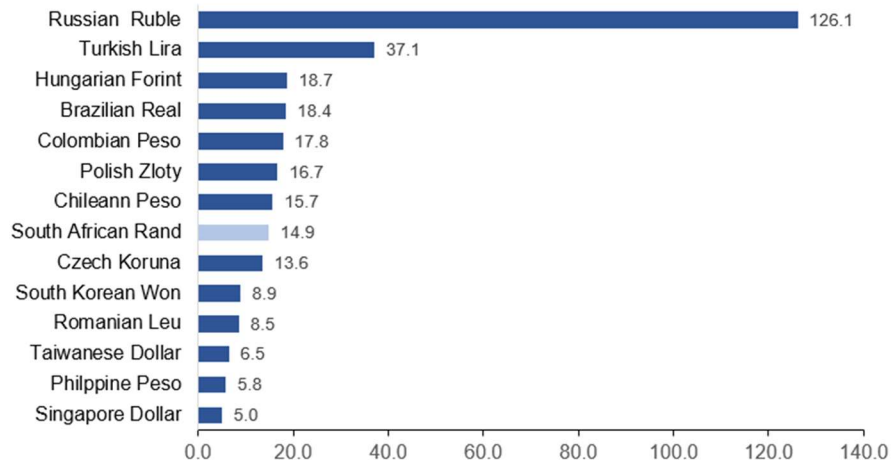
- In contrast, commodity exporters have seen currency gains, with the Norwegian Krone and Australian, New Zealand and Canadian dollars stronger by 0.86%, 1.12%, 1.28% and 2.71% respectively since the start of this year.
- The rand in comparison is 6.13% stronger since the start of this year, benefiting also from the higher interest rate expectations for 2022, with South Africa's Forward Rate Agreement (FRA) curve continuing to price in a 2.00% increase by the end of 2022.
- South Africa's bond yields are around 50bp higher than before the start of the war in Eastern Europe of nearly a month ago, which has benefited portfolio inflows. Foreigners bought R2.9bn worth of SA bonds in the last two days, pushing the rand towards R14.80/USD.
- The purchases are net of sales and are recorded as Iress JSE data, with the same data source recording net purchases of -R19.6bn for equities since the Russian/Ukraine war started on 24th February (but overall -R47.6bn net sales of bonds in the same period).
- The bond settlement data on Bloomberg from the JSE reduces this to -R10.3bn, regarded by the JSE as an indication of capital flows, whereas the daily data on bond trading refers to reported transactions, but includes unsettled trades as well as rollovers, inflating the data.
- The rand is currently averaging R15.29/USD this quarter, often below R14.90/USD in the last few days, continuing to be driven by improved market sentiment to SA as risk aversion remains differentiated across emerging market currencies.
- The talks between Russia and the Ukraine have failed to reach a permanent ceasefire and countries with geographical proximity to the conflict have seen their currencies negatively impacted, while high uncertainty persists on the outcome of the war.

Please scroll down to the second section below

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	15.40	15.50	15.65	15.45	15.30	15.70	16.10	15.60	15.40	15.90	16.40	15.90
GBP/ZAR	21.10	21.55	22.07	21.94	21.88	22.77	23.51	23.09	22.79	23.53	24.27	23.21
EUR/ZAR	17.56	17.83	18.15	18.23	18.21	18.84	19.48	19.03	19.25	19.88	20.50	19.88
ZAR/JPY	7.53	7.61	7.60	7.77	7.84	7.64	7.45	7.69	7.66	7.23	6.71	6.73
CHF/ZAR	16.92	16.85	17.01	16.98	16.63	17.07	17.50	16.96	16.92	17.47	18.02	17.47
AUD/ZAR	11.24	11.32	11.58	11.59	11.48	11.78	12.08	11.70	12.01	12.40	12.79	12.40
GBP/USD	1.37	1.39	1.41	1.42	1.43	1.45	1.46	1.48	1.48	1.48	1.48	1.46
EUR/USD	1.14	1.15	1.16	1.18	1.19	1.20	1.21	1.22	1.25	1.25	1.25	1.25
USD/JPY	116	118	119	120	120	120	120	120	118	115	110	107

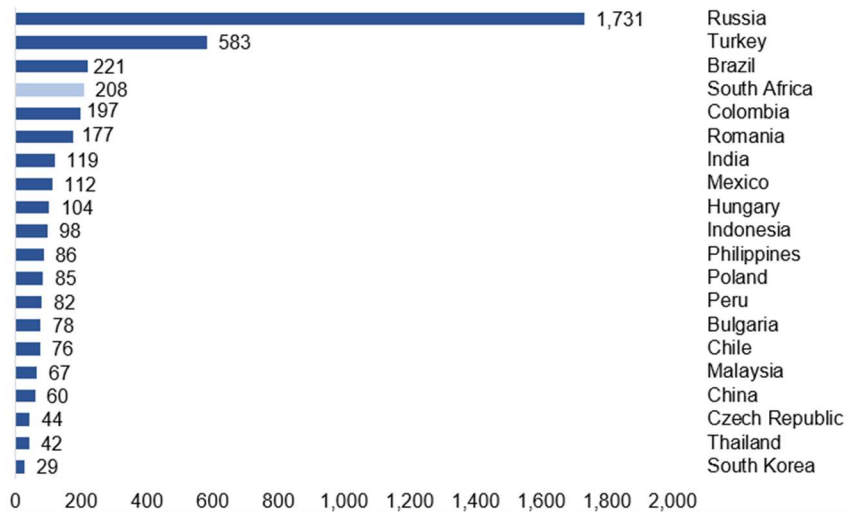
Note: averages, Source: Investec, Iress

Emerging Markets Implied Volatilities – values 22 March 2022

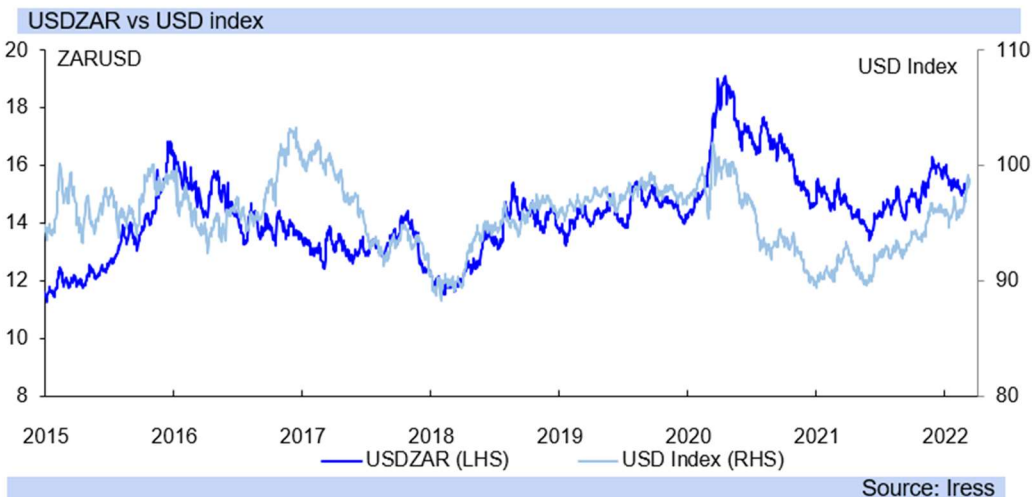
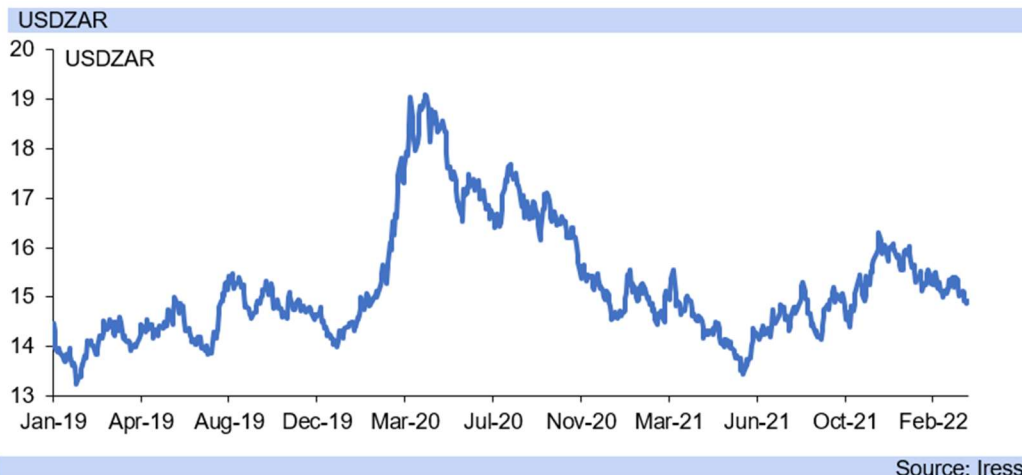


Source: Bloomberg

Emerging Markets CDS Spreads – values 22 March 2022



Source: Bloomberg



- The US dollar index has reached 98.9, near a twenty-one month high, as the United States Federal Reserve Bank (Fed) continues to show strong support on containing inflation and foresees robust US economic performance.
- Fed Chairman, Jerome Powell, yesterday said "(i)f we conclude that it is appropriate to move more aggressively by raising the federal funds rate by more than 25 basis points at a meeting or meetings, we will do so", strengthening the US dollar.
- The US dollar has also been gaining from safe have status, along with positive incoming data on the US economy, and firming US treasuries' yields which have benefitted in particular from the hawkish Fed comments, with rising yields attracting further safe haven, and other, flows.
- In fact, Chair Powell highlighted yesterday that "(t)here is an obvious need to move expeditiously to return the stance of monetary policy to a more neutral level, and then to move to more restrictive levels if that is what is required to restore price stability."
- "By many measures, the labor market is extremely tight, significantly tighter than the very strong job market just before the pandemic. The unemployment rate has fallen to 3.8 percent, near historical lows, and has reached this level much faster than anticipated".

- “Russia's invasion of Ukraine may have significant effects on the world economy and the U.S. economy. There is no recent experience with significant market disruption across such a broad range of commodities.”
- “In addition to the direct effects from higher global oil and commodity prices, the invasion and related events are likely to restrain economic activity abroad and further disrupt supply chains, which would create spillovers to the U.S. economy”.
- “We might look to the historical experience with oil price shocks in the 1970s—not a happy story. Fortunately, the United States is now ... the world's largest producer of oil, and our economy is significantly less oil intensive than in the 1970s.”
- However, oil remains SA's largest import as SA has failed to utilise its reserves discovered off its coast. The Brent crude oil price is back at US\$110/bbl. Markets are now pricing in more than a 25bp hike (a 40bp hike or and 80% chance of 50bp) at SA's MPC meeting on 24th.

Economic Scenarios: note tighter rate hike cycle for SA

		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 <u>of</u> .								
Base case 49%	USD/Rand (average)	15.40	15.50	15.65	15.45	15.30	15.70	16.10	15.60
	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 to 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 Down case 42% (domestic)	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 (incl. 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. Very limited expropriation of 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). A somewhat wiser level of nationalisation of private sector commercial property. SA rated single B from all three key agencies, with further rating downgrades eventually into CCC grade and the risk of moving towards default. 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	22.24	23.48	24.00	24.31	25.38	25.70	25.90	25.46	25.16	24.86	24.82
EUR/ZAR	17.90	18.40	19.31	19.94	20.23	21.00	21.30	21.35	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	18.48	19.02	19.13	19.02	18.90	18.68	18.46	18.68
AUD/ZAR	11.46	11.68	12.32	12.68	12.75	13.13	13.20	13.13	13.42	13.26	13.10	13.26
GBP/USD	1.37	1.39	1.41	1.42	1.43	1.45	1.46	1.48	1.48	1.48	1.48	1.46
EUR/USD	1.14	1.15	1.16	1.18	1.19	1.20	1.21	1.22	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	23.35	24.68	25.56	26.46	27.12	28.03	28.93	29.16	29.23	29.38	28.91
EUR/ZAR	18.24	19.32	20.30	21.24	22.02	22.44	23.23	23.85	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	20.11	20.33	20.87	21.25	21.65	21.70	21.81	21.76
AUD/ZAR	11.68	12.26	12.95	13.50	13.88	14.03	14.40	14.66	15.37	15.41	15.48	15.44
GBP/USD	1.37	1.39	1.41	1.42	1.43	1.45	1.46	1.48	1.48	1.48	1.48	1.46
EUR/USD	1.14	1.15	1.16	1.18	1.19	1.20	1.21	1.22	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

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	20.99	21.15	21.16	21.31	21.32	21.32	21.46	21.46	21.31	21.31	20.88
EUR/ZAR	17.10	17.37	17.40	17.58	17.73	17.64	17.67	17.69	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
CHFZAR	16.48	16.41	16.30	16.37	16.20	15.98	15.87	15.76	15.93	15.82	15.82	15.71
AUDZAR	10.95	11.02	11.10	11.18	11.18	11.03	10.95	10.88	11.31	11.23	11.23	11.15
GBP/USD	1.37	1.39	1.41	1.42	1.43	1.45	1.46	1.48	1.48	1.48	1.48	1.46
EUR/USD	1.14	1.15	1.16	1.18	1.19	1.20	1.21	1.22	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

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	19.46	19.46	19.45	19.45	19.43	19.42	19.39	19.09	18.94	18.65	17.96
EUR/ZAR	16.53	16.10	16.01	16.17	16.18	16.08	16.09	15.98	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
CHFZAR	15.93	15.22	15.00	15.05	14.78	14.57	14.46	14.24	14.18	14.07	13.85	13.52
AUDZAR	10.59	10.22	10.21	10.28	10.20	10.05	9.98	9.83	10.06	9.98	9.83	9.59
GBP/USD	1.37	1.39	1.41	1.42	1.43	1.45	1.46	1.48	1.48	1.48	1.48	1.46
EUR/USD	1.14	1.15	1.16	1.18	1.19	1.20	1.21	1.22	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