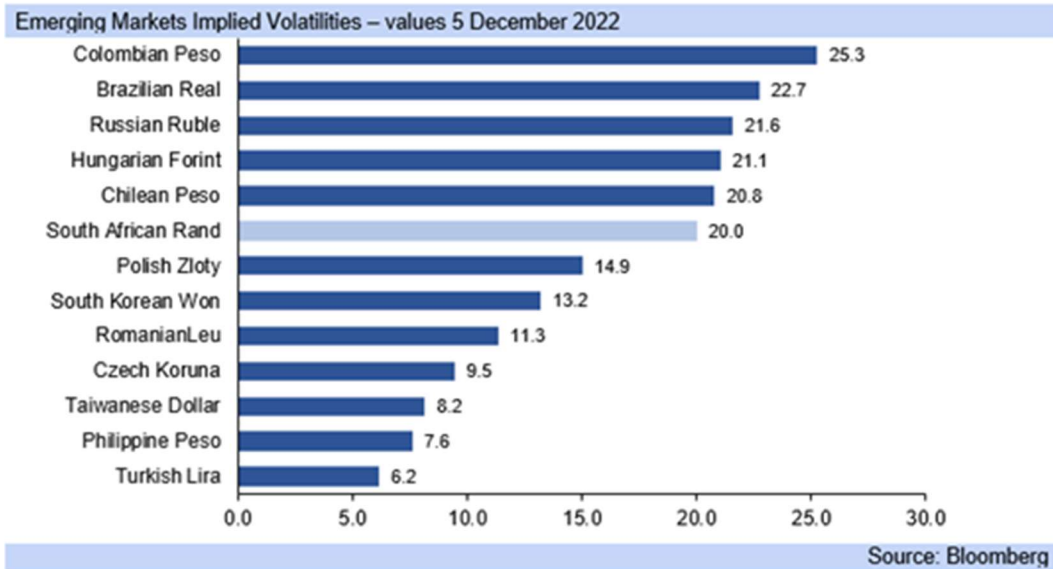




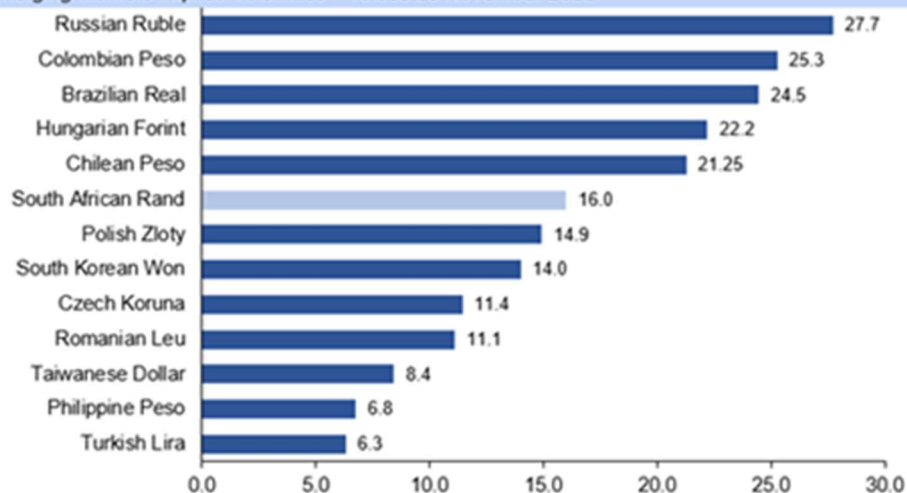
SA Economics

Monday 5 December 2022

Rand note: the rand gains as risks subside slightly, but it is still substantially weaker than in Q1.22 before the Fed started hiking rates



Emerging Markets Implied Volatilities – values 28 November 2022



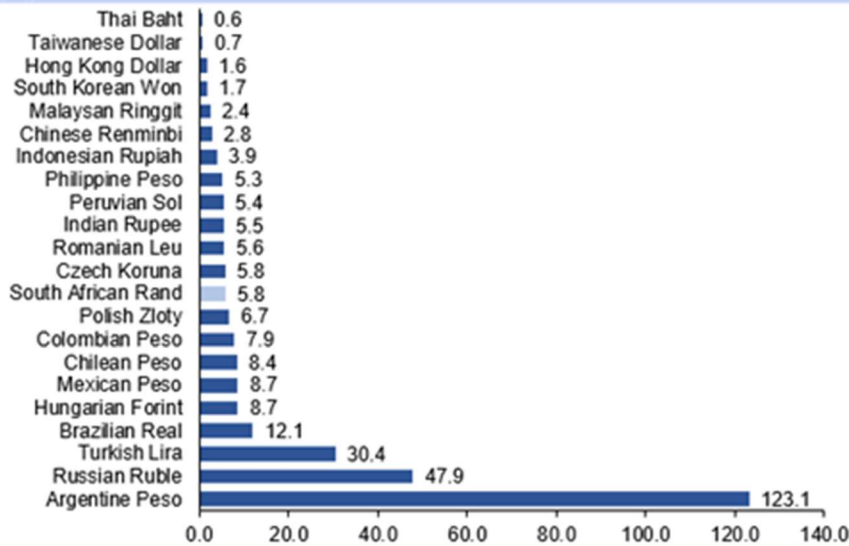
Source: Bloomberg

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



Source: Bloomberg

Emerging Markets Interest Return – values 5 December 2022



Source: Bloomberg

Expected Case: Exchange Rate forecasts

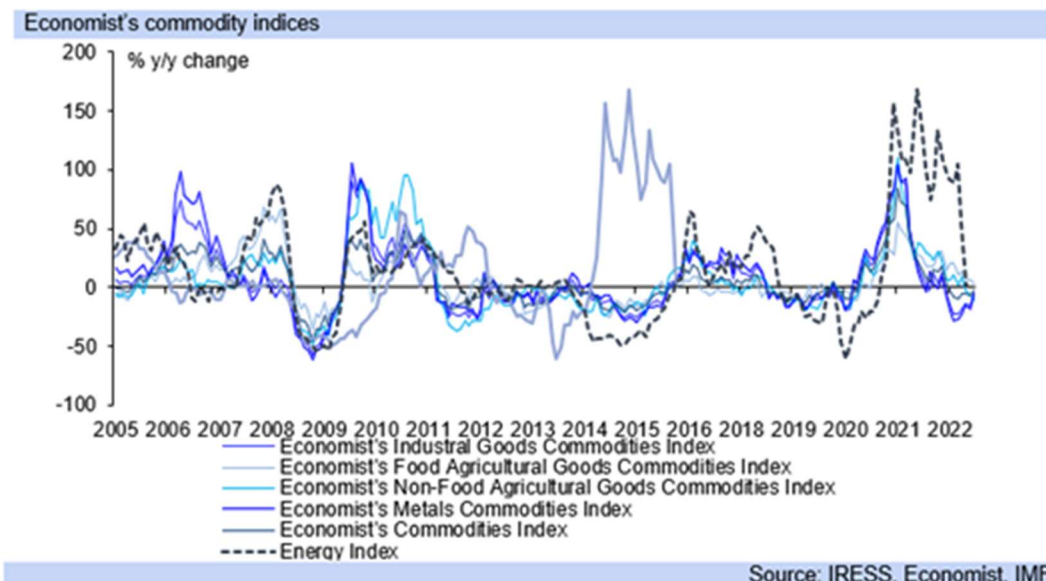
	2022				2023				2024			
	Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24
USD/ZAR	15.21	15.59	17.05	17.55	16.85	16.40	16.15	16.35	16.15	16.40	16.75	16.55
GBP/ZAR	20.40	19.59	20.05	20.50	20.30	20.17	20.19	20.44	20.51	21.32	22.11	22.84
EUR/ZAR	17.07	16.60	17.16	17.80	17.52	17.22	17.20	17.74	18.09	18.86	19.77	20.36
ZAR/JPY	7.65	8.33	8.11	8.12	8.22	8.32	8.33	8.17	8.05	7.32	6.87	6.65
CHFZAR	16.47	16.16	17.58	18.09	17.74	17.26	17.00	17.21	17.00	17.63	18.41	18.19
AUDZAR	11.02	11.14	11.65	11.51	11.46	11.48	11.63	12.02	12.11	12.79	13.07	12.91
GBP/USD	1.34	1.26	1.18	1.17	1.21	1.23	1.25	1.25	1.27	1.30	1.32	1.38
EUR/USD	1.12	1.06	1.01	1.01	1.04	1.05	1.07	1.09	1.12	1.15	1.18	1.23
USD/JPY	116	130	138	143	139	137	135	134	130	120	115	110

Note: averages, Source: Investec, Iress

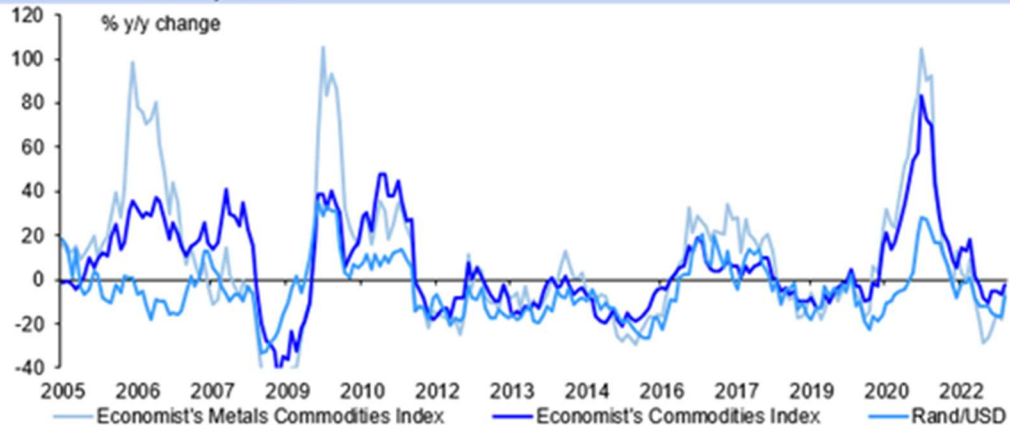
- The rand has pulled back to R17.19/USD today, after weakening to R18.03/USD last week Thursday on fears that the flawed Phala Phala report, which lacked concrete evidence in its accusations, would cause President Ramaphosa to resign, as he initially indicated.
- As the report was unpacked and seen to rely on unfounded information and rumors, the President is said to have reconsidered. A poll this weekend (by the SDR - Social Research Foundation) showed only about a third of voters would vote for the ANC without Ramaphosa.
- The currency has not retreated to levels before the release of the report however, as concerns still centre on the President's statement itself, along with some issues raised by the judges on the panel, and the increased domestic political risk has weakened the rand.
- The rand was also constrained in its reaction to the Phala Phala report by less hawkish comments coming from the Fed Governor, Jerome Powell, on Wednesday night, indicating the likelihood of a smaller rate hike in December in the US.
- In addition, the rand's continued partial recovery today was aided by China increasingly loosening its zero tolerance stance against COVID-19 over the past weekend, reducing some of the fears about a harsher global economic slowdown than originally feared.

- Risks still abound however, and the rand consequently remains above R17.00/USD. The Fed Chair continued to signal further rate hikes in 2023, highlighting that “(i)t is likely that restoring price stability will require holding policy at a restrictive level for some time.”
- Furthermore, “(i)n the labor market, demand for workers far exceeds the supply of available workers, and nominal wages have been growing at a pace well above what would be consistent with 2 percent inflation over time.”
- “Thus, another condition we are looking for is the restoration of balance between supply and demand in the labor market.” But noted, “(m)onetary policy affects the economy and inflation with uncertain lags, and the full effects of our rapid tightening so far are yet to be felt.”
- This does not mean US rate hikes are at an end, but instead the Fed is becoming more sensitive to impact of rate hikes on the economy. Markets perceive this as less chance of the Fed over tightening, but the rand is unlikely to return to R14.50/USD it reached in Q1.22.

Please scroll down to the second section below

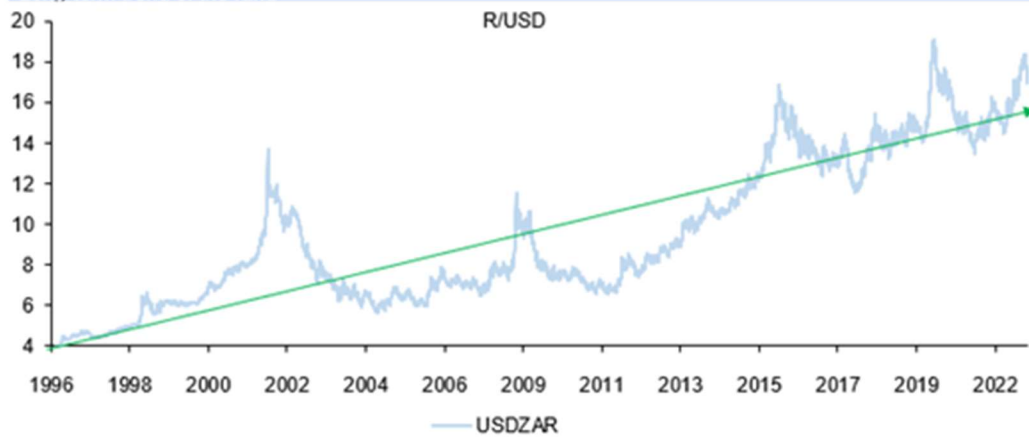


Economist's commodity indices



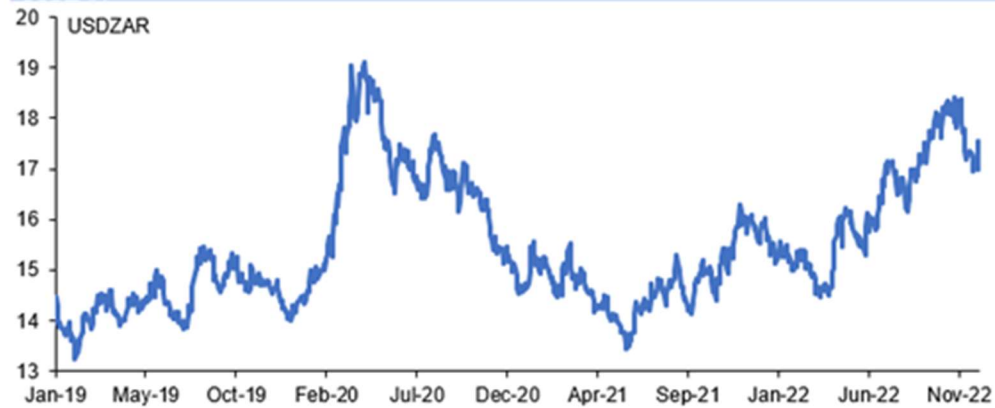
Source: IRESS, Economist

Long-term trend of the rand



Source: Iress

USDZAR



Source: Iress



- In particular, Powell said “it makes sense to moderate the pace of our rate increases as we approach the level of restraint that will be sufficient to bring inflation down. The time for moderating the pace of rate increases may come as soon as the December meeting.”
- He cautioned however “(g)iven our progress in tightening policy, the timing of that moderation is far less significant than the questions of how much further we will need to raise rates to control inflation, and the length of time it will be necessary to hold policy at a restrictive level.”
- And “(i)t is likely that restoring price stability will require holding policy at a restrictive level for some time. History cautions strongly against prematurely loosening policy. We will stay the course until the job is done.”
- However, the risk of excessive interest rate hikes in the US has not been eradicated either, and this risk of monetary policy error will keep the rand elevated into yearend and early 2023, as inflation is unlikely to subside quickly.
- Emerging Market economies (EMs) face the additional risk of an increase in risk aversion in global financial markets if the Fed’s monetary policy does prove too restrictive, which will add a weak underpin to the rand.
- The rand will also remain at risk from domestic politics. The ANC’s NEC (National Executive Council) is meeting today to discuss the Phala Phala report, then tomorrow the document goes before parliament for a vote to be taken on whether to begin impeachment processes.
- This weekend the President’s spokesman, Vincent Magwenya, was reported to say “President Ramaphosa is not resigning based on a flawed report, neither is he stepping aside”, and instead would challenge the report in court.
- “It is in the long-term interest... of our constitutional democracy, well beyond the Ramaphosa presidency, that such a clearly flawed report is challenged, especially when it’s being used as a point of reference to remove a sitting head of state”.
- A two thirds majority would be needed in parliament to vote to impeach the President. The Social Research Foundation poll was conducted telephonically among a randomly selected and representative sample of 3 200 registered voters, with a national margin of error of 1.7%.

Economic Scenarios: note updated probabilities

		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	15.59	17.05	16.40	15.50	14.50	14.00	13.60
	Repo rate (end rate)	4.25	4.75	6.25	5.25	4.25	3.75	3.75	3.50
	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. No grey listing. Quick transition to renewable energy from fossil fuels.								
Up case 4%	USD/Rand (average)	15.21	15.59	17.05	17.00	16.40	15.50	15.00	14.70
	Repo rate (end rate)	4.25	4.75	6.25	5.50	4.75	4.25	4.25	4.25
	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. No grey listing.								
Base case 48%	USD/Rand (average)	15.21	15.59	17.05	17.55	16.85	16.40	16.15	16.35
	Repo rate (end rate)	4.25	4.75	6.25	7.00	7.25	7.25	7.00	7.00
	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 36%	USD/Rand (average)	15.21	15.59	17.05	18.30	18.50	18.00	18.20	17.90
	Repo rate (end rate)	4.25	4.75	6.25	7.50	8.00	8.50	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, very 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. Grey listed.								
Severe down case 11%	USD/Rand (average)	15.21	15.59	17.05	18.70	19.30	19.50	19.70	19.90
	Repo rate (end rate)	4.25	4.75	6.25	8.00	9.00	10.00	10.50	10.50
	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. Grey listed								

Note: Event risk begins Q4.22. Source: Investec

Severe Down Case: Exchange Rate forecasts

	2022				2023				2024			
	Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24
USD/ZAR	15.21	15.59	17.05	18.70	19.30	19.50	19.70	19.90	20.10	20.00	19.80	19.60
GBP/ZAR	20.40	19.59	20.05	21.84	23.26	23.99	24.63	24.88	25.53	26.00	26.14	27.05
EUR/ZAR	17.07	16.60	17.16	18.96	20.07	20.48	20.98	21.59	22.51	23.00	23.36	24.11
ZAR/JPY	7.65	8.33	8.11	7.62	7.18	7.00	6.83	6.71	6.47	6.00	5.81	5.61
CHF/ZAR	16.47	16.16	17.58	19.28	20.32	20.53	20.74	20.95	21.16	21.51	21.76	21.54
AUD/ZAR	11.02	11.14	11.65	12.26	13.12	13.65	14.18	14.63	15.08	15.60	15.44	15.29
GBP/USD	1.34	1.26	1.18	1.17	1.21	1.23	1.25	1.25	1.27	1.30	1.32	1.38
EUR/USD	1.12	1.06	1.01	1.01	1.04	1.05	1.07	1.09	1.12	1.15	1.18	1.23
USD/JPY	116	130	138	143	139	137	135	134	130	120	115	110

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	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24
USD/ZAR	15.21	15.59	17.05	18.30	18.50	18.00	18.20	17.90	18.10	18.20	18.20	18.00
GBP/ZAR	20.40	19.59	20.05	21.38	22.29	22.14	22.75	22.38	22.99	23.66	24.02	24.84
EUR/ZAR	17.07	16.60	17.16	18.56	19.24	18.90	19.38	19.42	20.27	20.93	21.48	22.14
ZAR/JPY	7.65	8.33	8.11	7.79	7.49	7.58	7.39	7.46	7.18	6.59	6.32	6.11
CHFZAR	16.47	16.16	17.58	18.87	19.47	18.95	19.16	18.84	19.05	19.57	20.00	19.78
AUDZAR	11.02	11.14	11.65	12.00	12.58	12.60	13.10	13.16	13.58	14.20	14.20	14.04
GBP/USD	1.34	1.26	1.18	1.17	1.21	1.23	1.25	1.25	1.27	1.30	1.32	1.38
EUR/USD	1.12	1.06	1.01	1.01	1.04	1.05	1.07	1.09	1.12	1.15	1.18	1.23
USD/JPY	116	130	138	143	139	137	135	134	130	120	115	110

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	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24
USD/ZAR	15.21	15.59	17.05	17.00	16.40	15.50	15.00	14.70	14.50	14.90	15.00	14.50
GBP/ZAR	20.40	19.59	20.05	19.86	19.76	19.07	18.75	18.38	18.42	19.37	19.80	20.01
EUR/ZAR	17.07	16.60	17.16	17.24	17.06	16.28	15.98	15.95	16.24	17.14	17.70	17.84
ZAR/JPY	7.65	8.33	8.11	8.39	8.45	8.81	8.97	9.08	8.97	8.05	7.67	7.59
CHFZAR	16.47	16.16	17.58	17.53	17.26	16.32	15.79	15.47	15.26	16.02	16.48	15.93
AUDZAR	11.02	11.14	11.65	11.15	11.15	10.85	10.80	10.80	10.88	11.62	11.70	11.31
GBP/USD	1.34	1.26	1.18	1.17	1.21	1.23	1.25	1.25	1.27	1.30	1.32	1.38
EUR/USD	1.12	1.06	1.01	1.01	1.04	1.05	1.07	1.09	1.12	1.15	1.18	1.23
USD/JPY	116	130	138	143	139	137	135	134	130	120	115	110

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	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24
USD/ZAR	15.21	15.59	17.05	16.40	15.50	14.50	14.00	13.60	13.30	13.10	13.10	12.90
GBP/ZAR	20.40	19.59	20.05	19.16	18.68	17.84	17.50	17.00	16.89	17.03	17.29	17.80
EUR/ZAR	17.07	16.60	17.16	16.63	16.12	15.23	14.91	14.76	14.90	15.07	15.46	15.87
ZAR/JPY	7.65	8.33	8.11	8.69	8.94	9.41	9.61	9.82	9.77	9.16	8.78	8.53
CHFZAR	16.47	16.16	17.58	16.91	16.32	15.26	14.74	14.32	14.00	14.09	14.40	14.18
AUDZAR	11.02	11.14	11.65	10.75	10.54	10.15	10.08	10.00	9.98	10.22	10.22	10.06
GBP/USD	1.34	1.26	1.18	1.17	1.21	1.23	1.25	1.25	1.27	1.30	1.32	1.38
EUR/USD	1.12	1.06	1.01	1.01	1.04	1.05	1.07	1.09	1.12	1.15	1.18	1.23
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