

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
<b>Extreme Up case 1%</b>	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. <b>Strong global growth, commodity boom. Stabilisation of credit ratings, then upgrades.</b>								
<b>Up case 2%</b>	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. <b>No further credit rating downgrades, become positive on fiscal consolidation (debt projections fall substantially).</b> 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.								
<b>Base case 51%</b>	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- <b>sufficient global and domestic monetary and other policy supports to growth and financial markets occur and risk sentiment neutral to positive.</b> Expropriation of private sector property is limited and does not have a negative impact on the economy or on market sentiment. <b>SA remains in the BB category rating bracket fiscal consolidation (debt to GDP stabilisation) occurs.</b> 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.								
<b>Lite (domestic) Down case 40%</b>	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. <b>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.</b> 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.								
<b>Severe down case 6%</b>	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. <b>SA rated single B from all three key agencies, with further rating downgrades eventually into CCC grade and the risk of moving towards default.</b> 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

Risk scenarios probabilities (%)	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4
Extreme up case			-	-	-	-	-	-	-	-	-	-
Up case			1%	1%	5%	5%	5%	1%	1%	1%	1%	1%
Expected case			48%	48%	50%	45%	50%	50%	50%	45%	45%	45%
Lite down/down case			42%	42%	30%	40%	40%	40%	45%	45%	45%	45%
Severe/extreme down case			9%	9%	15%	10%	5%	9%	4%	9%	9%	9%

Source: Investec

Risk scenarios probabilities (%)	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4
Extreme up case	-	-	-	-	-	-	-	-	1%	1%	1%	1%
Up case	1%	1%	1%	1%	1%	1%	1%	1%	15%	10%	10%	8%
Expected case	45%	44%	43%	43%	40%	40%	40%	40%	36%	35%	35%	33%
Lite down/down case	45%	44%	43%	43%	40%	40%	40%	40%	34%	35%	35%	32%
Severe/extreme down case	9%	11%	13%	13%	19%	19%	19%	19%	14%	19%	19%	26%

Source: Investec

Risk scenarios probabilities (%)	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2020 Q1	2020 Q2	2020 Q3	2020 Q4
Extreme up case	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Up case	12%	10%	10%	10%	10%	10%	10%	7%	9%	4%	2%	1%
Expected case	45%	45%	40%	40%	42%	47%	45%	40%	40%	43%	47%	44%
Lite down case	27%	30%	35%	35%	37%	37%	35%	37%	35%	42%	46%	44%
Severe down case	15%	14%	14%	14%	10%	5%	9%	15%	15%	10%	4%	10%

Source: Investec

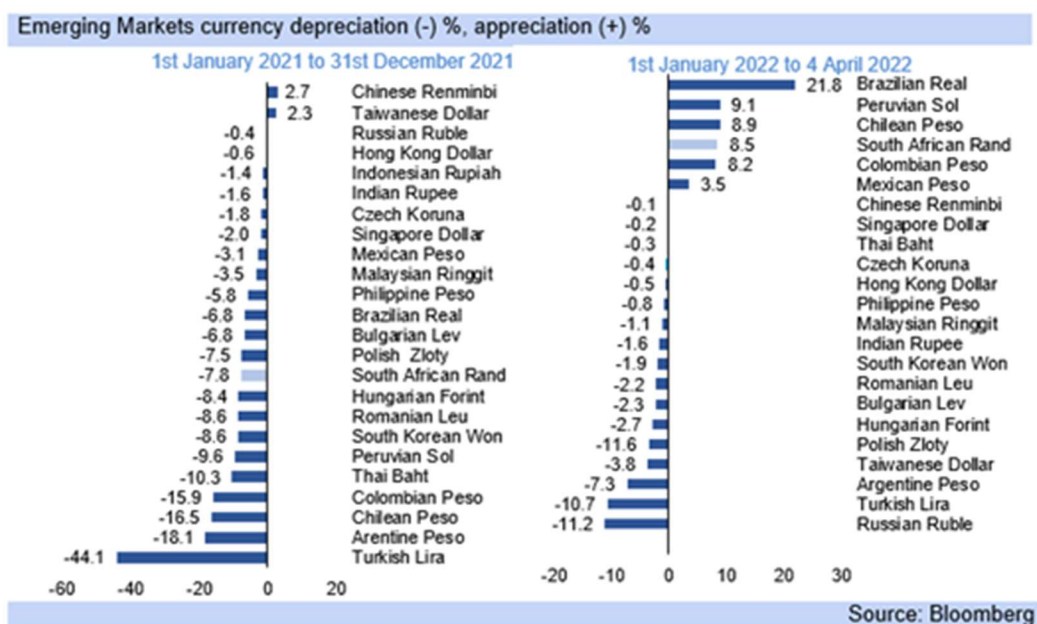
Risk scenarios probabilities (%)	2021 Q1	2021 Q2	2021 Q3	2021 Q4	2022 Q1	2022 Q2	2022 Q3	2022 Q4	2023 Q1	2023 Q2	2023 Q3	2023 Q4
Extreme up case	1%	1%	1%	1%	1%							
Up case	2%	2%	2%	2%	2%							
Expected case	48%	50%	48%	48%	51%							
Lite down case	44%	42%	43%	43%	40%							
Severe down case	5%	5%	6%	6%	6%							

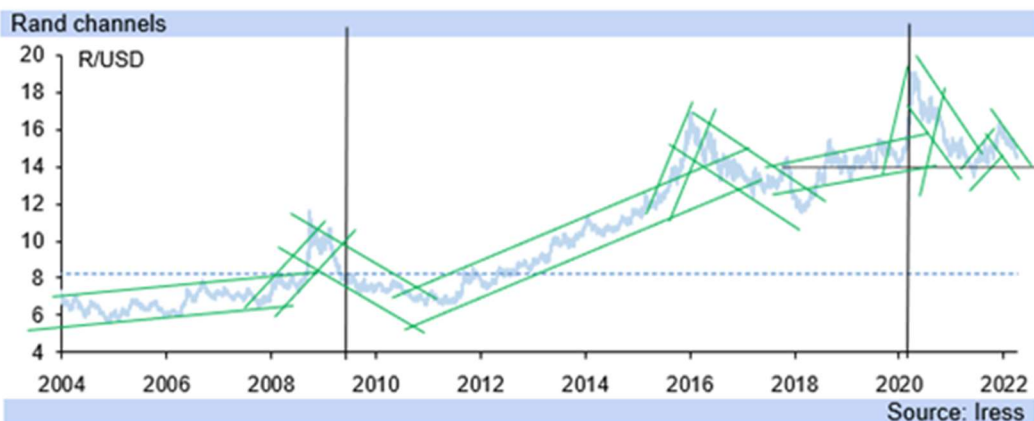
Source: Investec

- The probability of the expected case has finally exceeded 50%, and that of the lite down case fallen to 40%, the last time the divergence between the two was so great was in 2018 on Ramaphoria, and the last time the expected case was at or above 50% was in 2013.
- South Africa has seen a recent halt in the downward migration though the credit rating ladder, signalled by both Fitch and Moody's in their removal of the negative outlooks they had placed on SA's credit ratings when they last downgraded them in 2021.
- Fitch removed its negative outlook in December last year, as 2021's MTBPS lowered SA's debt projections on SA's "strong fiscal performance ... and significant improvements to key GDP-based credit metrics following the re-basing of national accounts".
- Adding "(f)iscal indicators have also improved, supported by the economic recovery. The strong deficit reduction ... is ... well above earlier expectations, driven in part by a surge in commodity prices". Fitch does not publish a calendar of its country review dates for SA.

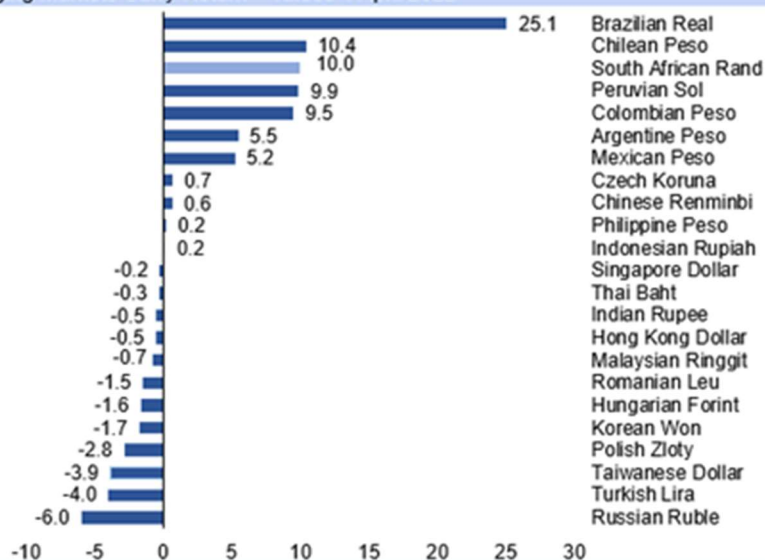
- “A major re-basing of national accounts has meant that 2020 nominal GDP was 11% higher than previously reported, affecting key credit metrics including GDP per capita and government debt/GDP, which for FY20/21 now stands at 72.2% rather than 81%”.
- Moody’s adds “over the last two fiscal years ... government ... re-prioritise(d) its spending ... (and was) committed to fiscal consolidation, which Moody's expects will remain the case”. Moody’s can change/affirm ratings/outlooks at or between scheduled dates, or not at all.
- The characteristics of the lite down include South Africa failing to see its debt projections stabilise and so falls into single B credit ratings from all three agencies for local and foreign currency debt. SA has not received any upgrades yet, or positive outlooks.
- The credit rating agencies still highlight risks which could see downgrades for SA, and warn particularly of the risk of weak growth, additional SOE financial support or other factors leading to “renewed deterioration in its fiscal strength would likely lead to a rating downgrade”.
- Nevertheless, the longer SA maintains its lowered debt and deficit projections (or lowers them further), the further the lite down case’s probability could drop, strengthening support for the rand, although it will also remain influenced by commodity prices and factors affecting EMs.

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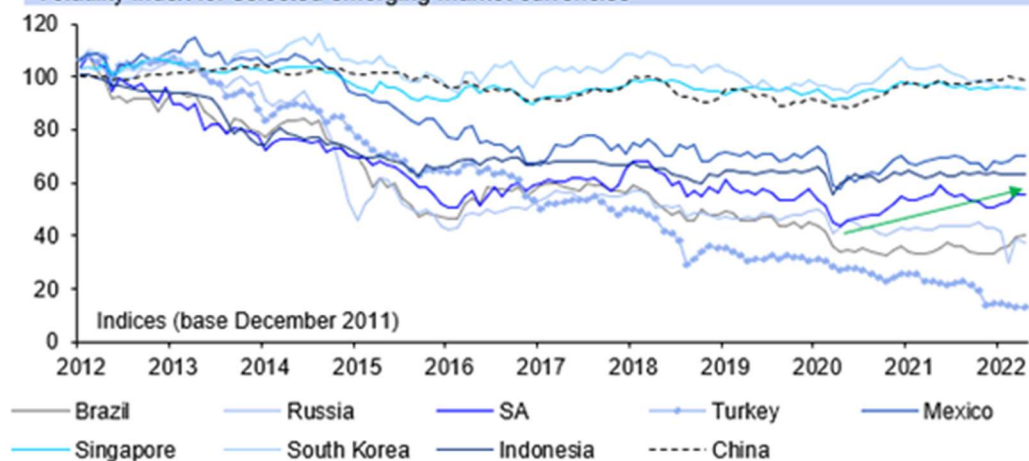


**Emerging Markets Carry Return – values 4 April 2022**



Source: Bloomberg

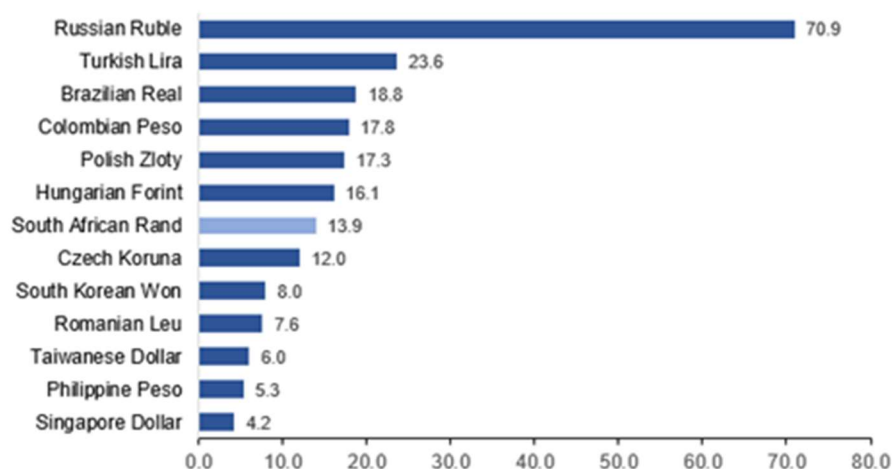
**Volatility index for selected emerging market currencies**



Sources: Iress, Investec



Emerging Markets Implied Volatilities – values 4 April 2022



Source: Bloomberg

- The rand has shown reduced volatility this year in comparison to other emerging market currencies, and this is also likely reflective of its somewhat reduced credit risk as markets perceive a lower risk of default, with SA on a stable outlook from Moody's, but still at Ba2.
- The recent temporary respite in fuel prices, as the state cuts the general fuel levy from Wednesday in the face of an incoming price hike of around R1.80/litre otherwise, also shows some improved flexibility and governance of the state, which is market cheering.
- The heavy handed approach in 2020 of the command council's response to COVID-19 unnecessarily damaged the economy, causing the loss of around 2 million jobs. While 2021's 11% revision to GDP rapidly aided economic recovery, it did not also solve the job loss.
- A policy response more in tune with the economy, financial markets and investor confidence as Minister Enoch Godongwana is displaying, is benefiting SA and the rand, allowing for differentiation in SA's favour between EM currencies, appreciated by the rating agencies.
- South Africa saw the official stats for Q1.22 record R4.9bn in foreign purchases of SA bonds (net of sales), with this capital inflow a strong beneficiary for the rand, and this final settled transactions data from the JSE reflecting general appetite through the quarter.
- The US saw its core PCE come out lower than expected, at 5.4% y/y instead of at 5.5% y/y, the FOMC's preferred measure of household expenditure price inflation, and this will have benefited market sentiment slightly. US CPI and PPI are due around mid-month.
- Concerns are circulating on the severity of US interest rate expectations and the attendant increasing risk for a US recession, while the Russian/Ukraine conflict persists. However, in SA the improving credit metrics have come at a good time to add a buffer for the rand.
- Moody's adds that it "expects that the government will continue to pursue its fiscal consolidation strategy. In the meantime, tax compliance is likely to improve gradually as the South African Revenue Agency (SARS) rebuilds some of its intuitional capacity".
- SA's expected case probability of no downgrades has increased, and reflects a more certain environment for SA's state finances, although reforms to the onerous regulatory

burden and polices impeding free market dynamics which are urgently needed to bolster growth.

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
CHFZAR	16.51	16.25	16.52	16.59	16.30	16.74	17.17	16.63	16.59	17.14	17.69	17.14
AUDZAR	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				

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	15.25	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, Ires												

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

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

Severe Downside: 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
CHF/ZAR	16.51	18.26	19.02	19.78	20.11	20.33	20.87	21.25	21.65	21.70	21.81	21.76
AUD/ZAR	11.13	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

Note: averages. Source: Investec, Iress