

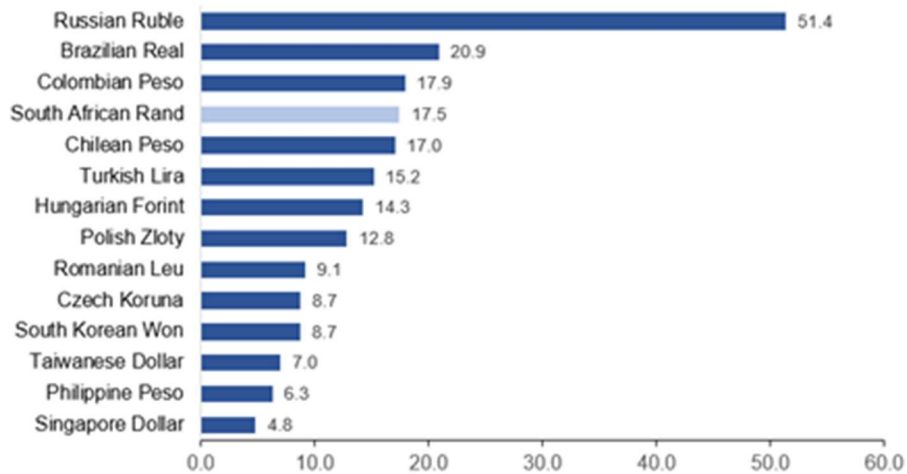
Monday 25 April 2022

Rand note: marked rand weakness as official global growth outlooks deteriorate, pushing the rand back over R15.00/USD

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	15.25	14.95	15.20	15.10	15.00	15.40	15.80	15.30	15.10	15.60	16.10	15.60
GBP/ZAR	20.46	20.78	21.43	21.44	21.45	22.33	23.07	22.64	22.35	23.09	23.83	22.78
EUR/ZAR	17.10	17.19	17.63	17.82	17.85	18.48	19.12	18.67	18.88	19.50	20.13	19.50
ZAR/JPY	7.63	7.89	7.83	7.95	8.00	7.79	7.59	7.84	7.81	7.37	6.83	6.86
CHF/ZAR	16.51	16.25	16.52	16.59	16.30	16.74	17.17	16.63	16.59	17.14	17.69	17.14
AUD/ZAR	11.13	10.91	11.25	11.33	11.25	11.55	11.85	11.48	11.78	12.17	12.56	12.17
GBP/USD	1.34	1.39	1.41	1.42	1.43	1.45	1.46	1.48	1.48	1.48	1.48	1.46
EUR/USD	1.12	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

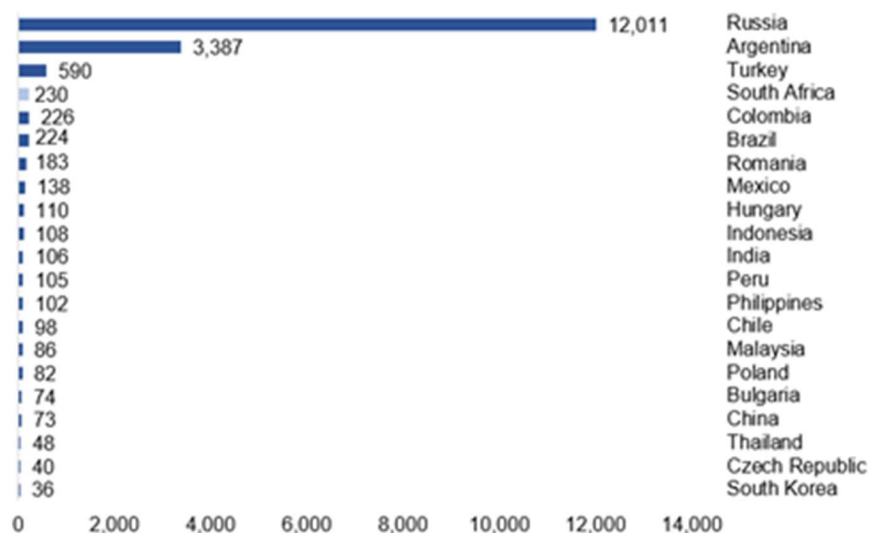
Note: averages, Source: Investec, Iress

#### Emerging Markets Implied Volatilities – values 25 April 2022



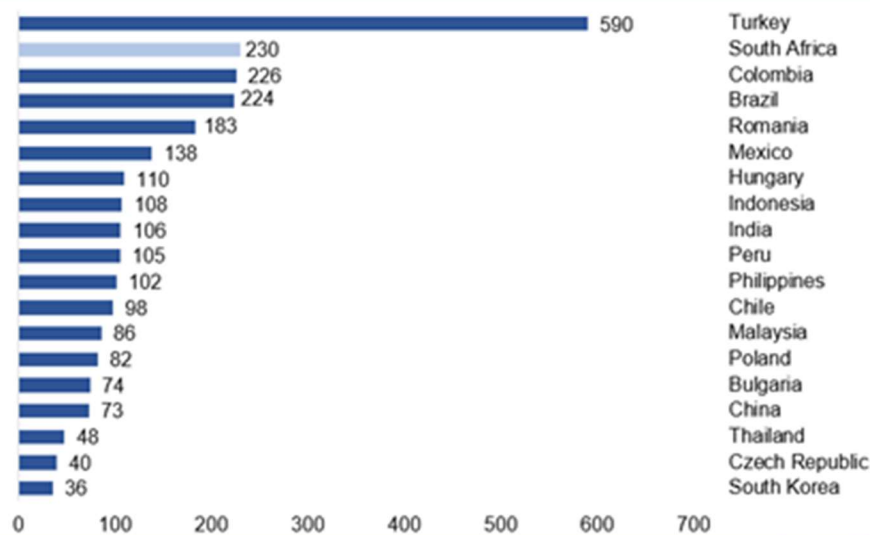
Source: Bloomberg

Emerging Markets CDS Spreads – values 25 April 2022

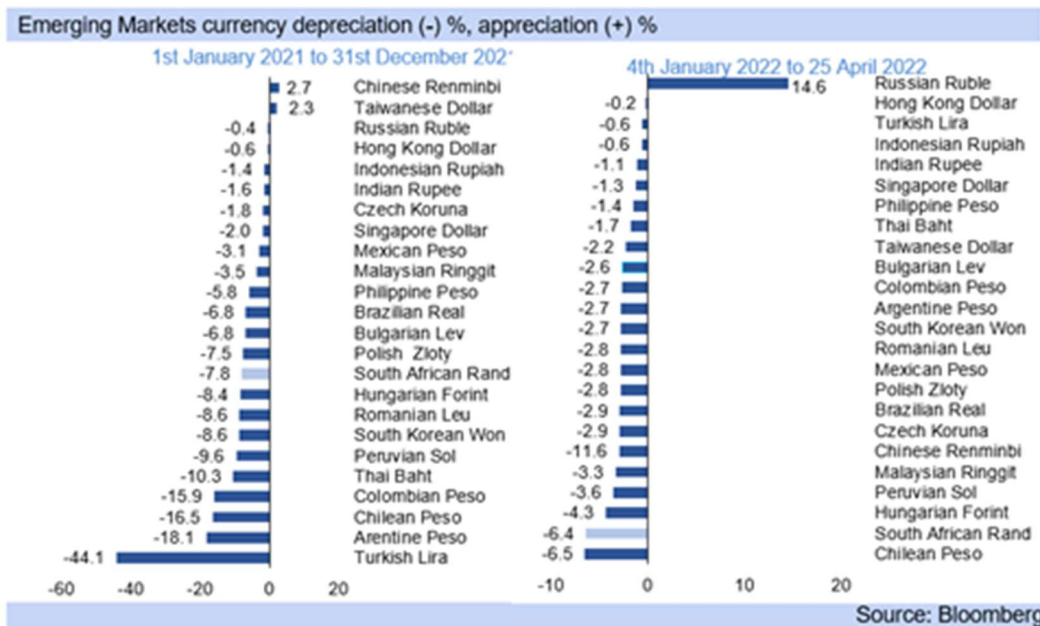


Source: Bloomberg

Emerging Markets CDS Spreads – values 25 April 2022



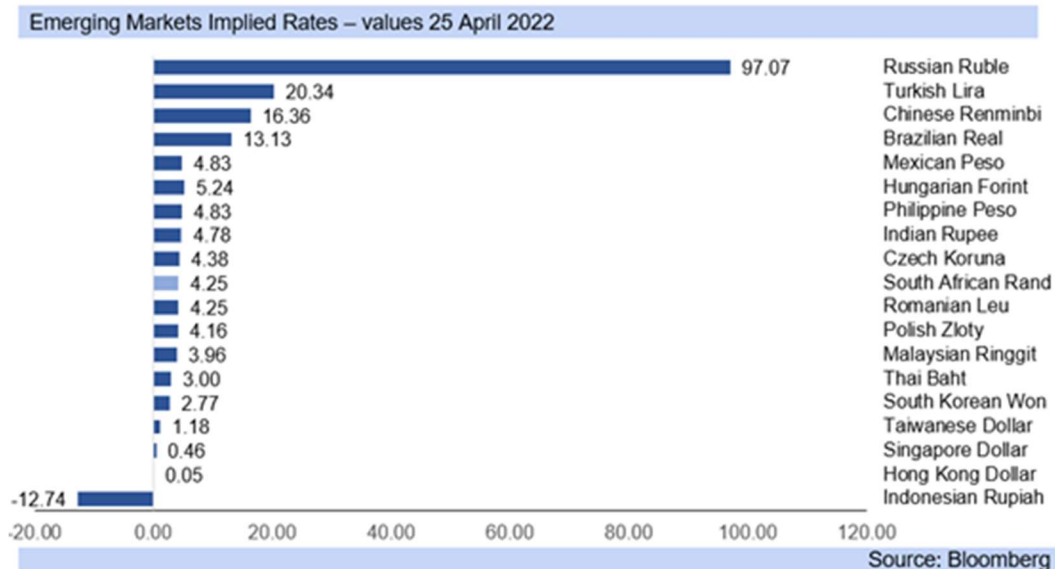
Source: Bloomberg



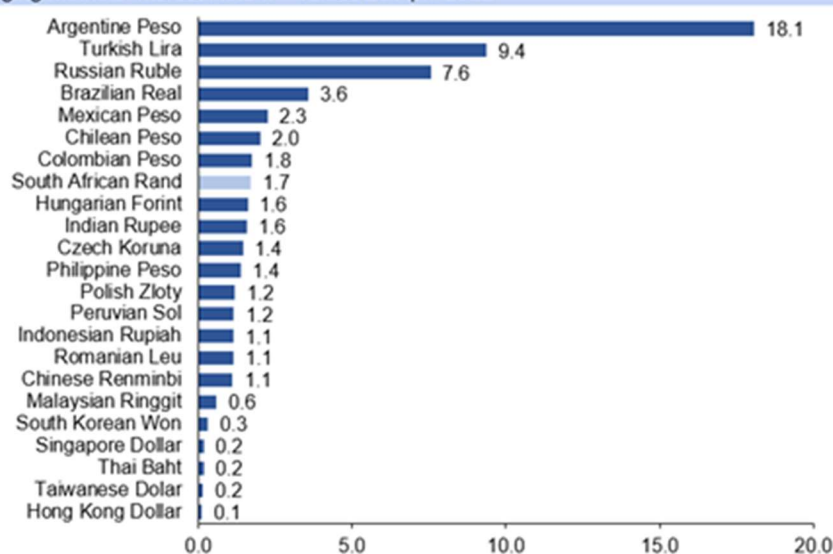
- Emerging markets across the board have tumbled over the past couple of weeks on a number of factors, including the increasingly hawkish commentary from the Federal Reserve Bank, with the exception of Russia's ruble, which is receiving support from its government.
- The domestic currency is over a rand weaker, having given up trying to remain below R14.50/USD after the first half of the month and now instead is running closer to R15.50/USD as May, and the traditional seasonal higher risk averse period, approaches.
- The negative impact to SA's trade balance over April from the extreme floods in KZN and disruptions to exports, will have had a particularly negative effect on the domestic currency, along with lower commodity prices. The large trade surplus has been a key rand support.
- Q2.22 is likely to continue to see the rand removed from the R14.50/USD mark, with April so far on average recording R14.84/USD, and likely to average close to R15.00/USD for the month as a whole as most commodity prices prove weaker in Q2.22 than in Q1.22.
- Global growth is expected to be weaker this year than was initially expected in January on the effects of the Russian/Ukraine conflict, severe lockdowns in China and stringent US monetary policy normalisation path dim economic prospects, and those for commodity prices.
- Both the World Bank, and the IMF have cut their global growth forecasts, by close to 1% y/y for 2022, with the World Bank warning last week that "clouds have gathered over the economic horizon, which will mean lower economic growth and higher poverty."
- The IMF, also at the start of last week, bleakly said "(g)lobal economic prospects have worsened significantly since our last World Economic Outlook forecast in January. Overall risks to economic prospects have risen sharply".
- Both multilaterals also expect slower global growth in 2023 than was previously forecast, with the IMF worrying "(t)he economic effects of the war are spreading far and wide—like seismic waves that emanate from the epicenter of an earthquake".

- With a gloomy start to the post Easter week for markets the rand has weakened materially, although it will likely stabilise into month end once markets have digested the recent slew of risks. Currently, we still expect the rand to average R15.20/USD this quarter.

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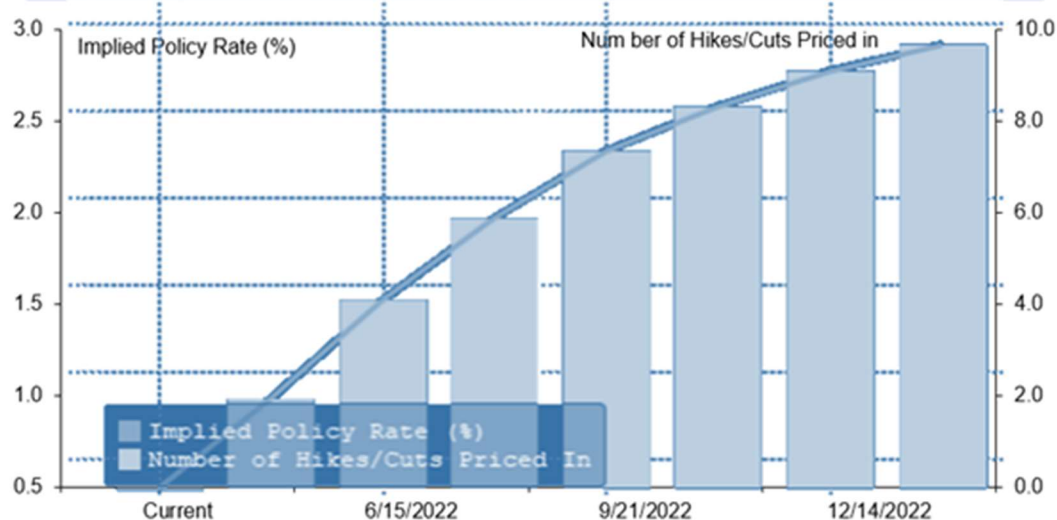


#### Emerging Markets Interest Return – values 25 April 2022



Source: Bloomberg

#### Implied overnight rate and number of hikes/cuts



Source: Bloomberg

#### Fed Fund Futures implied rates

Meeting	#Hikes/Cuts	% Hike/Cut	Implied Rate $\Delta$	Implied Rate	A.R.M
05/04/2022	+2.049	+204.9%	+0.512	0.844	0.250
06/15/2022	+4.300	+225.0%	+1.075	1.406	0.250
07/27/2022	+6.185	+188.5%	+1.546	1.878	0.250
09/21/2022	+7.755	+157.0%	+1.939	2.270	0.250
11/02/2022	+8.754	+99.9%	+2.188	2.520	0.250
12/14/2022	+9.595	+84.1%	+2.399	2.730	0.250
02/01/2023	+10.186	+59.1%	+2.547	2.878	0.250

Source: Bloomberg

- Building expectations of a more rapid, and larger, series of US interest rate hikes has spooked global financial markets, with a 50bp hike expected by the FOMC in May, and some market players anticipating 75bp lifts in the two meetings around midyear (not the expected case).
- The US Fed is widely expected to move in 50bp hikes at its next four meetings. South Africa's Reserve Bank (SARB) is not expected to move in these increments over its next three MPC meetings, and this has added to the negative market sentiment against the rand.
- The rand remains at risk of a weaker interest rate hike cycle in South Africa than in the US, with the domestic currency seeing severe depreciation in the past when the differential between US and SA interest rates have been severely narrowed.
- We continue to expect slower global growth than was forecast at the start of 2022, both from the rapid monetary normalisation in the US this year and China's increased lockdown restrictions, along with the negative growth impact to Europe from the Russian/Ukraine war.
- The IMF also notes "prior to the war, inflation had surged in many economies (and war-related supply shortages will greatly amplify those (price) pressures, notably through increases in the price of energy, metals, and food."
- "Some emerging markets and developed economies' central banks, such as the US Federal Reserve and those in Latin America, had already come under pressure before the war, bringing forward the timing of their monetary policy tightening".
- "There is a rising risk that inflation expectations become de-anchored, prompting a more aggressive tightening response from central banks." The World Bank also points to rising global inflation and interest rates as factors lowering the global growth rate this year.
- The rand retraced some of its losses, from R15.73/USD early this morning to R15.66/USD by midday, but remains very risk averse, with USD strength also a key driver of the weakness of currently, although the domestic currency has weakened against the crosses as well.
- The sell in May and go away phenomenon, or start of the Northern Hemisphere summer, typically has a negative effect on emerging market currencies and other risk assets, with the hawkish Fed and deteriorating global growth outlook also exacerbating this driver.



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)	15.21	14.00	13.80	13.70	13.60	13.40	13.30	13.10
	Repo rate (end rate)	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50
	Impact of Covid-19 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 other EW or nationalisation. High business confidence and fixed investment growth, substantial FDI, strong fiscal consolidation (state 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)	15.21	14.50	15.00	14.90	14.90	14.70	14.60	14.50
	Repo rate (end rate)	4.25	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, 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 privatisation.								
Base case 51%	USD/Rand (average)	15.21	14.95	15.20	15.10	15.00	15.40	15.80	15.30
	Repo rate (end rate)	4.25	4.50	5.00	5.00	5.25	5.50	5.75	5.75
	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 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 (domestic) Down case 40%	USD/Rand (average)	15.21	15.70	16.65	16.90	17.00	17.50	17.60	17.50
	Repo rate (end rate)	4.25	4.75	5.25	5.50	5.75	6.00	6.25	6.50
	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, marked rand weakness and higher inflation (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)	15.21	16.80	17.50	18.00	18.50	18.70	19.20	19.55
	Repo rate (end rate)	4.25	5.00	5.50	5.75	6.00	6.50	7.00	7.00
	Lengthy global recession, global financial crisis - insufficient monetary and other policy supports to growth domestically and internationally. Depression in SA, severe rand weakness, very high inflation (very adverse weather). A somewhat wider 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 Q222. Source: Investec

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Life 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	15.25	15.70	16.65	16.90	17.00	17.50	17.60	17.50	17.20	17.00	16.80	17.00
GBP/ZAR	20.46	21.82	23.48	24.00	24.31	25.38	25.70	25.90	25.46	25.16	24.86	24.82
EUR/ZAR	17.10	18.06	19.31	19.94	20.23	21.00	21.30	21.35	21.50	21.25	21.00	21.25
ZAR/JPY	7.63	7.52	7.15	7.10	7.06	6.86	6.82	6.86	6.86	6.76	6.55	6.29
CHF/ZAR	16.51	17.07	18.10	18.57	18.48	19.02	19.13	19.02	18.90	18.68	18.46	18.68
AUD/ZAR	11.13	11.46	12.32	12.68	12.75	13.13	13.20	13.13	13.42	13.26	13.10	13.26
GBP/USD	1.34	1.39	1.41	1.42	1.43	1.45	1.46	1.48	1.48	1.48	1.48	1.46
EUR/USD	1.12	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												
	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	15.25	14.50	15.00	14.90	14.90	14.70	14.60	14.50	14.50	14.40	14.40	14.30
GBP/ZAR	20.46	20.16	21.15	21.16	21.31	21.32	21.32	21.46	21.46	21.31	21.31	20.88
EUR/ZAR	17.10	16.68	17.40	17.58	17.73	17.64	17.67	17.69	18.13	18.00	18.00	17.88
ZAR/JPY	7.63	8.14	7.93	8.05	8.05	8.16	8.22	8.28	8.14	7.99	7.64	7.48
CHFZAR	16.51	15.76	16.30	16.37	16.20	15.98	15.87	15.76	15.93	15.82	15.82	15.71
AUDZAR	11.13	10.59	11.10	11.18	11.18	11.03	10.95	10.88	11.31	11.23	11.23	11.15
GBP/USD	1.34	1.39	1.41	1.42	1.43	1.45	1.46	1.48	1.48	1.48	1.48	1.46
EUR/USD	1.12	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												
	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	15.25	14.00	13.80	13.70	13.60	13.40	13.30	13.10	12.90	12.80	12.60	12.30
GBP/ZAR	20.46	19.46	19.46	19.45	19.45	19.43	19.42	19.39	19.09	18.94	18.65	17.96
EUR/ZAR	17.10	16.10	16.01	16.17	16.18	16.08	16.09	15.98	16.13	16.00	15.75	15.38
ZAR/JPY	7.63	8.43	8.62	8.76	8.82	8.96	9.02	9.16	9.15	8.98	8.73	8.70
CHFZAR	16.51	15.22	15.00	15.05	14.78	14.57	14.46	14.24	14.18	14.07	13.85	13.52
AUDZAR	11.13	10.22	10.21	10.28	10.20	10.05	9.98	9.83	10.06	9.98	9.83	9.59
GBP/USD	1.34	1.39	1.41	1.42	1.43	1.45	1.46	1.48	1.48	1.48	1.48	1.46
EUR/USD	1.12	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	15.25	16.80	17.50	18.00	18.50	18.70	19.20	19.55	19.70	19.75	19.85	19.80
GBP/ZAR	20.46	23.35	24.68	25.56	26.46	27.12	28.03	28.93	29.16	29.23	29.38	28.91
EUR/ZAR	17.10	19.32	20.30	21.24	22.02	22.44	23.23	23.85	24.63	24.69	24.81	24.75
ZAR/JPY	7.63	7.02	6.80	6.67	6.49	6.42	6.25	6.14	5.99	5.82	5.54	5.40
CHFZAR	16.51	18.26	19.02	19.78	20.11	20.33	20.87	21.25	21.65	21.70	21.81	21.76
AUDZAR	11.13	12.26	12.95	13.50	13.88	14.03	14.40	14.66	15.37	15.41	15.48	15.44
GBP/USD	1.34	1.39	1.41	1.42	1.43	1.45	1.46	1.48	1.48	1.48	1.48	1.46
EUR/USD	1.12	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

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