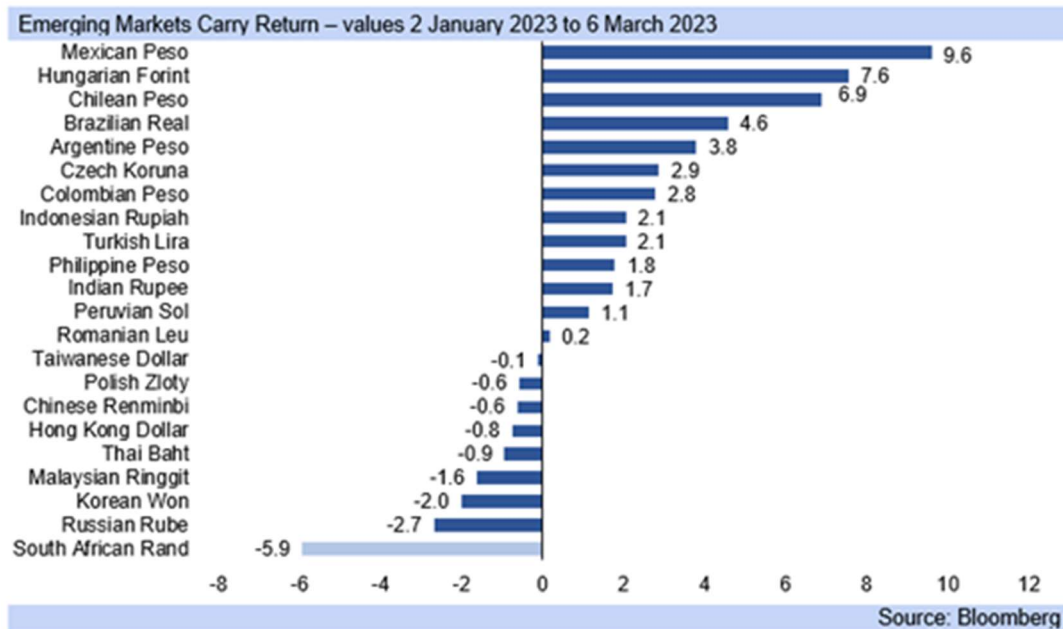


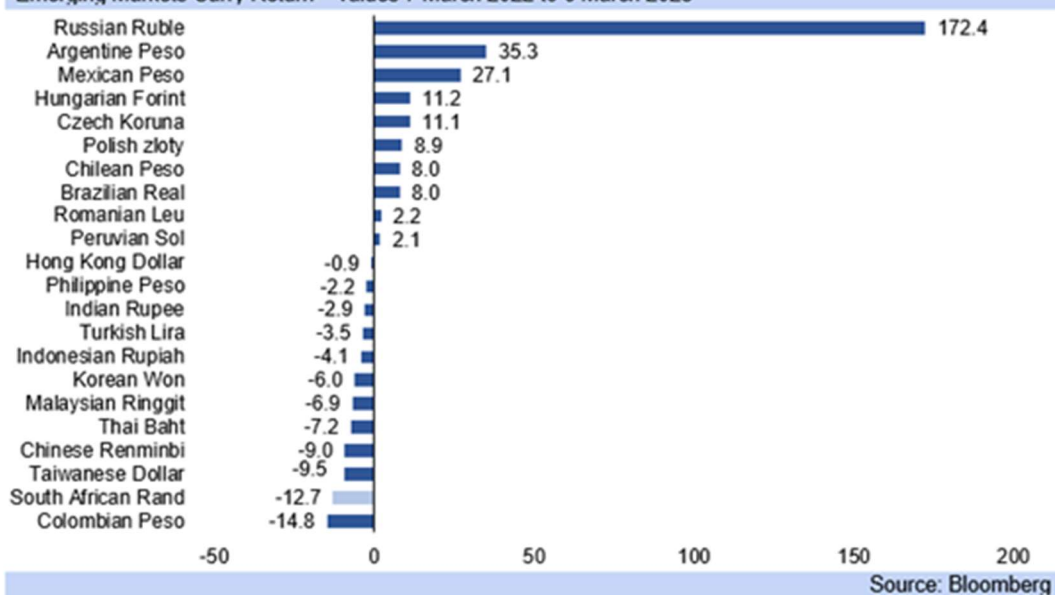


Rand note: negative investor sentiment on SA not expected to turn soon

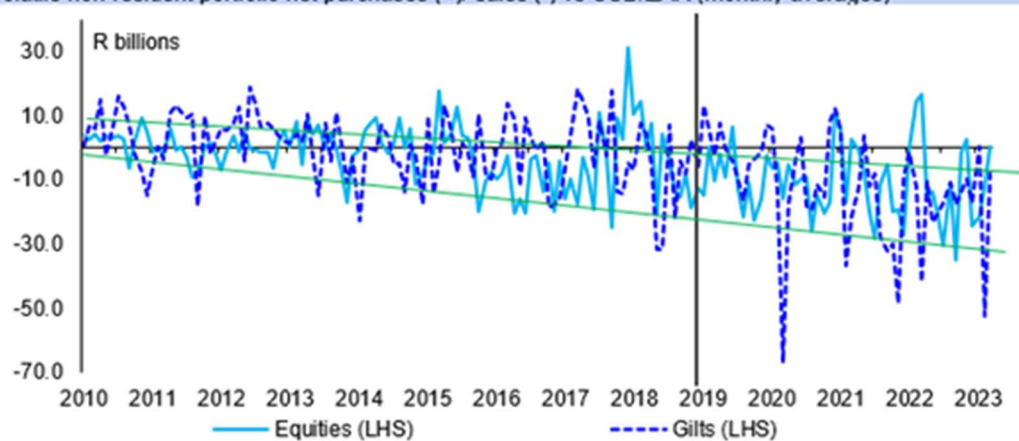
Monday 6 March 2023



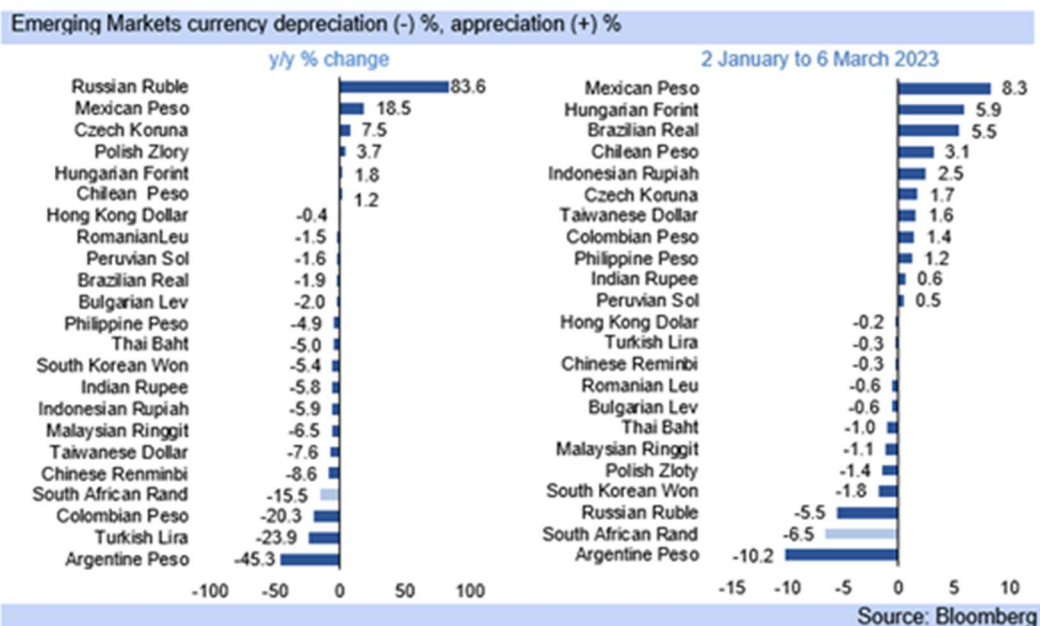
Emerging Markets Carry Return – values 7 March 2022 to 6 March 2023



Volatile non-resident portfolio net purchases (+)/ sales (-) vs USD/ZAR (monthly averages)



Source: Iress, Investec



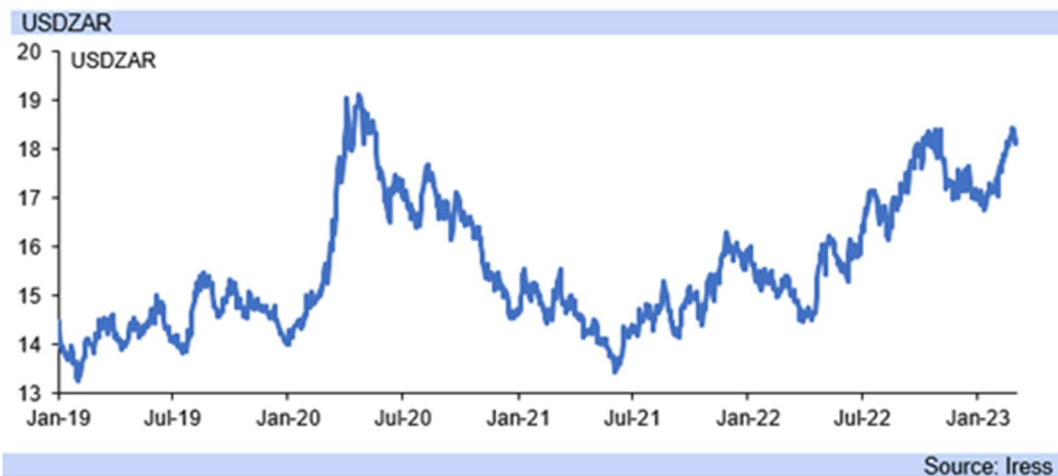
Expected Case: Exchange Rate forecasts												
	2023				2024				2025			
	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24	Q1.25	Q2.25	Q3.25	Q4.25
USD/ZAR	17.80	18.40	18.60	18.30	17.80	18.00	18.30	17.90	17.60	17.60	17.70	17.50
GBP/ZAR	21.88	22.82	23.25	22.88	22.43	22.86	23.52	23.36	22.88	22.88	23.01	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

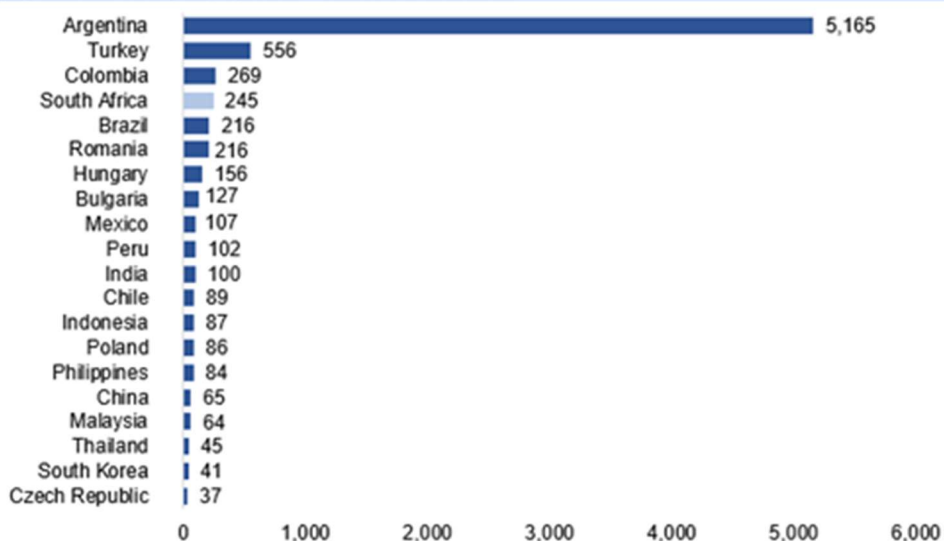
- The rand continues to be underpinned by weakness, unable to gain materially back to R17.00/USD without a substantial shift in global risk sentiment towards marked risk taking, or a resolution to the fundamental problems SA's economy faces.
- The US's Federal Reserve Bank continues to weaken sentiment with its hawkishness, highlighting on Friday, again, that "ongoing increases in the target range will be appropriate in order to attain a stance of monetary policy that is sufficiently restrictive."
- The Fed was delivering its semi-annual report to Congress and concerns over high inflation and the diagnosis of such which includes the tightness of the labour market, and reasons for the labour force's slow recovery towards normality.

- “More than half of that labor-force shortfall reflects a lower labor-force participation rate because of a wave of retirements beyond what would have been expected given demographic trends”.
- “The remaining shortfall is attributable to slower population growth, which in turn reflects both the higher mortality primarily due to Covid and lower rates of immigration in the first two years of the pandemic.”
- The lengthier normalisation of the labour market spells a higher and lengthier interest rate cycle in the US with “(t)he committee ... strongly committed to returning inflation to its 2% objective”, dampening investors risk taking.
- Inflation concerns globally remain elevated for key advanced economies, with the eurozone seeing core inflation rising to a new historical record of 5.6% y/y from 5.3% y/y in January, and above expectations that it had stabilised at 5.3% y/y.
- Overall, eurozone CPI inflation was also higher than forecast, at 8.5% y/y for February (January 8.6% y/y), versus the consensus view of 8.3% y/y, with services, goods and food prices accelerating quicker than expected.
- The difficulty of taming inflation, particularly core measures, reflects high inflation expectations entrenching in tight labour markets, causing markets to further readjust their interest rate views as Central Banks take on lengthier hike cycles.

Please scroll down to the second section below

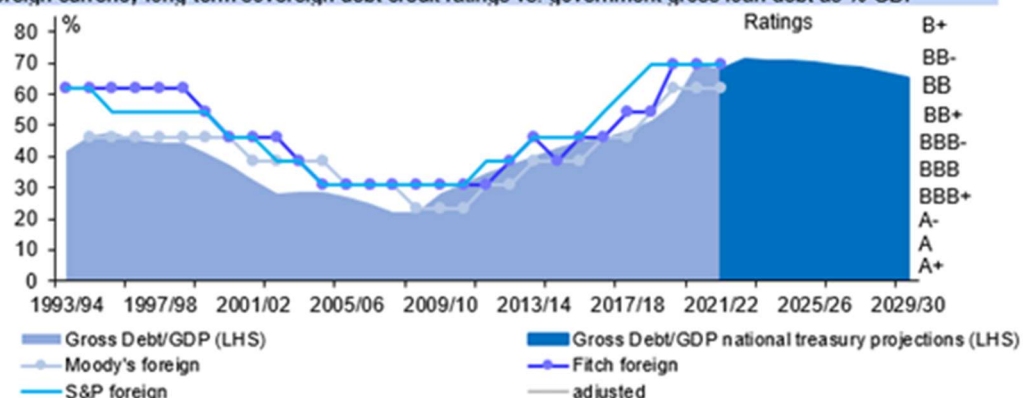


Emerging Markets CDS (risk) Spreads – values 6 March 2023

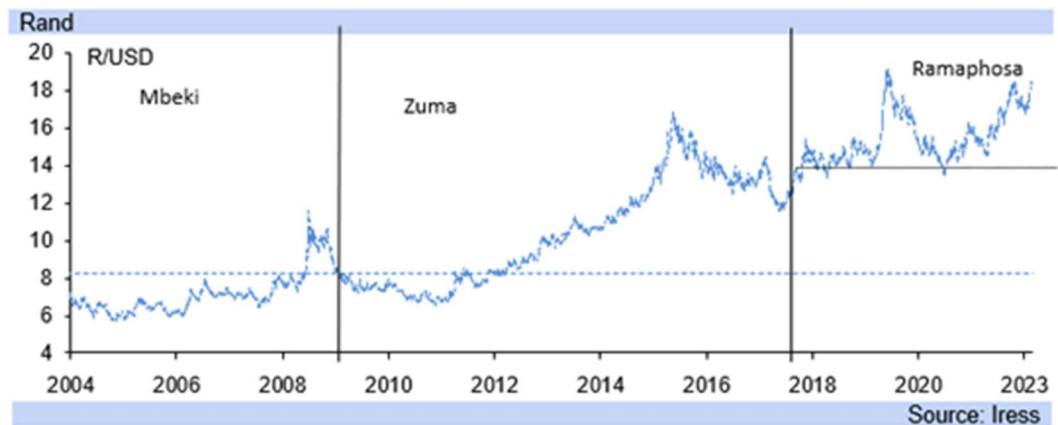
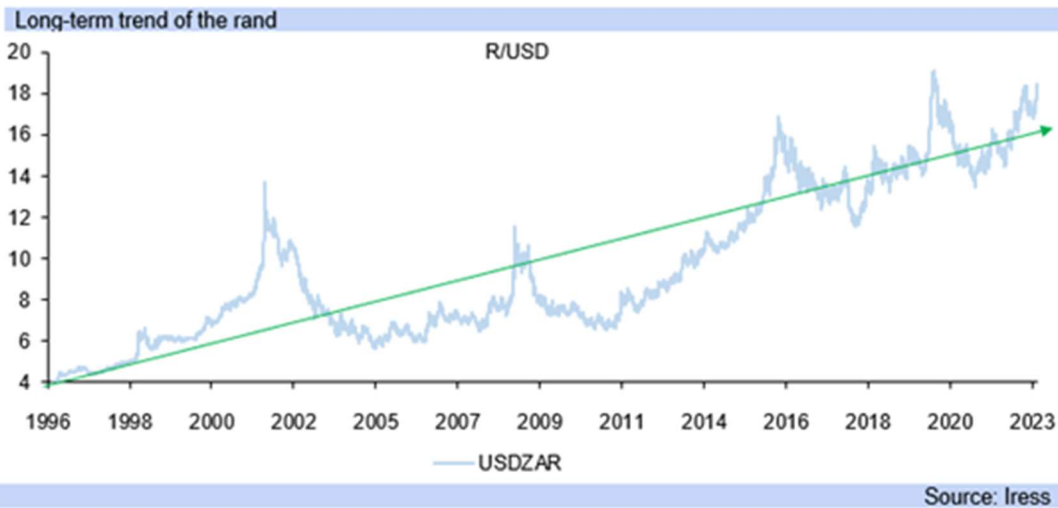


Source: Bloomberg

Foreign currency long-term sovereign debt credit ratings vs. government gross loan debt as % GDP



Source: Credit rating agencies, National treasury, Bloomberg



- The domestic currency is caught in an undertow of negative investor sentiment, with the domestic economic fundamentals deteriorating on waning productive capacity as insufficient water, electricity and rail and port services reduce economic activity.
- For foreign investors into SA's financial markets, the high inflation rate and comparatively low interest environment is also a disincentive, reducing real return on investments, as SA hikes at a slower pace than the US.
- South Africa's fixed investment ratio historically is low, averaging less than 1% of GDP since 1956, while from a portfolio investment perspective, foreigners' remain net sellers of SA' bonds and equities this year in an increasingly low growth environment.
- Foreigners have sold -R11bn in SA bonds so far this year net of purchases (settled JSE data - Bloomberg), after last year's net sales of -R19.6bn, and 2021 also

showing sales net of purchases as foreign investors remain negative on SA's bond market.

- The rand weakened somewhat over today on the expected reshuffle of the cabinet, as markets remain negative on SA's high political risk, especially with the reported cover up of extreme corruption and malfeasance at Eskom.
- Markets do not anticipate that the new cabinet will bring any end to SA's problems of declining productive capacity, and hobbling levels of corruption reported at the key electricity utility, which is crippling SA's economic growth potential.
- The reported ongoing damage to Eskom's production of electricity to SA, as well as extreme theft of its funds and damage to infrastructure, in turn negatively affects internal and external investor confidence, and so the rand.
- So too the Media's reported ANC cover up of the reported widespread and extremely high levels of corruption at Eskom also damage sentiment, and a thorough investigation is lacking, as are prosecutions of any guilty that emerge from such.
- Indeed, lack of sufficient prosecutions for money laundering is a key reason for SA's greylisting, with the ex-Eskom CEO reporting extreme amounts of money (over R1bn a month) are being stolen from Eskom and then laundered into the economy.



Economic Scenarios: note updated probabilities

		Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24
<b>Extreme Up case</b> 1%	USD/Rand (average)	16.60	15.90	15.50	15.00	14.70	14.60	14.50	14.70
	Repo rate (end rate)	7.00	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.									
<b>Up case</b> 4%	USD/Rand (average)	17.00	17.20	17.40	16.90	16.50	16.10	16.00	15.70
	Repo rate (end rate)	7.00	7.00	7.00	7.00	6.75	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.									
<b>Base case</b> 48%	USD/Rand (average)	17.80	18.40	18.60	18.30	17.80	18.00	18.30	17.90
	Repo rate (end rate)	7.50	7.25	7.75	7.75	7.50	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.									
<b>Lite (domestic) Down case</b> 36%	USD/Rand (average)	18.00	18.90	19.00	19.20	18.60	18.75	18.90	18.70
	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.									
<b>Severe down case</b> 11%	USD/Rand (average)	18.70	19.30	19.70	20.00	20.20	20.50	20.80	21.20
	Repo rate (end rate)	8.00	9.00	10.00	10.50	10.5	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 Q1.23. 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	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
CHF/ZAR	18.57	18.93	19.12	18.29	17.67	17.23	17.27	17.24	16.92	16.92	17.03	16.81
AUD/ZAR	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
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