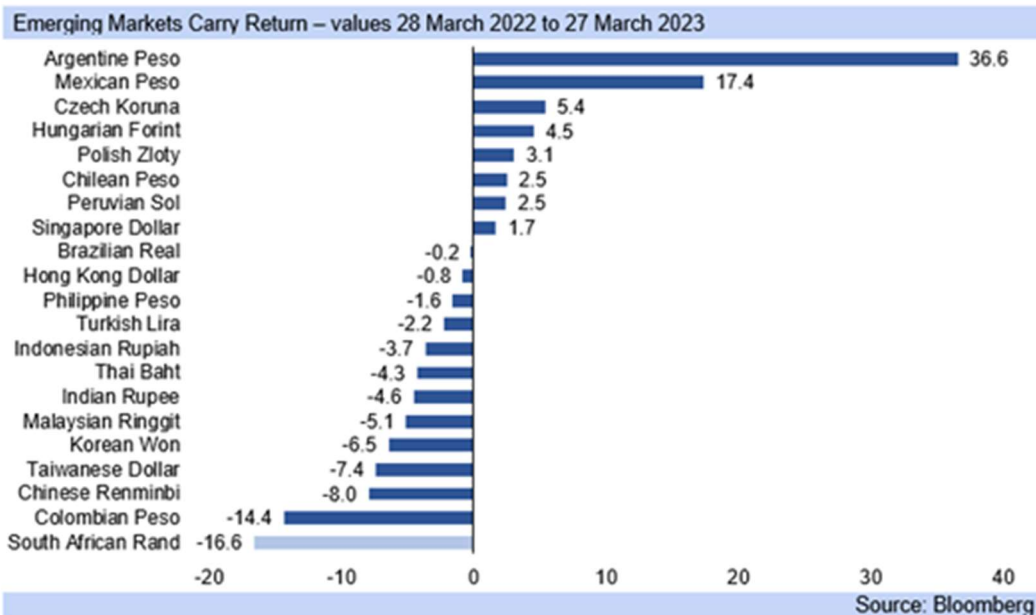


SA Economics

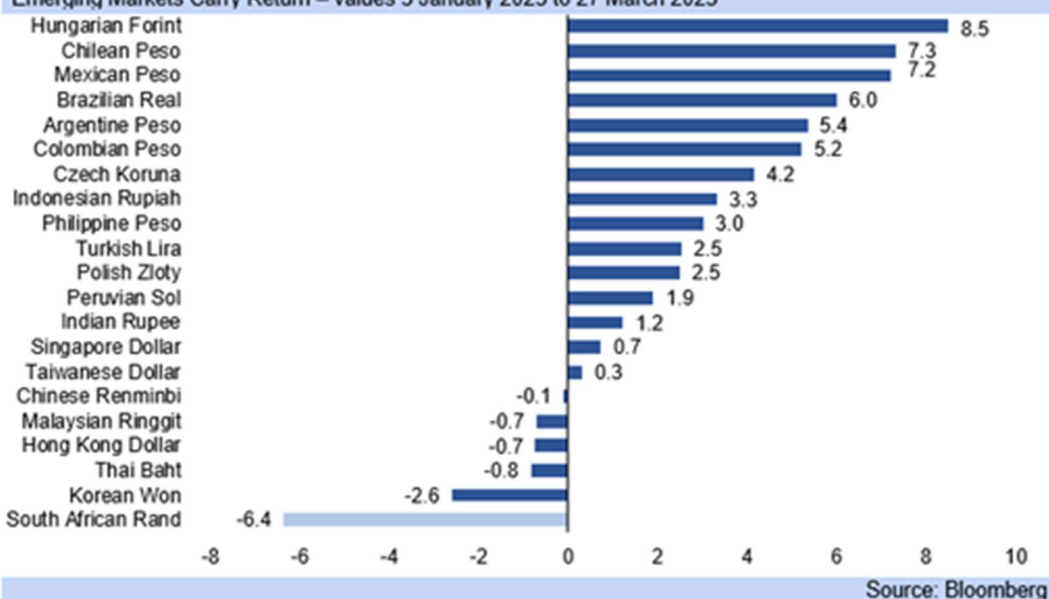


Rand note: markets continue to worry about the effects of the banking crisis

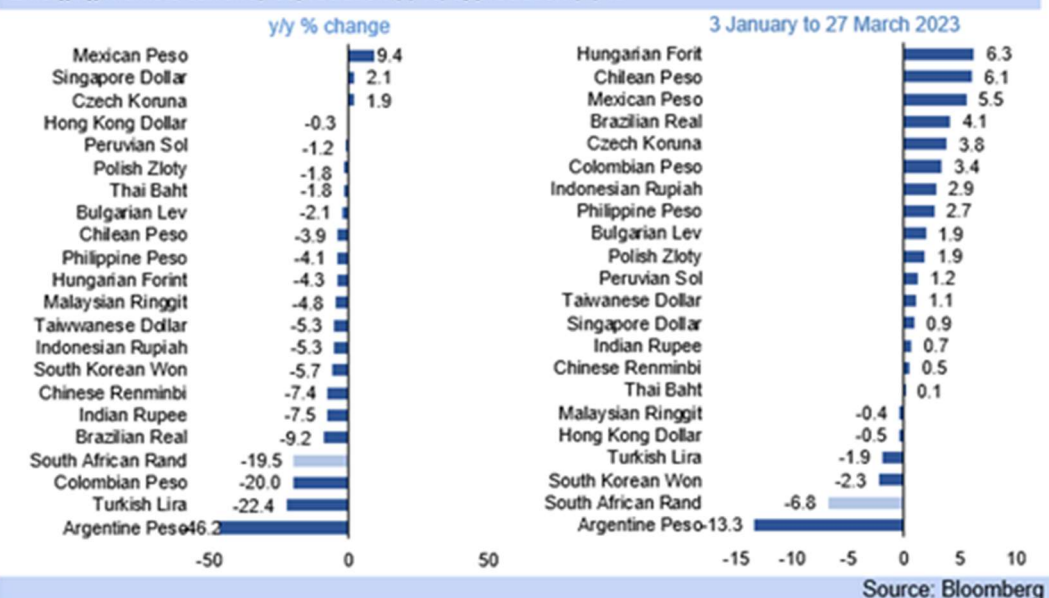
Monday 27 March 2023

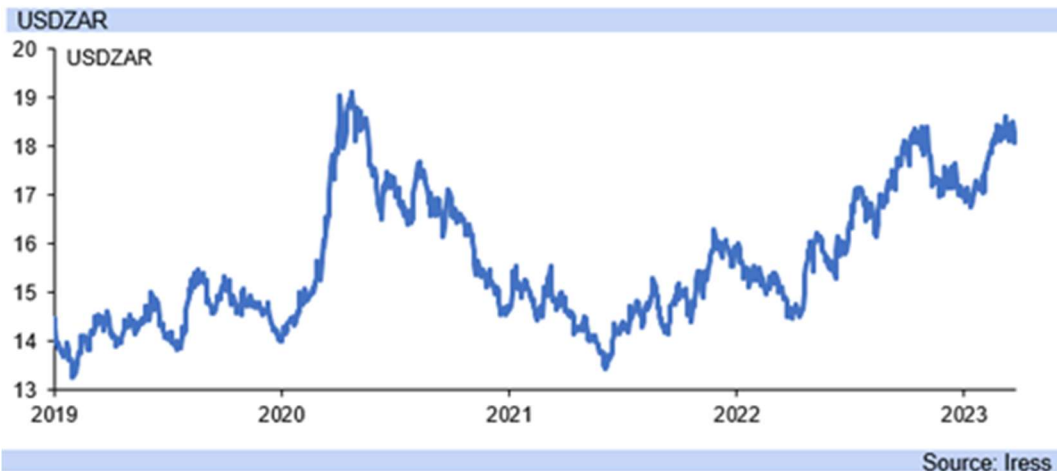


Emerging Markets Carry Return – values 3 January 2023 to 27 March 2023



Emerging Markets currency depreciation (-) %, appreciation (+) %





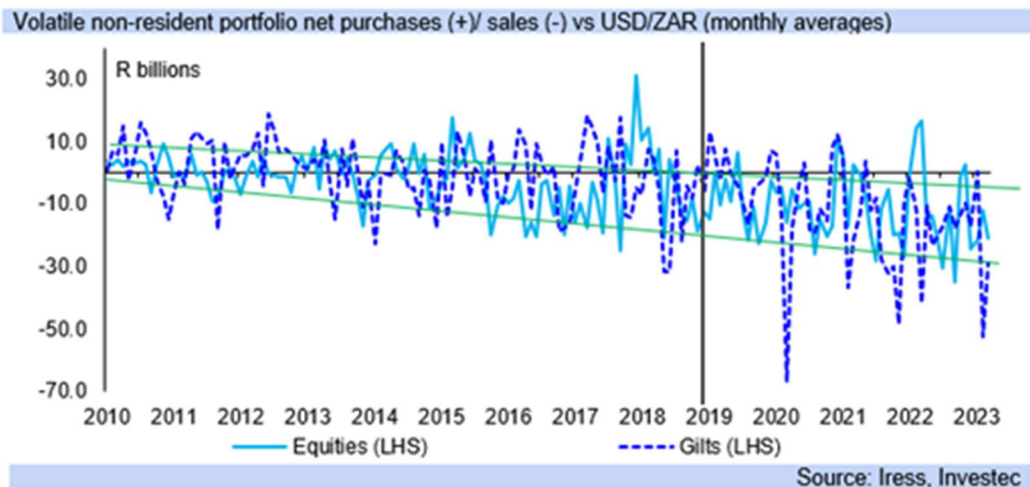
Expected Case: Exchange Rate forecasts												
	2023				2024				2025			
	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24	Q1.25	Q2.25	Q3.25	Q4.25
USD/ZAR	17.80	18.40	18.60	18.30	17.80	18.00	18.30	17.90	17.60	17.60	17.70	17.50
GBP/ZAR	21.88	22.82	23.25	22.88	22.43	22.86	23.52	23.36	22.88	22.88	23.01	22.75
EUR/ZAR	19.26	20.15	20.65	20.50	20.11	20.52	21.14	21.03	20.59	20.59	20.71	20.48
ZAR/JPY	7.28	6.98	6.77	6.83	6.94	6.78	6.61	6.70	7.61	7.50	7.40	7.43
CHF/ZAR	19.45	20.25	20.44	19.80	19.06	19.27	19.75	19.66	19.34	19.34	19.45	19.23
AUD/ZAR	12.34	13.06	13.49	13.45	13.17	13.32	13.63	13.43	13.38	13.55	13.98	13.83
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	134	132	131	130

Note: averages, Source: Investec, Iress

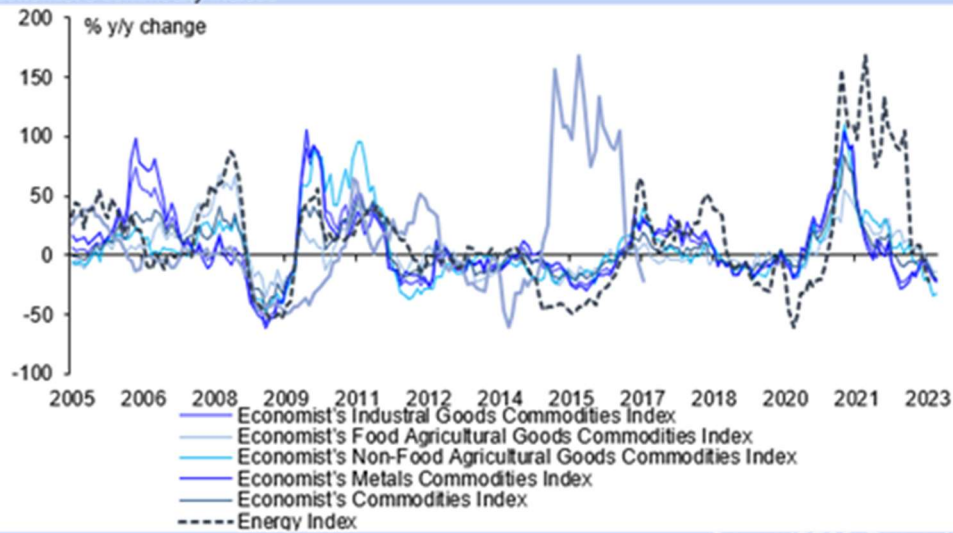
- Risk aversion has not fallen for emerging markets yet, despite growing expectations that the end of the US rate hike cycle is now in sight and the FOMC predicting over 1% in cuts in its fed funds rate next year, which markets think will start in H2.23.
- Concerns over the health of private sector banks in advanced economies are supporting risk-off, as are worries over still high inflation, while the ECB and BOE warn of further rate hikes to tame inflation.
- Fears over systemic risk have intensified in the banking sector, with the IMF warning “risks to financial stability have increased ... (a)t a time of higher debt levels”, and that the outlook for the global economy is weak for the medium-term.
- “(T)he rapid transition from a prolonged period of low interest rates to much higher rates ... inevitably generates stresses and vulnerabilities, as evidenced by recent developments in the banking sector in some advanced economies.”
- “Policymakers have acted decisively in response to financial stability risks, and advanced economy central banks have enhanced the provision of U.S. dollar liquidity. These actions have eased market stress to some extent”.

- However, “uncertainty is high which underscores the need for vigilance”, with” risks of geo-economic fragmentation which could mean a world split into rival economic blocs ... that would leave everyone poorer and less secure.”
- Concerns that the banking crisis could worsen have overshadowed global financial markets, as this would risk a global recession. Markets are being cautious and so risk averse, which is limiting rand gains from the less hawkish FOMC stance.
- The rand reached R18.32/USD today, R22.42/GBP and R19.70/EUR, still weak, and foreigners have sold off -R13.6bn in SA bonds so far this year, while net sales of equities have been recorded too as foreigners continue to dump SA tocks.
- Looking ahead, much will depend on market concerns around the banking system, and the shoring up of liquidity, with Central Banks rushing to reassure markets on their respective banking sectors health, but this is not allaying concerns currently.

Please scroll down to the second section below

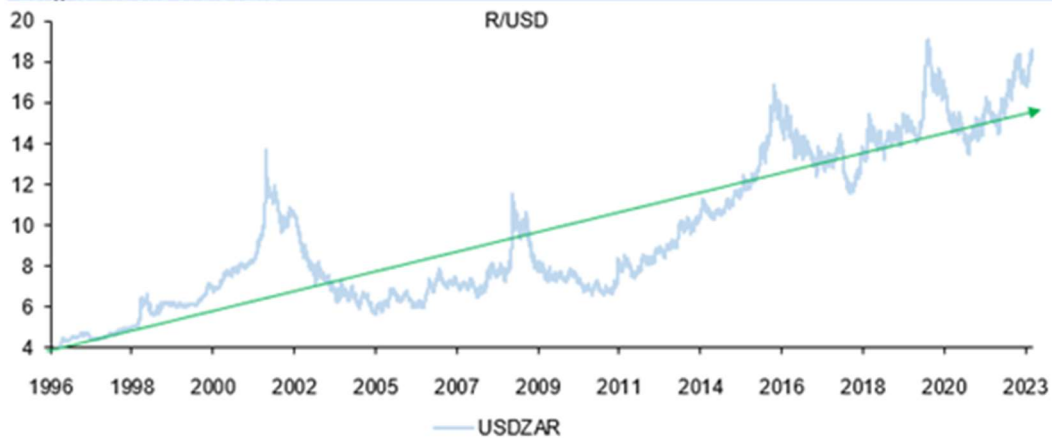


Economist's commodity indices



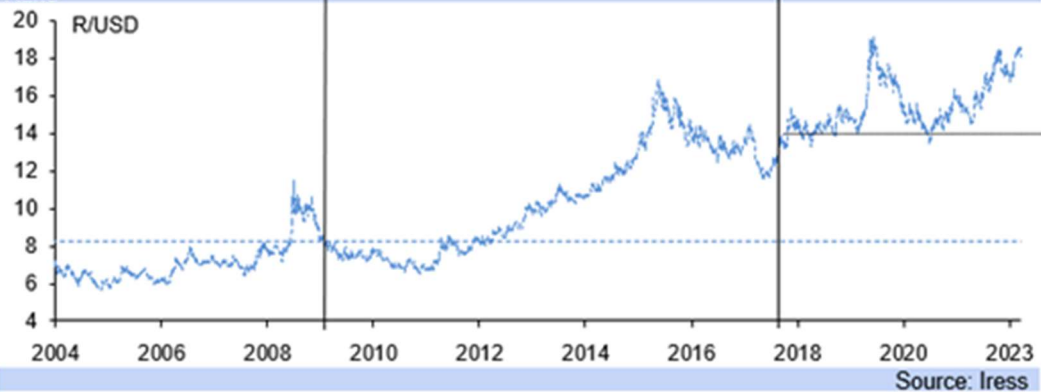
Source: IRESS, Economist, IMF

Long-term trend of the rand



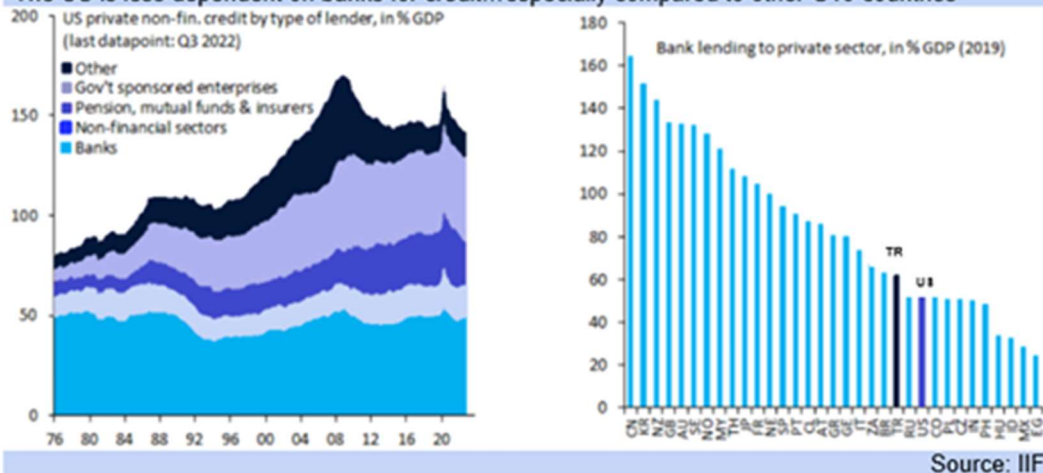
Source: Iress

Rand



Source: Iress

The US is less dependent on banks for credit...especially compared to other G10 countries



- Financial market volatility negatively affects risk sentiment, in turn reducing investor appetite for EM assets. Concerns over US recession have increased, however no evidence is due in the data for several weeks yet of any economic weakness.
- Markets do not favour uncertainty, and the waiting period will also add to negative sentiment, while markets naturally fear new announcements of weakened banks with contagion from the US banking sector still affecting bank share prices globally.
- Concerns centre around a reduction in the pace of lending, particularly in the US, as banks reel from the shock of some failures in the system, tightening lending conditions, and so exacerbating the effect of higher interest rates on the economy.
- Due to the lags involved, concerns are also circling that the combined shocks may be more significant than anticipated, although the IIF (Institute of International Finance) highlights “the US economy is less dependent than others on bank credit.”
- “The IIF is the global association of the financial industry, with about 400 members from more than 60 countries. (M)embers include commercial and investment banks, ... central banks and development banks.”
- It adds “(t)he US isn’t nearly as dependent as other economies on bank lending, given how diversified and broad US capital markets are.” “(I)n an international comparison of the importance of bank credit, the US ranks near the bottom of the scale.”
- A sudden slowing in the pace of credit growth in the US is seen as a high risk for the US economy, and this is still a concern for recession, i.e. a sharp slowdown (contraction) in the pace of credit growth offered where credit growth stalls.
- Markets consequently still see marked risks, and this has counterbalanced the likely positive effect that the recent reduction in hawkishness in the Fed’s tone last week would normally have had on financial markets.

- The rand has pulled back somewhat, from R18.62/USD last week before the FOMC meeting with only a 25bp rate hike (from market concerns of a 50bp move before the banking crisis), but markets are now fretting over increased chance of US recession.

Life Down 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	18.00	18.90	19.00	19.20	18.60	18.75	18.90	18.70	18.40	18.45	18.45	18.40
GBP/ZAR	22.12	23.44	23.75	24.00	23.44	23.81	24.29	24.40	23.92	23.99	23.99	23.92
EUR/ZAR	19.47	20.70	21.09	21.50	21.02	21.38	21.83	21.97	21.53	21.59	21.59	21.53
ZAR/JPY	7.20	6.80	6.63	6.51	6.64	6.51	6.40	6.42	7.28	7.15	7.10	7.07
CHF/ZAR	19.66	20.80	20.88	20.78	19.92	20.07	20.40	20.53	20.22	20.27	20.27	20.22
AUD/ZAR	12.48	13.42	13.78	14.11	13.76	13.88	14.08	14.03	13.98	14.21	14.58	14.54
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	134	132	131	130

Note: averages. Source: Investec, Iress.

Severe Down 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	18.70	19.30	19.70	20.00	20.20	20.50	20.80	21.20	20.90	20.90	21.00	20.80
GBP/ZAR	22.99	23.93	24.63	25.00	25.45	26.04	26.73	27.67	27.17	27.17	27.30	27.04
EUR/ZAR	20.23	21.13	21.87	22.40	22.83	23.37	24.02	24.91	24.45	24.45	24.57	24.34
ZAR/JPY	6.93	6.66	6.40	6.25	6.11	5.95	5.82	5.66	6.41	6.32	6.24	6.25
CHF/ZAR	20.43	21.24	21.65	21.64	21.64	21.94	22.45	23.28	22.97	22.97	23.08	22.86
AUD/ZAR	12.96	13.70	14.28	14.70	14.95	15.17	15.50	15.90	15.88	16.09	16.59	16.43
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	134	132	131	130

Note: averages. Source: Investec, Iress

Up 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	17.00	17.20	17.40	16.90	16.50	16.10	16.00	15.70	15.40	15.40	15.50	15.30
GBP/ZAR	20.90	21.33	21.75	21.13	20.79	20.45	20.56	20.49	20.02	20.02	20.15	19.89
EUR/ZAR	18.39	18.83	19.31	18.93	18.65	18.35	18.48	18.45	18.02	18.02	18.14	17.90
ZAR/JPY	7.62	7.47	7.24	7.40	7.48	7.58	7.56	7.64	8.70	8.57	8.45	8.50
CHFZAR	18.57	18.93	19.12	18.29	17.67	17.23	17.27	17.24	16.92	16.92	17.03	16.81
AUDZAR	11.79	12.21	12.62	12.42	12.21	11.91	11.92	11.78	11.70	11.86	12.25	12.09
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	134	132	131	130

Note averages. Source: Investec, Iress

Extreme Up 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	16.60	15.90	15.50	15.00	14.70	14.60	14.50	14.70	14.40	14.40	14.50	14.30
GBP/ZAR	20.40	19.72	19.38	18.75	18.52	18.54	18.63	19.18	18.72	18.72	18.85	18.59
EUR/ZAR	17.96	17.41	17.21	16.80	16.61	16.64	16.75	17.27	16.85	16.85	16.97	16.73
ZAR/JPY	7.80	8.08	8.13	8.33	8.40	8.36	8.34	8.16	9.31	9.17	9.03	9.09
CHF/ZAR	18.14	17.50	17.03	16.23	15.74	15.63	15.65	16.14	15.82	15.82	15.93	15.71
AUD/ZAR	11.51	11.29	11.24	11.03	10.88	10.80	10.80	11.03	10.94	11.09	11.46	11.30
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	134	132	131	130

Note: averages. Source: Investec, Iress