

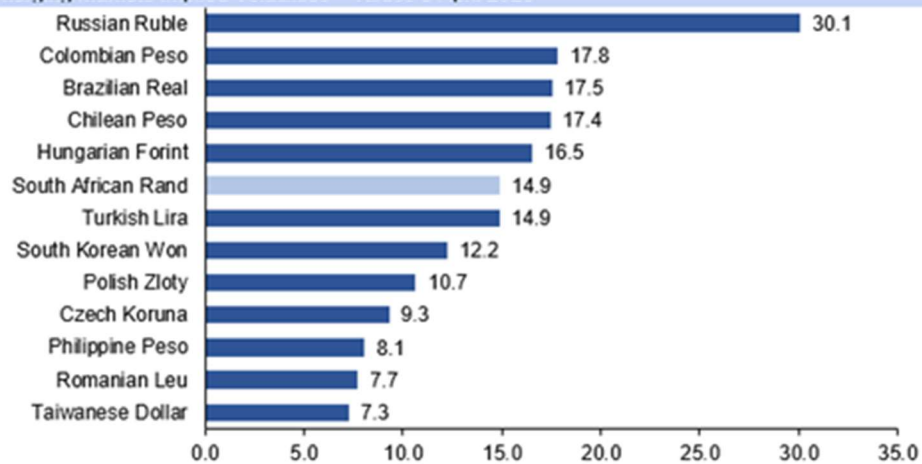
SA Economics



Rand note: structurally somewhat stronger after repo's 50bp hike last week

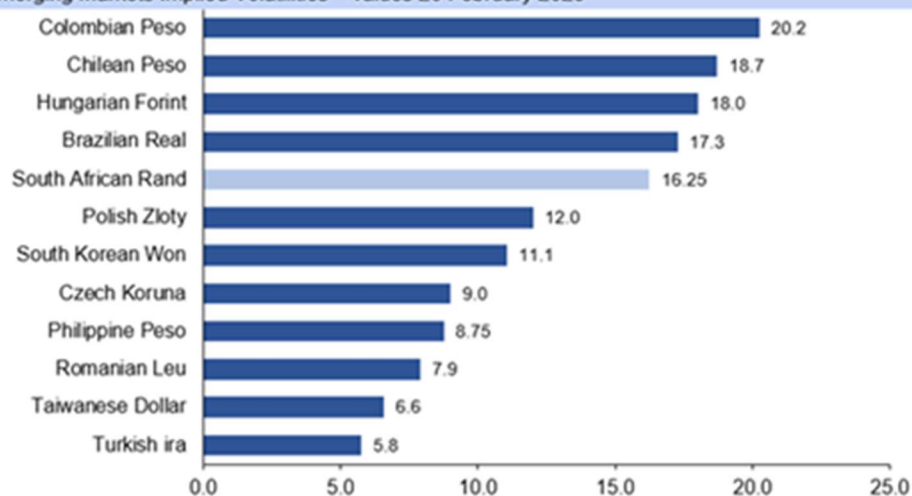
Monday 3 April 2023

Emerging Markets Implied Volatilities – values 3 April 2023



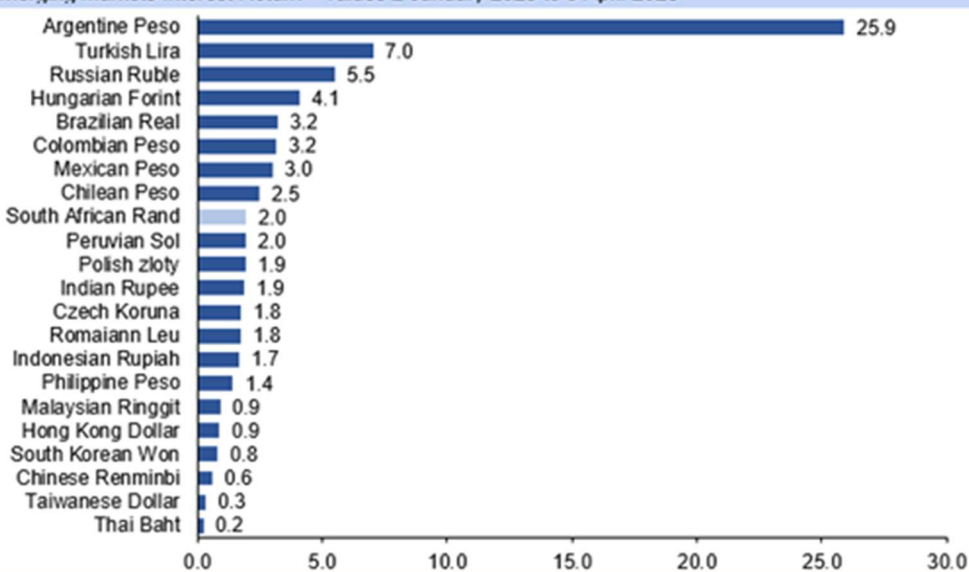
Source: Bloomberg

Emerging Markets Implied Volatilities – values 20 February 2023



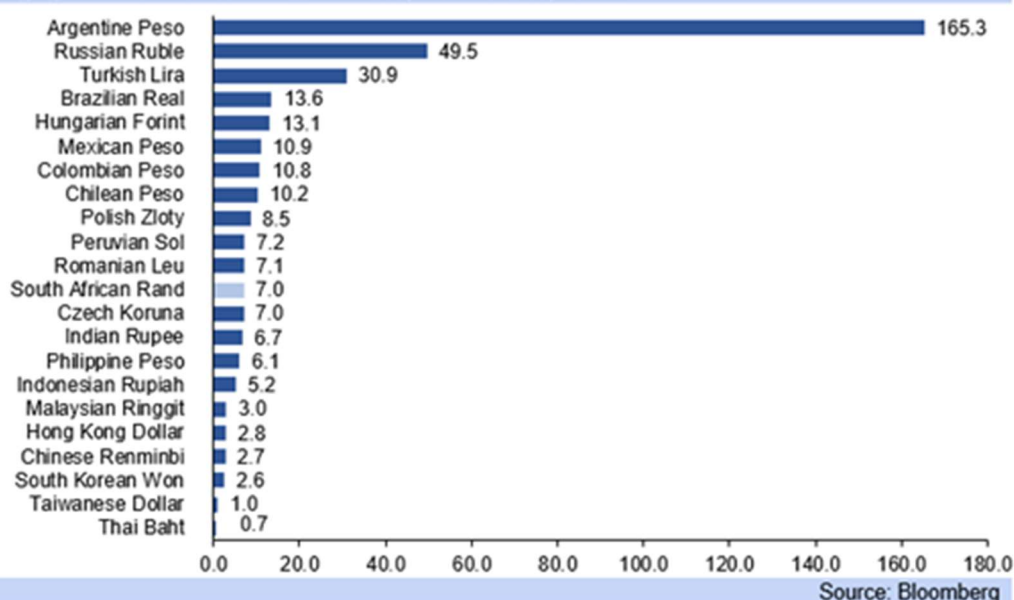
Source: Bloomberg

Emerging Markets Interest Return – values 2 January 2023 to 3 April 2023



Source: Bloomberg

Emerging Markets Interest Return – values 4 April 2022 to 3 April 2023



Expected Case: Exchange Rate forecasts

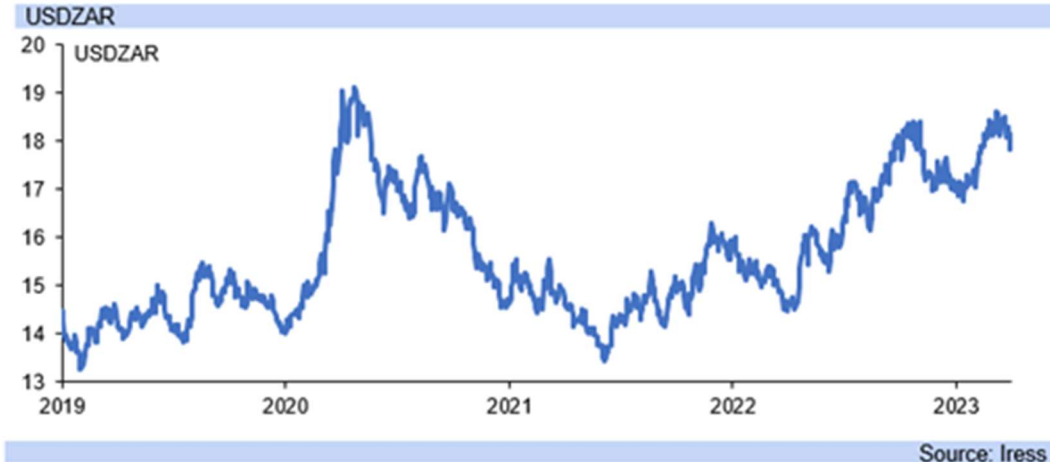
	2023				2024				2025			
	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24	Q1.25	Q2.25	Q3.25	Q4.25
USD/ZAR	17.76	17.95	17.75	17.55	17.20	17.40	17.60	17.30	17.00	17.00	17.10	16.90
GBP/ZAR	21.59	22.26	22.19	22.11	22.02	22.53	22.97	22.66	22.10	22.10	22.23	21.97
EUR/ZAR	19.06	19.57	19.70	19.83	19.78	20.36	20.77	20.41	19.89	19.89	20.01	19.77
ZAR/JPY	7.45	7.19	7.10	7.12	7.18	7.01	6.88	6.94	7.88	7.76	7.66	7.69
CHF/ZAR	19.20	19.66	19.51	19.16	18.75	19.03	19.33	19.08	18.68	18.68	18.79	18.57
AUD/ZAR	12.14	12.12	12.25	12.46	12.38	12.53	12.76	12.63	12.92	13.09	13.51	13.35
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	123	125	128	130

Note: averages, Source: Investec, Iress

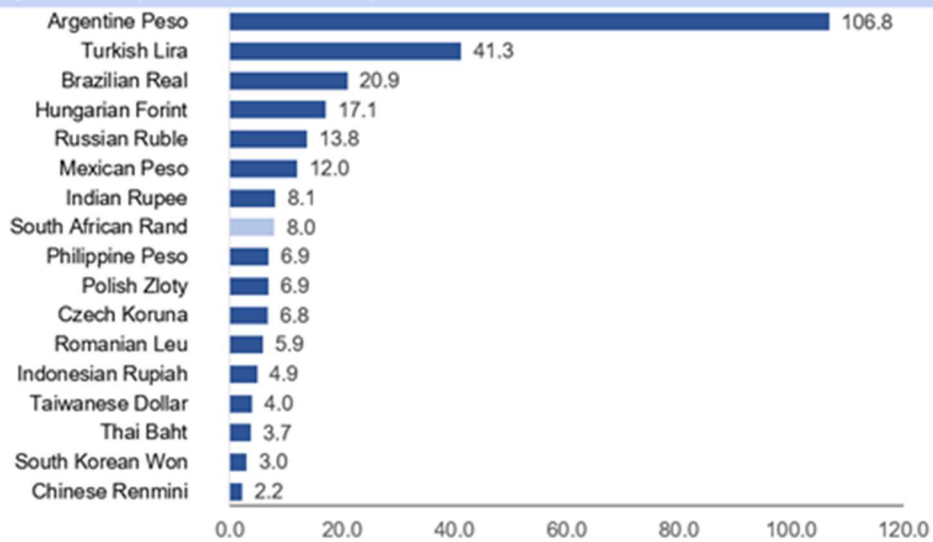
- The substantial effect of South Africa's Reserve Bank hiking interest rates by more than expected last week has set the rand at a new level, with the domestic currency reaching R17.60/USD on Friday, despite some small US dollar strength.
- South Africa's interest rate hike was 25bp higher than expected at 50bp, the rand has strengthened by over R1/USD since the R18.81/USD reached around the middle of March, although the US banking crisis has since waned as well.
- The rand continues to be at risk, and will so remain volatile, vulnerable to global financial market sentiment, with fundamental weaknesses in the domestic economy still providing a weak underpin to the domestic currency.
- As risk sentiment improves in the global economy the rand should too, provided SA does not enter a more severe bout of load shedding, see a worsening in its other factors of production or other domestic factors necessary to support businesses.

- The expectation of additional US interest rate hikes have been largely factored out with only one more 25bp lift seen, with a 65% chance currently, while in SA a full 25bp hike is factored in over the next six months, supporting the rand.
- The erosion in the risk premium necessary on SA rand portfolio assets had weakened the rand materially over the past twelve months, as SA's interest rate hikes have failed to keep up with those on the US. SA is now 50bp behind the US.
- The US has hiked by 4.75% in its current cycle, and SA by 4.25%, with SA seeing rate hikes every two months and the US every six weeks, resulting in a quickening in US rate hikes beyond those in SA, even with the same size hikes at each meeting.
- A further 50bp hike in SA's interest rates, and no more from the US would most likely see the rand strengthen materially further, which would help in reducing the marked upwards pressure on SA's price inflation, which has come from rand weakness.
- Market risk sentiment has elevated somewhat as the production cut from OPEC yesterday saw oil prices rise materially today, with higher oil prices typically supportive of higher inflation and interest rates, and so negative for risk assets.

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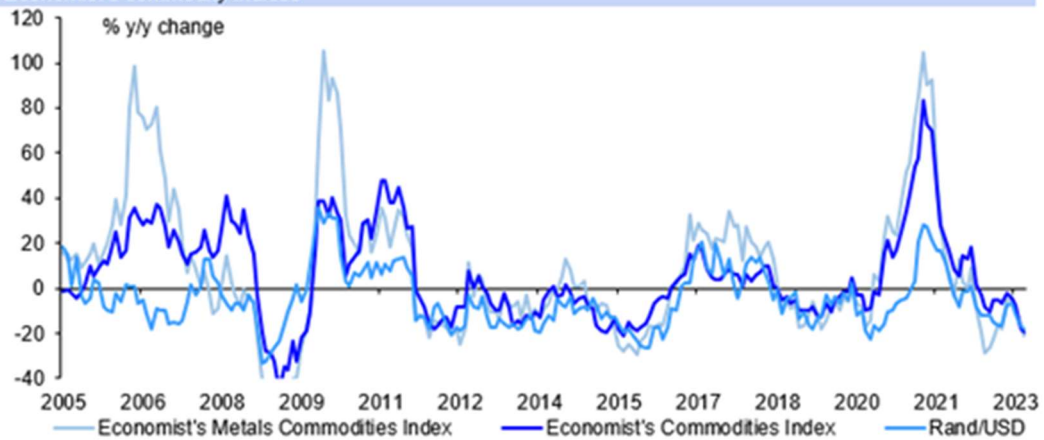


Emerging Markets Implied Rates – values 3 April 2023

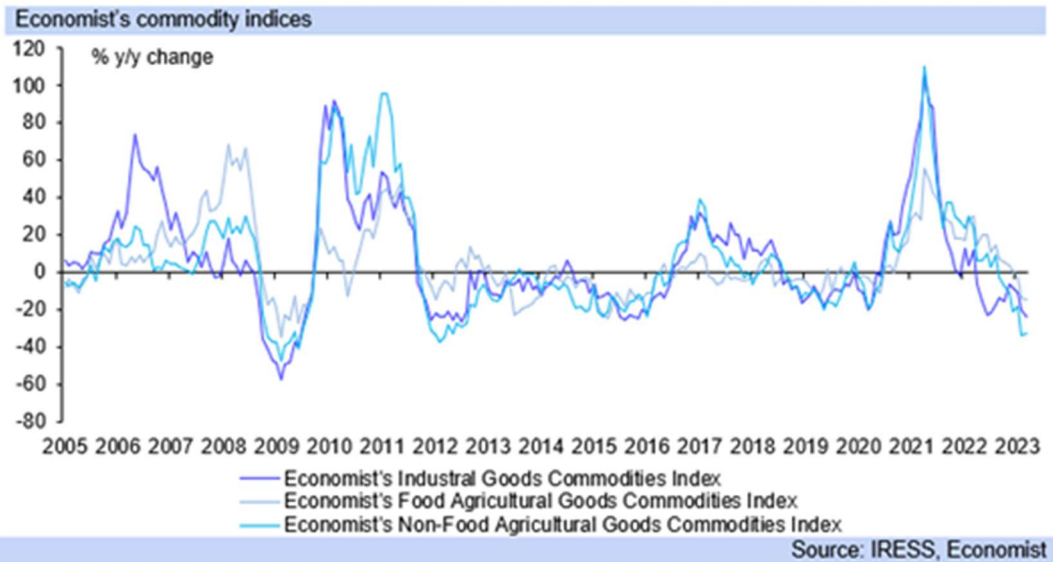


Source: Bloomberg

Economist's commodity indices



Source: IRESS, Economist



- The Eurozone recently saw its CPI inflation rate drop to 6.9% y/y in March, from February's 8.5% y/y, as more modest energy costs contributed to the disinflation, with the outcome also below the surveyed consensus, surprising markets.
- While the core inflation measures (excludes fuel and fuel prices) rose slightly, to 5.7% y/y, the sharp moderation in the cost of living (CPI) will help in moderating inflation expectations, if sustained, with higher oil prices a threat to the outlook.
- OPEC+ has cut its planned supply of oil to markets in order to bolster the oil price, with the price of Brent crude recently sagging towards US\$70/bbl (reaching US\$72.97/bbl), but then climbing subsequently in anticipation of the production cut.
- The Brent crude oil price has reached US\$84.41/bbl today, which would place upwards pressure on inflation. For SA, the pricing of Brent is key, with petroleum products SA's largest import. Higher rand oil prices quickly translate into higher inflation.

- The Eurozone CPI inflation outcome is also influenced by the price of gas, used for heating, which has dropped substantially over the past twelve months, and additional, marked disinflationary base effects are due to come through.
- The rand is weaker somewhat today in response, closer to R17.85/USD, as higher oil prices raise the specter of high inflation for longer, including risks of even higher inflation, which may reignite Central Banks hawkishness, particularly the Fed.
- Markets have consequently seen a modest risk reaction today to OPEC+'s move, although the calming of the US banking crisis has been key in reducing risk sentiment over the past few weeks, and allowing the rand to regain some strength too.
- The rand is still at risk, and could see some weak seasonal underpin over the second and third quarters, but the widening of the US SA interest differential last week has seen the rand move somewhat stronger structurally recently.
- Longer-term, US interest rates are expected to fall over 2024 and 2025, while SA interest rates are expected to remain stable. This would support the rand, and aid its strengthening, barring risk negative events in global financial markets.

Economic Scenarios: note updated probabilities

		Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24
Extreme Up case 1%	USD/Rand (average)	17.76	16.60	15.90	15.50	15.00	14.60	14.50	14.40
	Repo rate (end rate)	7.75	6.75	6.50	6.25	6.00	6.00	5.50	5.50
	SA economic growth very quickly rises to 3–5%, then 5–7%. Good governance, growth-creating reforms (structural 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. Strong global growth, risk-on, commodity boom. Rapid upgrades of credit ratings to investment grade. Very short grey listing. Quick transition to renewable energy from fossil fuels.								
Up case 1%	USD/Rand (average)	17.76	17.20	17.40	17.00	16.90	17.10	16.90	16.60
	Repo rate (end rate)	7.75	7.00	7.00	7.00	6.50	6.50	6.50	6.00
	Economic growth averages 3.3% over five-year period, but lifts towards 5.0% y/y by period end, rising confidence and investment levels, structural 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. Credit rating upgrades on fiscal consolidation, markedly lower borrowings. Substantial transition to renewable energy away from fossil fuel usage, comprehensive measures to alleviate climate change impact on economy. Grey listed for less than eighteen months.								
Base case 48%	USD/Rand (average)	17.76	17.95	17.75	17.55	17.20	17.40	17.60	17.30
	Repo rate (end rate)	7.75	7.75	7.75	7.50	7.00	7.00	7.00	6.50
	Economic growth modest (1.9% average over 5 years) but lifts towards 3.0% y/y by end period on reforms, global financial market risk sentiment is neutral to positive. South Africa follows fiscal consolidation (debt to GDP stabilisation) leading to positive outlooks, then likely credit rating upgrades. The rand stabilises, then strengthens somewhat. Inflation is impacted by the course of weather patterns via food price inflation. A transition to renewable energy and slow move away from fossil fuel usage occurs and measures to alleviate the impact of climate change on the economy are modestly implemented. The Russian/Ukraine conflict eases and does not exacerbate. Little expropriation without compensation. Temporary grey listing.								
Lite (domestic) Down case 40%	USD/Rand (average)	17.76	18.90	19.30	19.00	18.70	19.00	19.10	18.90
	Repo rate (end rate)	7.75	8.00	8.50	9.00	9.00	9.00	9.00	9.00
	Weak GDP growth (0.9% average over 5-years), swing toward left leaning policies. Business confidence depressed, substantial electricity and water shedding, very weak rail capacity, civil and political unrest, little investment growth, recession. Increased state borrowings, risk of credit rating downgrades rises, then occurs later in period. Some expropriation of private sector property without compensation with a negative impact on the economy. High inflation on unfavorable weather conditions, marked rand weakness. Little transition to renewable energy or measures to alleviate climate change. Lengthy greylisting.								
Severe down case 10%	USD/Rand (average)	17.76	19.30	19.70	20.00	20.20	20.50	20.80	21.20
	Repo rate (end rate)	7.75	9.00	10.00	10.50	10.50	11.00	11.00	11.50
	Lengthy global recession, global financial crisis – insufficient monetary and other support domestically and internationally. ANC/EFF coalition in 2024. Widespread, severe services load shedding, severe civil and political unrest. Government borrows from increasingly wider sources, SA rated single B from all three key agencies, eventually CCC grade, increased risk of default, sinks deeper into a debt trap. Failure to transition to renewable energy and to sufficient measures to alleviate the impact of climate change on the economy. Very high inflation on very adverse weather conditions, severe rand weakness. Expropriation of private property without compensation with a marked negative economic impact. Blacklisted.								

Note: Event risk begins Q2.23. Source: Investec

Lite 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	17.76	18.90	19.30	19.00	18.70	19.00	19.10	18.90	18.60	18.70	18.70	18.60
GBP/ZAR	21.59	23.44	24.13	23.94	23.94	24.61	24.93	24.76	24.18	24.31	24.31	24.18
EUR/ZAR	19.06	20.60	21.42	21.47	21.51	22.23	22.54	22.30	21.76	21.88	21.88	21.76
ZAR/JPY	7.45	6.83	6.53	6.58	6.60	6.42	6.34	6.35	7.20	7.06	7.01	6.99
CHF/ZAR	19.20	20.70	21.21	20.74	20.38	20.78	20.97	20.84	20.44	20.55	20.55	20.44
AUD/ZAR	12.14	12.76	13.32	13.49	13.46	13.68	13.85	13.80	14.14	14.40	14.77	14.69
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	123	125	128	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	17.76	19.30	19.70	20.00	20.20	20.50	20.80	21.20	20.90	20.90	21.00	20.80
GBP/ZAR	21.59	23.93	24.63	25.20	25.86	26.55	27.14	27.77	27.17	27.17	27.30	27.04
EUR/ZAR	19.06	21.04	21.87	22.60	23.23	23.99	24.54	25.02	24.45	24.45	24.57	24.34
ZAR/JPY	7.45	6.68	6.40	6.25	6.11	5.95	5.82	5.66	6.41	6.32	6.24	6.25
CHF/ZAR	19.20	21.14	21.65	21.84	22.02	22.42	22.84	23.38	22.97	22.97	23.08	22.86
AUD/ZAR	12.14	13.03	13.59	14.20	14.54	14.76	15.08	15.48	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	123	125	128	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	17.76	17.20	17.40	17.00	16.90	17.10	16.90	16.60	16.30	16.30	16.40	16.20
GBP/ZAR	21.59	21.33	21.75	21.42	21.63	22.14	22.05	21.75	21.19	21.19	21.32	21.06
EUR/ZAR	19.06	18.75	19.31	19.21	19.44	20.01	19.94	19.59	19.07	19.07	19.19	18.95
ZAR/JPY	7.45	7.50	7.24	7.35	7.31	7.13	7.16	7.23	8.22	8.10	7.99	8.02
CHF/ZAR	19.20	18.84	19.12	18.56	18.42	18.71	18.56	18.31	17.91	17.91	18.02	17.80
AUD/ZAR	12.14	11.61	12.01	12.07	12.17	12.31	12.25	12.12	12.39	12.55	12.96	12.80
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	123	125	128	130

Note averages, Source: Investec, Iress

Extreme Up Case: Exchange Rate forecasts

Global FX 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	17.76	16.60	15.90	15.50	15.00	14.60	14.50	14.40	14.30	14.40	14.50	14.30
GBP/ZAR	21.59	20.58	19.88	19.53	19.20	18.91	18.92	18.86	18.59	18.72	18.85	18.59
EUR/ZAR	19.06	18.09	17.65	17.52	17.25	17.08	17.11	16.99	16.73	16.85	16.97	16.73
ZAR/JPY	7.45	7.77	7.92	8.06	8.23	8.36	8.34	8.33	9.37	9.17	9.03	9.09
CHF/ZAR	19.20	18.18	17.47	16.92	16.35	15.97	15.92	15.88	15.71	15.82	15.93	15.71
AUD/ZAR	12.14	11.21	10.97	11.01	10.80	10.51	10.51	10.51	10.87	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
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