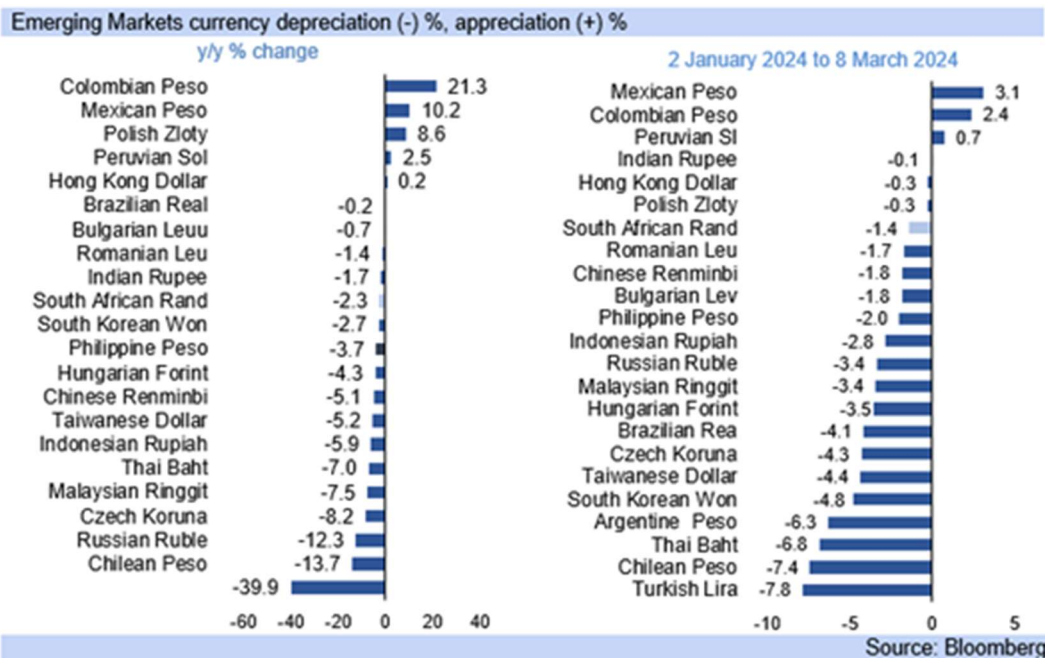


# SA Economics

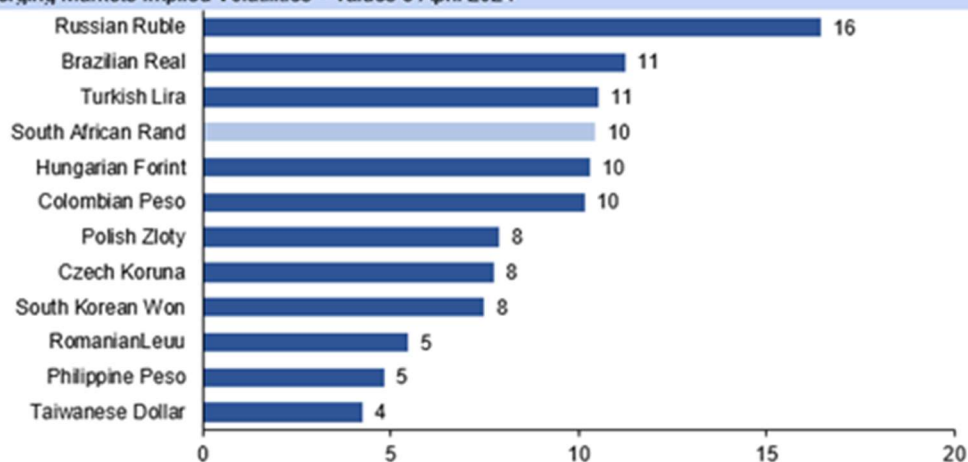


Rand note: overall stronger than at the start of March, but slightly volatile as US rate cuts pushed out further

Monday 8 April 2024

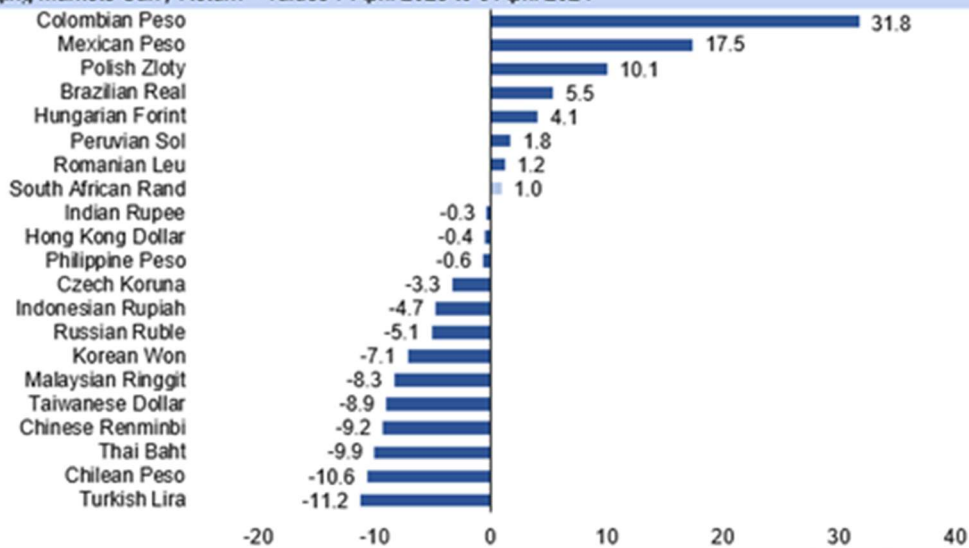


Emerging Markets Implied Volatilities – values 8 April 2024



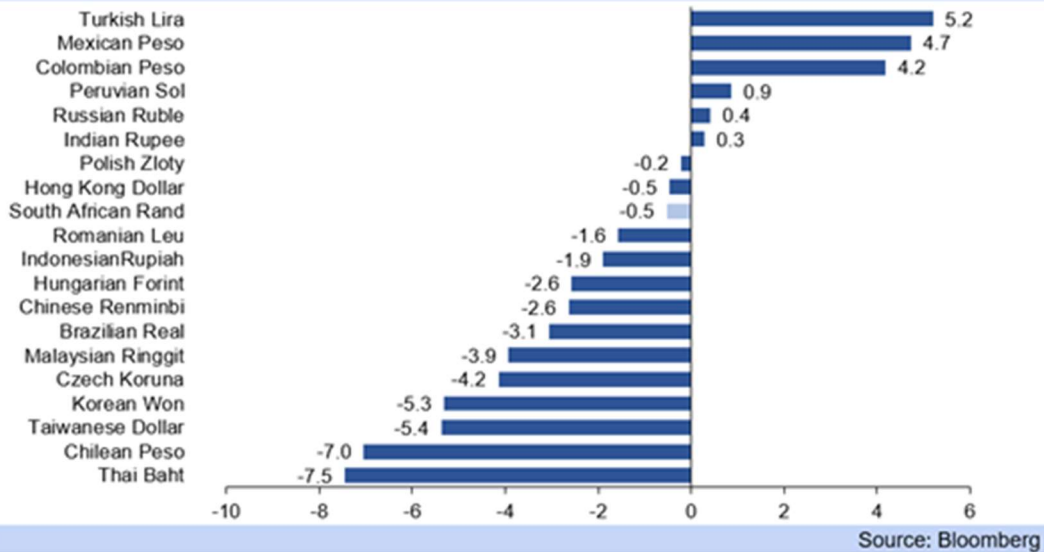
Source: Bloomberg

Emerging Markets Carry Return – values 7 April 2023 to 8 April 2024



Source: Bloomberg

Emerging Markets Carry Return – values 2 January 2024 to 8 April 2024



Expected Case: Exchange Rate forecasts

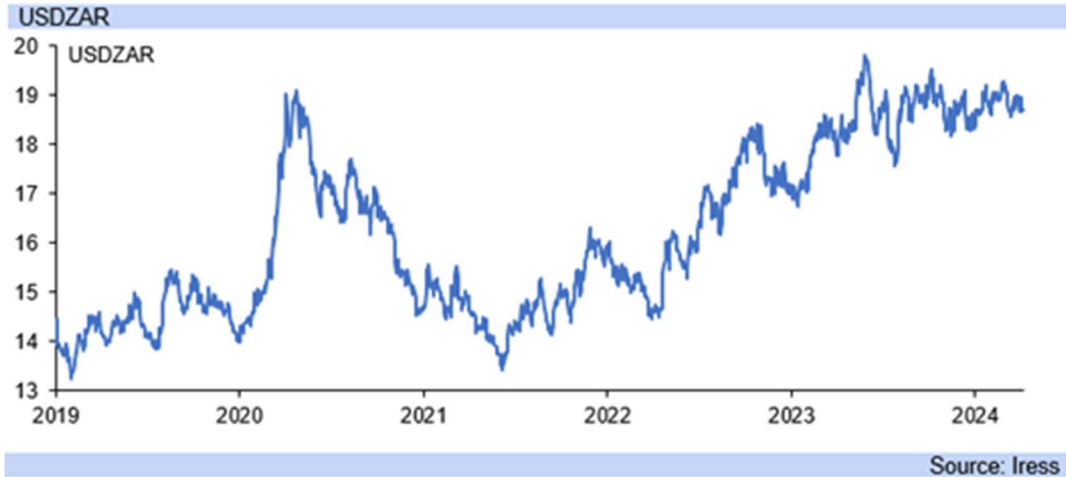
	2024				2025				2026			
	Q1.24	Q2.24	Q3.24	Q4.24	Q1.25	Q2.25	Q3.25	Q4.25	Q1.26	Q2.26	Q3.26	Q4.26
USD/ZAR	18.87	18.20	17.90	17.70	17.50	17.80	17.90	17.70	17.60	18.10	18.20	18.00
GBP/ZAR	23.93	23.29	22.91	22.83	22.57	22.78	23.09	22.83	22.77	23.53	23.66	23.40
EUR/ZAR	20.49	20.20	20.05	20.00	19.95	20.29	20.58	20.35	20.24	20.99	21.11	20.88
ZAR/JPY	7.87	8.24	8.16	8.02	7.94	7.70	7.60	7.68	7.61	7.29	7.14	7.22
CHF/ZAR	21.59	20.68	19.89	19.45	19.23	19.56	19.67	19.45	19.34	19.89	20.00	19.78
AUD/ZAR	12.41	12.19	11.99	12.04	11.90	12.28	12.35	12.21	12.14	12.49	12.56	12.42
GBP/USD	1.27	1.28	1.28	1.29	1.29	1.28	1.29	1.29	1.29	1.30	1.30	1.30
EUR/USD	1.09	1.11	1.12	1.13	1.14	1.14	1.15	1.15	1.15	1.16	1.16	1.16
USD/JPY	148	150	146	142	139	137	136	136	134	132	130	130

Note: averages, Source: Investec, Iress

- While the rand reached R18.48/USD last month, from R19.25/USD at the start of March as the domestic currency has seen some improvement as risk sentiment improved, it has since moved back to around R18.65/USD.
- In the first week of March markets saw the probability of a US interest rate cut in June at very close to 100%, which led to the rand dropping below R18.50/USD, while for July the implied Fed funds futures factored in well over 100% likelihood.
- That is, the July FOMC meeting had 100% ascribed to one -25bp cut by the end of July and a 57% chance of another, while by the end of September two -25 bp cuts were already expected to have occurred, with 40% chance of a third.
- Subsequently, market expectations have dropped lower on the probability for the US rate cuts, with July expected close to 100%, and June only around a relatively low 53% in comparison, as expectations have pulled back on a quick cut cycle.

- The rand has consequently pulled back, weakening to around R18.65/USD, from below R18.50/USD, while only September is now seen as holding a full 100% chance of a -25bp cut in the US, and 53% chance of another by the end of that month.
- The volatility in the US interest rate expectations has in turn contributed to the modest volatility in the rand, as the US dollar has softened then gained somewhat, but the volatility overall is mild, and not of material concern.
- The push-back in US rate cut timing expectations has come as the US core PCE deflator remained at an uninspiring 2.8% y/y in the latest (February outcome), unchanged from the previous month, and in line with market expectations.
- The core PCE deflator is the key inflation measure US monetary policy officials watch in their implicit inflation targeting. The PCE deflator measure, in turn rose to 2.5% y/y, from 2.4% y/y in January, also not inspiring market confidence.
- This week in the US, CPI inflation measures are due, with the core CPI inflation reading expected at 3.7% y/y, and CPI inflation rising to 3.4% y/y from 3.2% y/y, all dissuading market expectations of a quicker cut cycle, holding back the rand.

Please scroll down to the second section below



#### Fed Fund Futures implied rates – 8 April 2024

Meeting	#Hikes/Cuts	% Hike/Cut	Implied Rate $\Delta$	Implied Rate	A.R.M
05/01/2024	-0.057	-5.7%	-0.014	5.312	0.250
06/12/2024	-0.518	-46.1%	-0.129	5.197	0.250
07/31/2024	-0.875	-35.7%	-0.219	5.108	0.250
09/18/2024	-1.520	-64.5%	-0.380	4.946	0.250
11/07/2024	-1.854	-33.4%	-0.464	4.863	0.250
12/18/2024	-2.473	-61.9%	-0.618	4.708	0.250
01/29/2025	-2.855	-38.2%	-0.714	4.613	0.250

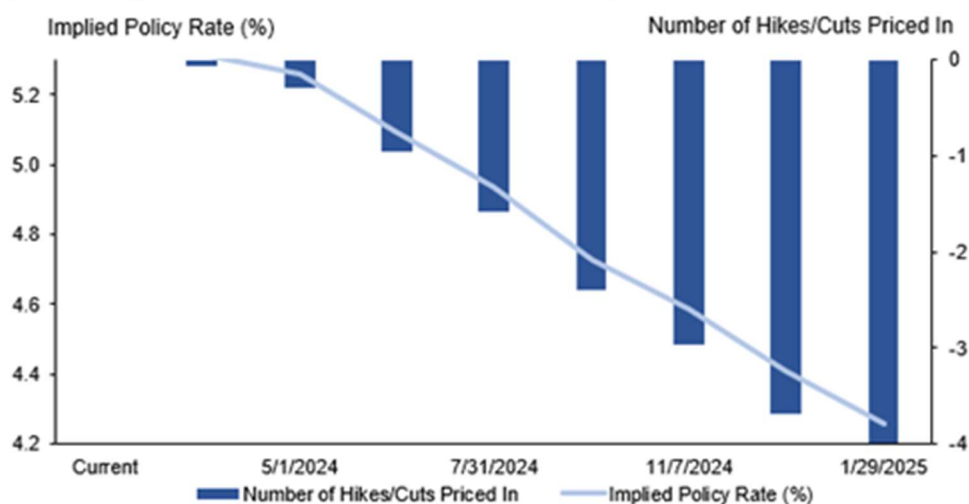
Source: Bloomberg

#### Fed Fund Futures implied rates – 7 March 2024

Meeting	#Hikes/Cuts	% Hike/Cut	Implied Rate $\Delta$	Implied Rate	A.R.M
03/20/2024	-0.054	-5.4%	-0.014	5.318	0.250
05/01/2024	-0.282	-22.7%	-0.070	5.261	0.250
06/12/2024	-0.962	-68.0%	-0.240	5.091	0.250
07/31/2024	-1.574	-61.2%	-0.394	4.938	0.250
09/18/2024	-2.404	-83.0%	-0.601	4.730	0.250
11/07/2024	-2.971	-56.7%	-0.743	4.588	0.250
12/18/2024	-3.695	-72.4%	-0.924	4.407	0.250
01/29/2025	-4.284	-58.9%	-1.071	4.260	0.250

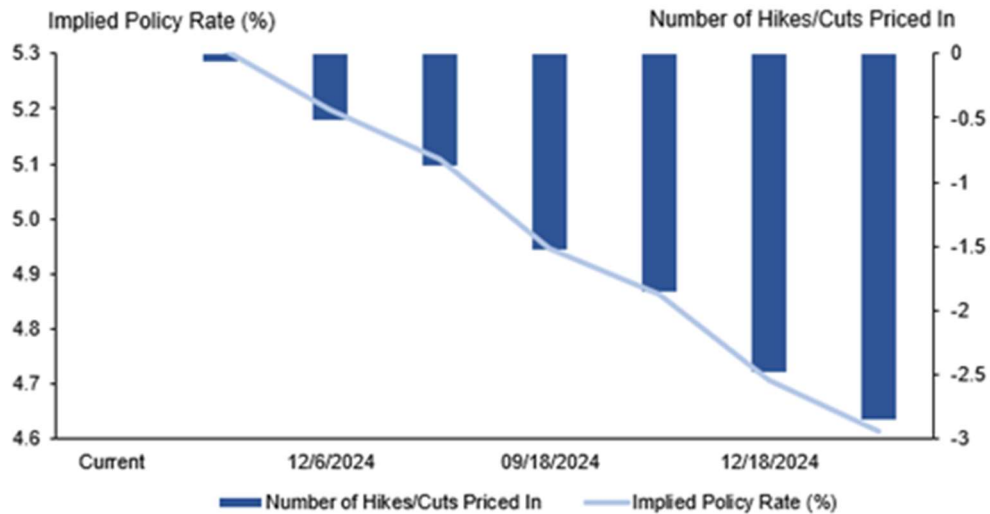
Source: Bloomberg

#### Implied overnight rate and number of hikes/cuts – 7 March 2024



Source: Bloomberg

### Implied overnight rate and number of hikes/cuts – 8 April 2024



Source: Bloomberg

- The next FOMC meeting is on 1<sup>st</sup> May, with only a paltry 6% probability seen of a US interest rate cut. The US labour market remains strong, unemployment tipped lower recently, and job gains were robust in the latest figures.
- Wage growth was controlled however, not adding to inflationary concerns, with the tightness in the labour market easing somewhat. Fed Chair Powell has highlighted that “(w)e don’t need to be in a hurry to cut”.
- Adding, “(i)f we reduce rates too soon, there’s a chance that inflation would pop back and we’d have to come back in and that would be very disruptive (to the economy),” he said.
- And that, “this is an economy that doesn’t feel like it’s suffering from the current level of rates,” With the latest PCE readings showing a halt in the inflation decline, this has also pushed back expectations of the timing of US interest rate cuts.
- Chair Powell also is reported to have said “(g)rowth is strong. As I mentioned, the economy is in a good place. And there’s no reason to think the economy is in a recession or is at the edge of one”.
- "Recent readings on both job gains and inflation have come in higher than expected," Rate cuts will occur when policymakers "have greater confidence that inflation is moving sustainably down" to the Fed's 2% target.
- “We do not expect that it will be appropriate to lower our policy rate until we have greater confidence that inflation is moving sustainably down toward 2 percent,” “Recent readings on ... inflation have come in higher than expected”.

- Markets have been disappointed by the FOMC's communications from the point of view of being supportive for rate hikes, instead Chair Powell is dismissive of any short-term need for a cut, which has weakened market hopes.
- The Fed is seen to be sticking to three -25bp cuts this year, with inflation seen to be "bumpy", as the start of the year showed some firming in inflation data, adding to volatility in market expectations for rate cuts, and so modestly for the rand.

Economic Scenarios:									
		Q1.24	Q2.24	Q3.24	Q4.24	Q1.25	Q2.25	Q3.25	Q4.25
<b>Extreme</b>	USD/Rand (average)	18.87	17.10	16.50	15.50	15.00	14.60	14.50	14.40
	Repo rate (end rate)	8.25	7.50	7.25	7.00	6.50	6.25	6.00	5.50
<b>Up case</b>	<b>1%</b> SA economic growth 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. Very short grey listing. Strong global growth, risk-on, commodity boom. Rapid upgrades of credit ratings. Strong transition away from fossil fuel usage, a quick transition to renewable energy, very comprehensive measures to alleviate climate change impact on economy. The Russian/Ukraine war ends quickly.								
<b>Up case</b>	USD/Rand (average)	18.87	17.50	17.20	17.00	16.90	16.80	16.70	16.50
	Repo rate (end rate)	8.25	7.75	7.50	7.50	7.00	6.75	6.50	6.00
<b>Base case</b>	<b>2%</b> Economic growth lifts to around 4%, 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 private privatisation. Positive outlooks on credit ratings turn into upgrades on substantial fiscal consolidation, debt projections fall substantially. Grey listed for less than eighteen months. Substantial transition to renewable energy away from fossil fuel usage, comprehensive measures to alleviate climate change impact on economy. The Russian/Ukraine war ends.								
<b>Base case</b>	USD/Rand (average)	18.87	18.20	17.90	17.70	17.50	17.80	17.90	17.70
	Repo rate (end rate)	8.25	8.25	8.00	7.75	7.25	7.00	6.75	6.75
<b>Down case</b>	<b>45%</b> Economic growth modest but lifts towards 2.0% y/y over five years on sufficient domestic policy support measures (but still limited somewhat by load shedding, freight constraints), global financial market risk sentiment is neutral to positive. South Africa in the BB credit rating category bracket as fiscal consolidation (debt to GDP stabilisation) occurs leading to some positive outlooks. The rand stabilises and strengthens somewhat, inflation is impacted by the course of weather patterns via food price inflation. Little expropriation without compensation occurs and has no negative effect on economy, no nationalisation. A modest 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 war persists and does not exacerbate, nor do middle East Tensions. The grey listing is temporary.								
<b>Down case</b>	USD/Rand (average)	18.87	19.00	19.20	19.30	19.30	19.50	19.50	19.70
	Repo rate (end rate)	8.25	8.75	9.00	9.50	9.50	9.50	9.50	9.25
<b>Severe down case</b>	<b>43%</b> The international environment (incl. risk sentiment) is that of the base case. South Africa fails to see government debt projections stabilise, falls into single B (local and foreign currency) credit ratings from all three agencies. Recession occurs. Business confidence depressed, substantial load shedding, marked freight constraints, weak investment growth, civil and political unrest. High inflation on unfavorable weather conditions, marked rand weakness. Little transition to renewable energy or measures to alleviate the impact of climate change. Very limited expropriation of private sector property without compensation, with a slight negative impact on the economy. Substantial fiscal consolidation ultimately occurs, preventing ratings falling into the C grades. The greylisting is lengthy.								
<b>Severe down case</b>	USD/Rand (average)	18.87	20.50	21.20	21.40	21.50	21.70	21.70	21.90
	Repo rate (end rate)	8.25	9.25	10.50	11.00	11.50	11.50	11.00	10.75
<b>Severe down case</b>	<b>9%</b> Lengthy global recession, global financial crisis - insufficient monetary and other support domestically and internationally. Very high inflation on very adverse weather conditions, severe rand weakness. SA rated single B from all three key agencies, downgraded into CCC grade, increased risk of default. Government borrows from increasingly wider sources, sinks deeper into a debt trap, widespread, severe services load shedding, severe civil and political unrest. Failure to transition to renewable energy and measures to alleviate the impact of climate change on the economy. Limited expropriation of private property without compensation with a noticeable negative economic impact. SA is blacklisted. The Russian/Ukraine war widens into neighbouring (NATO) countries, Middle East tensions worsen.								

Note: Event risk begins Q2 24. Source: Investec

Life Down Case: Exchange Rate forecasts												
	2024				2025				2026			
	Q1.24	Q2.24	Q3.24	Q4.24	Q1.25	Q2.25	Q3.25	Q4.25	Q1.26	Q2.26	Q3.26	Q4.26
USD/ZAR	18.87	19.00	19.20	19.30	19.30	19.50	19.50	19.70	19.50	19.60	19.60	19.70
GBP/ZAR	23.93	24.32	24.58	24.90	24.90	24.96	25.16	25.41	25.23	25.48	25.48	25.61
EUR/ZAR	20.49	21.09	21.50	21.81	22.00	22.23	22.43	22.66	22.43	22.74	22.74	22.85
ZAR/JPY	7.87	7.89	7.60	7.36	7.20	7.03	6.97	6.90	6.87	6.73	6.63	6.60
CHFZAR	21.59	21.59	21.33	21.21	21.21	21.43	21.43	21.65	21.43	21.54	21.54	21.65
AUDZAR	12.41	12.73	12.86	13.12	13.12	13.46	13.46	13.59	13.46	13.52	13.52	13.59
GBP/USD	1.27	1.28	1.28	1.29	1.29	1.28	1.29	1.29	1.29	1.30	1.30	1.30
EUR/USD	1.09	1.11	1.12	1.13	1.14	1.14	1.15	1.15	1.15	1.16	1.16	1.16
USD/JPY	148	150	146	142	139	137	136	136	134	132	130	130

Note: averages, Source: Investec, Iress

Severe Down Case: Exchange Rate forecasts												
	2024				2025				2026			
	Q1.24	Q2.24	Q3.24	Q4.24	Q1.25	Q2.25	Q3.25	Q4.25	Q1.26	Q2.26	Q3.26	Q4.26
USD/ZAR	18.87	20.50	21.20	21.40	21.50	21.70	21.70	21.90	22.10	22.20	22.20	22.10
GBP/ZAR	23.93	26.24	27.14	27.61	27.74	27.78	27.99	28.25	28.59	28.86	28.86	28.73
EUR/ZAR	20.49	22.76	23.74	24.18	24.51	24.74	24.96	25.19	25.42	25.75	25.75	25.64
ZAR/JPY	7.87	7.32	6.89	6.64	6.47	6.31	6.27	6.21	6.06	5.95	5.86	5.88
CHFZAR	21.59	23.30	23.56	23.52	23.63	23.85	23.85	24.07	24.29	24.40	24.40	24.29
AUDZAR	12.41	13.74	14.20	14.55	14.62	14.97	14.97	15.11	15.25	15.32	15.32	15.25
GBP/USD	1.27	1.28	1.28	1.29	1.29	1.28	1.29	1.29	1.29	1.30	1.30	1.30
EUR/USD	1.09	1.11	1.12	1.13	1.14	1.14	1.15	1.15	1.15	1.16	1.16	1.16
USD/JPY	148	150	146	142	139	137	136	136	134	132	130	130

Note: averages, Source: Investec, Iress

Extreme Up Case: Exchange Rate forecasts												
	2024				2025				2026			
	Q1.24	Q2.24	Q3.24	Q4.24	Q1.25	Q2.25	Q3.25	Q4.25	Q1.26	Q2.26	Q3.26	Q4.26
USD/ZAR	18.87	17.10	16.50	15.50	15.00	14.60	14.50	14.40	14.10	14.00	14.30	14.20
GBP/ZAR	23.93	21.89	21.12	20.00	19.35	18.69	18.71	18.58	18.24	18.20	18.59	18.46
EUR/ZAR	20.49	18.98	18.48	17.52	17.10	16.64	16.68	16.56	16.22	16.24	16.59	16.47
ZAR/JPY	7.87	8.77	8.85	9.16	9.27	9.38	9.38	9.44	9.50	9.43	9.09	9.15
CHFZAR	21.59	19.43	18.33	17.03	16.48	16.04	15.93	15.82	15.49	15.38	15.71	15.60
AUDZAR	12.41	11.46	11.06	10.54	10.20	10.07	10.01	9.94	9.73	9.66	9.87	9.80
GBP/USD	1.27	1.28	1.28	1.29	1.29	1.28	1.29	1.29	1.29	1.30	1.30	1.30
EUR/USD	1.09	1.11	1.12	1.13	1.14	1.14	1.15	1.15	1.15	1.16	1.16	1.16
USD/JPY	148	150	146	142	139	137	136	136	134	132	130	130

Note: averages, Source: Investec, Iress

Extreme Up Case: Exchange Rate forecasts												
	2024				2025				2026			
	Q1.24	Q2.24	Q3.24	Q4.24	Q1.25	Q2.25	Q3.25	Q4.25	Q1.26	Q2.26	Q3.26	Q4.26
USD/ZAR	18.87	17.10	16.50	15.50	15.00	14.60	14.50	14.40	14.10	14.00	14.30	14.20
GBP/ZAR	23.93	21.89	21.12	20.00	19.35	18.69	18.71	18.58	18.24	18.20	18.59	18.46
EUR/ZAR	20.49	18.98	18.48	17.52	17.10	16.64	16.68	16.56	16.22	16.24	16.59	16.47
ZAR/JPY	7.87	8.77	8.85	9.16	9.27	9.38	9.38	9.44	9.50	9.43	9.09	9.15
CHFZAR	21.59	19.43	18.33	17.03	16.48	16.04	15.93	15.82	15.49	15.38	15.71	15.60
AUDZAR	12.41	11.46	11.06	10.54	10.20	10.07	10.01	9.94	9.73	9.66	9.87	9.80
GBP/USD	1.27	1.28	1.28	1.29	1.29	1.28	1.29	1.29	1.29	1.30	1.30	1.30
EUR/USD	1.09	1.11	1.12	1.13	1.14	1.14	1.15	1.15	1.15	1.16	1.16	1.16
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