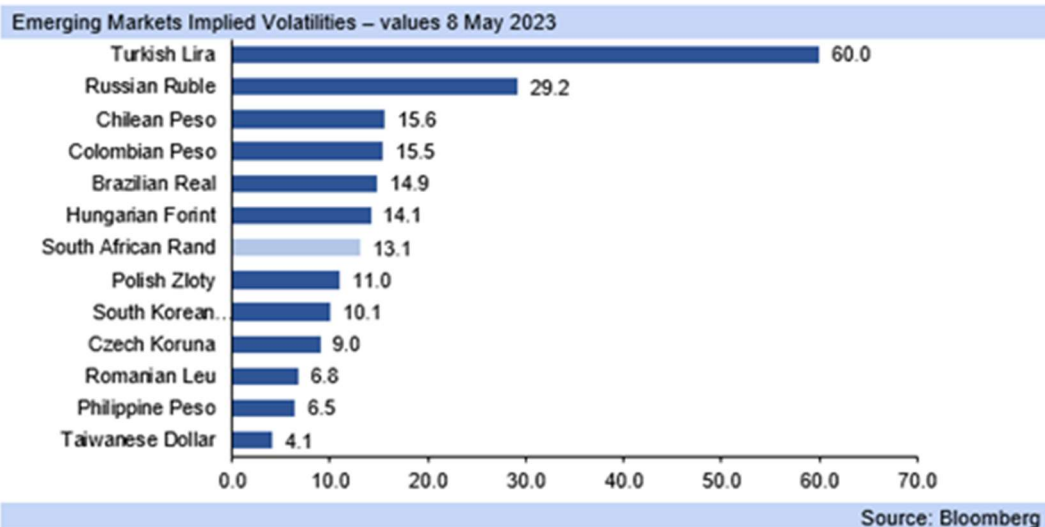


SA Economics

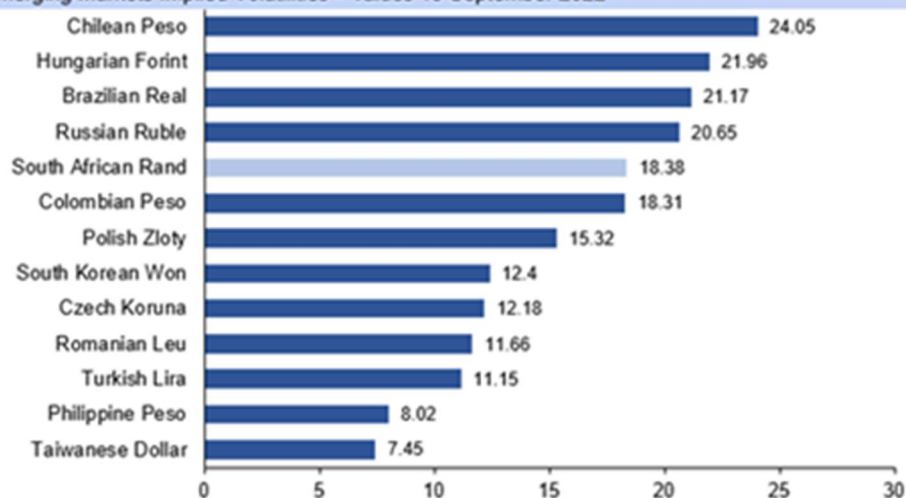


Rand note: still extremely weak around R18.30/USD, and now weakening against the crosses

Monday 8 May 2023

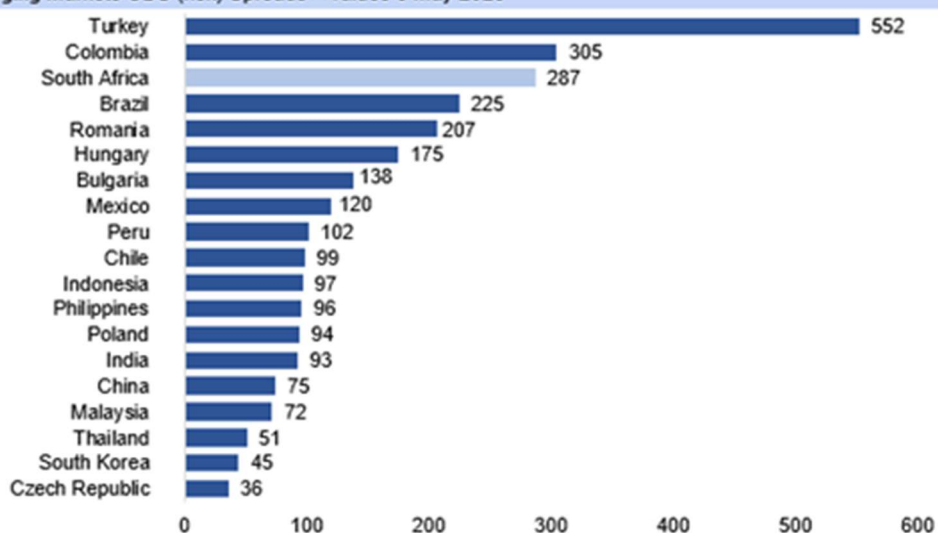


Emerging Markets Implied Volatilities – values 19 September 2022

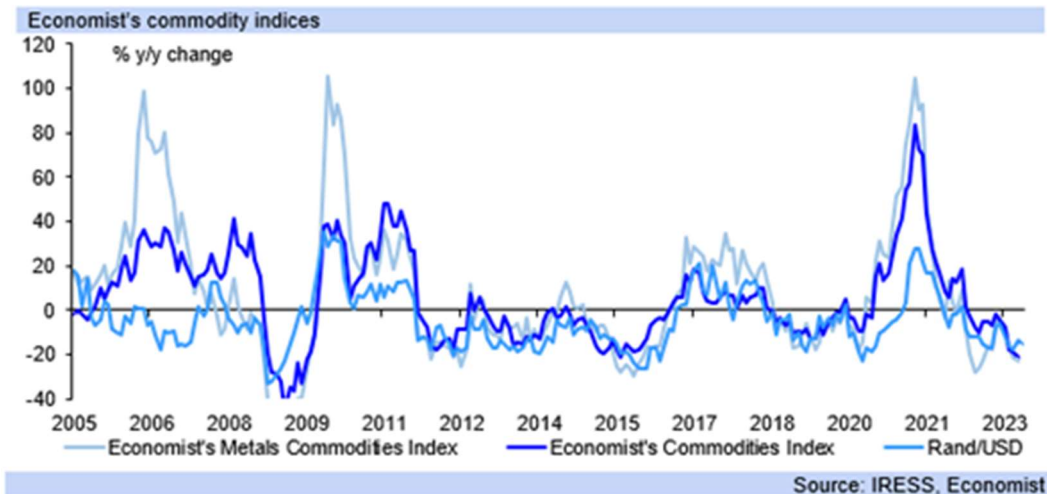


Source: Bloomberg

Emerging Markets CDS (risk) Spreads – values 8 May 2023



Source: Bloomberg



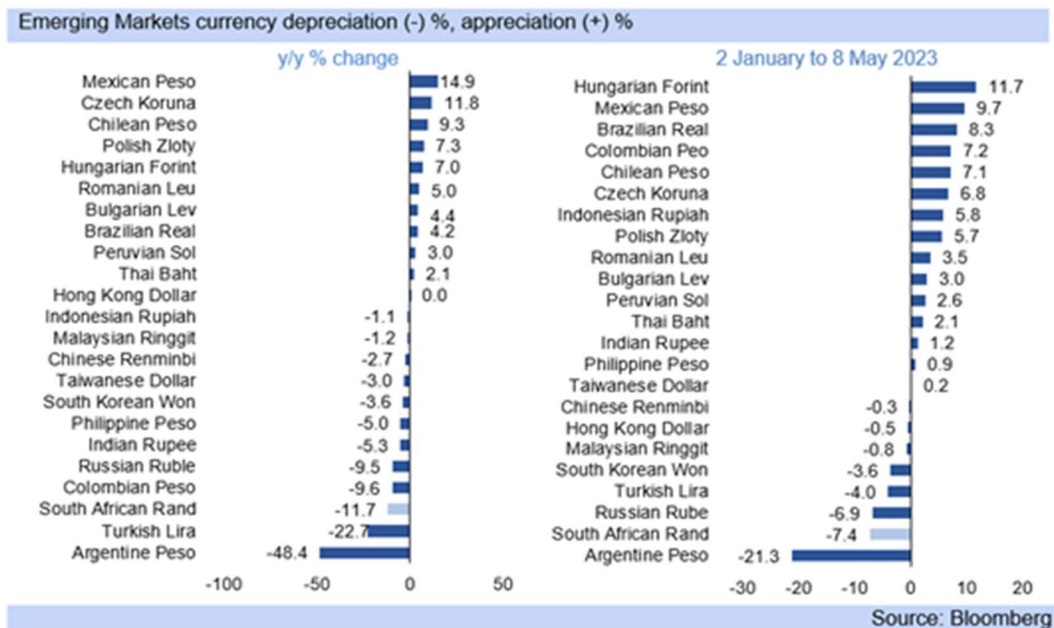
Expected Case: Exchange Rate forecasts												
	2023				2024				2025			
	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24	Q1.25	Q2.25	Q3.25	Q4.25
USD/ZAR	17.76	18.00	17.80	17.60	17.25	17.45	17.65	17.35	17.05	17.05	17.15	16.95
GBP/ZAR	21.59	22.44	22.25	22.18	22.08	22.60	23.03	22.73	22.17	22.17	22.30	22.04
EUR/ZAR	19.06	19.79	19.76	19.89	19.84	20.33	20.74	20.47	19.95	19.95	20.07	19.83
ZAR/JPY	7.45	7.36	7.22	7.16	7.16	6.99	6.86	6.92	7.86	7.74	7.64	7.67
CHF/ZAR	19.20	20.01	19.56	19.22	18.80	19.09	19.38	19.13	18.74	18.74	18.85	18.63
AUD/ZAR	12.14	12.13	12.28	12.50	12.42	12.56	12.80	12.67	12.96	13.13	13.55	13.39
GBP/USD	1.22	1.25	1.25	1.26	1.28	1.30	1.31	1.31	1.30	1.30	1.30	1.30
EUR/USD	1.07	1.10	1.11	1.13	1.15	1.17	1.18	1.18	1.17	1.17	1.17	1.17
USD/JPY	132	132	129	126	124	122	121	120	122	125	128	130

Note: averages, Source: Investec, Iress

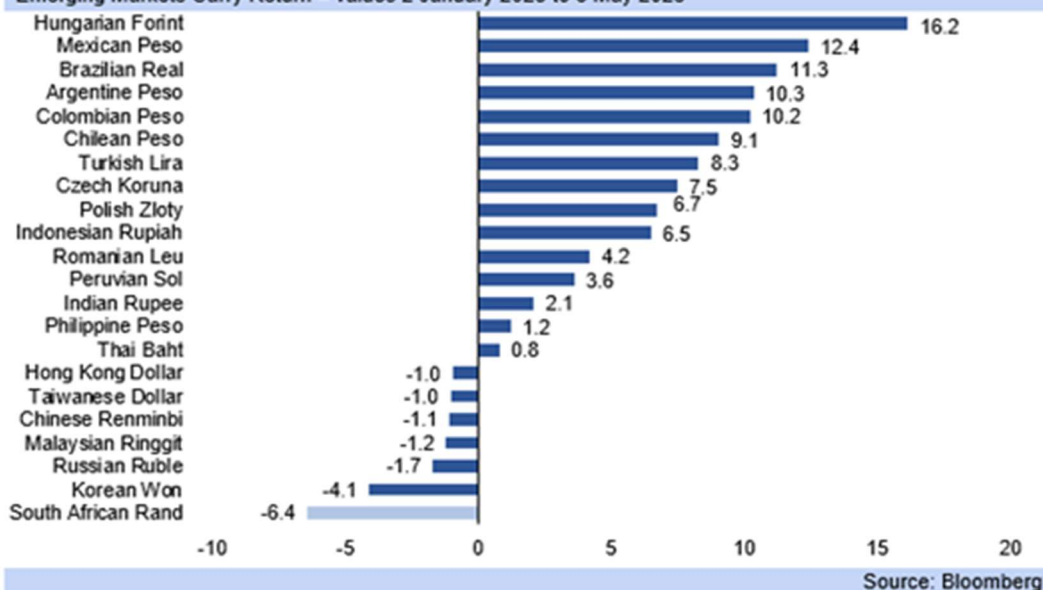
- The rand remains around R18.30/USD, still seeking a directional driver as a risk averse environment persists in global financial markets, and so for EM markets and currencies. Monetary policy globally is also seen to likely have some divergence.
- While the financial markets have taken the latest Fed interest rate decision meeting as reaching the terminal (highest range for the fed funds) rate in the current US interest rate hike cycle, the FOMC statement was not definitely clear on this.
- The ECB, however, has clearly said that its recent hike is not the last in the current cycle, with ECB President Christine Lagarde stating “(w)e have more ground to cover and we are not pausing, that is extremely clear”.
- The benchmark deposit rate of the ECB is now at 3.25%, lagging the rapid pace of hikes in the US, with the focus firmly on subduing inflation still, and that this month’s hike would not be the last this year, despite monetary policy in “restrictive territory”.
- In South Africa, a 25bp hike is fully factored in for the repo rate, and indeed the FRAs are pricing in a 33bp lift at SA’s meeting on 25th, still leaving some space for a repeat of the last MPC move when the SARB lifted its Bank rate by 50bp.

- The US has hiked by a huge 500bp to date in its current cycle, and South Africa by only 425bp, causing the differential between SA and US interest rates to drop substantially during a risk averse period, which has weakened the rand.
- In a risk off environment, SA should offer a higher risk premium return on the rand, not a lower one, in order to keep the rand stable, but the erosion of the differential between SA and US rates has lowered the risk premium instead.
- Consequently, it is no surprise that the rand has weakened substantially over the past twelve months of risk-off in global financial markets, from R14.50/USD to R18.50/USD, as the US dollar has strengthened and the rand weakened.
- The rand has also reached R20.43/EUR and R23.31/GBP, from 15.65/EUR and R18.77/GBP mid-April 2022, with this broad based rand weakness most likely to add to inflationary pressures in South Africa as the pass through effect has escalated.

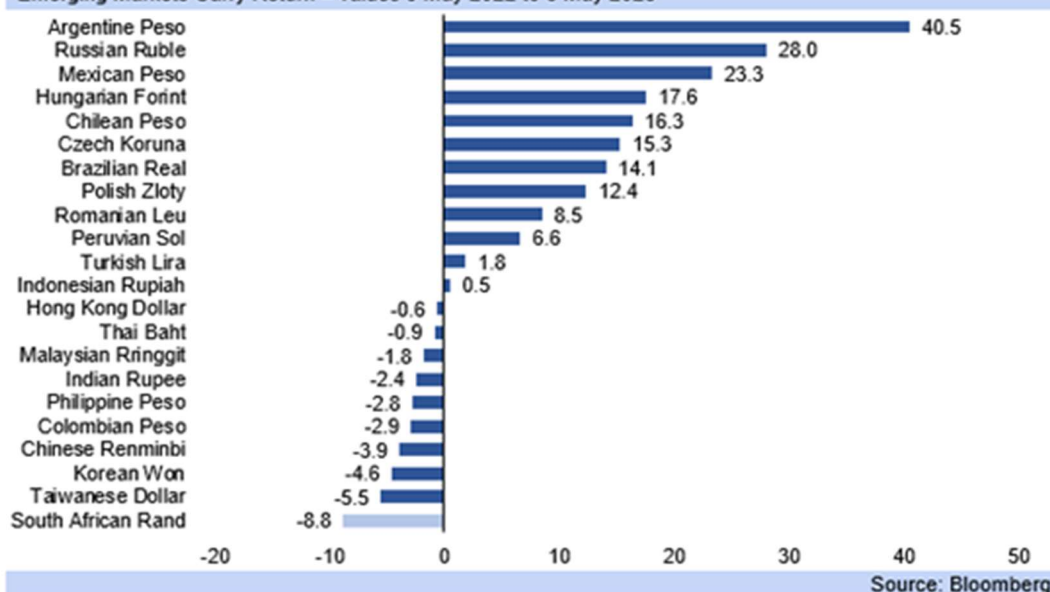
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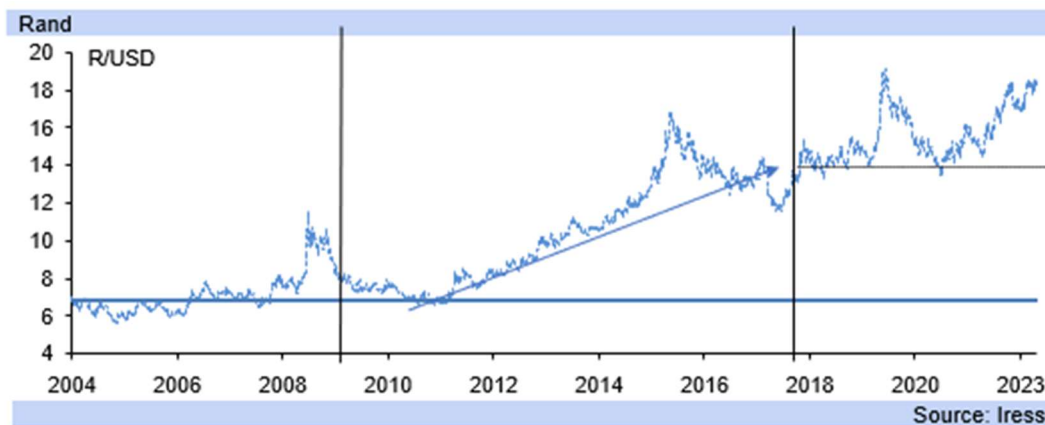
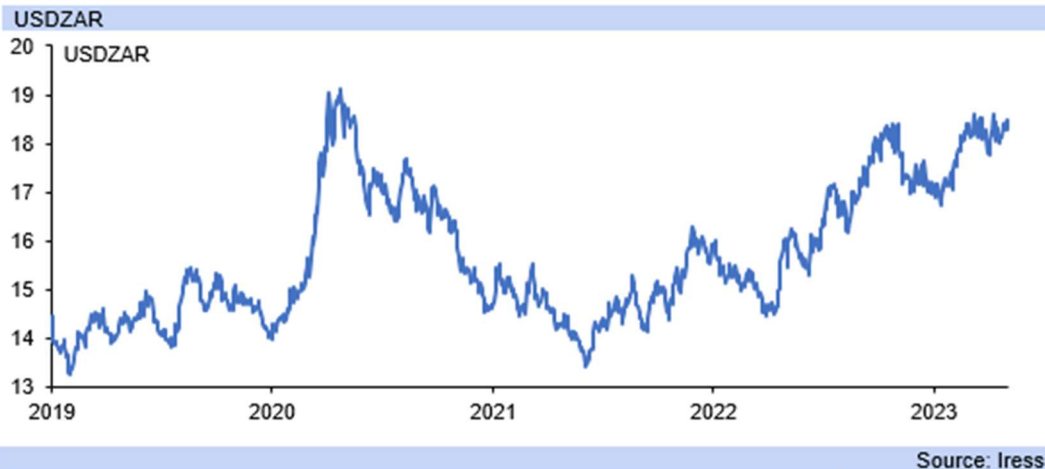


Emerging Markets Carry Return – values 2 January 2023 to 8 May 2023



Emerging Markets Carry Return – values 9 May 2022 to 8 May 2023





- The US dollar generally weakened since September, as markets increasingly factored in the approach of the terminal US rate, while the rand has continued weakening, depreciating against key currencies such as the EUR and GBP.
- The rand has weakened on a trade weighted basis, which has added to inflationary pressures, with both lagged and fairly direct effects, with SA's targeted measure of inflation at 7.1% y/y well removed from the targeting midpoint of 4.5% y/y.
- A 50bp hike in the repo rate this month would strengthen the domestic currency, particularly as the market has not fully factored it in, restoring some erosion in the differential but not the full 75bp that is lacking currently.
- Indeed, with the US deemed to have ended its rate hike cycle, and the ECB expected to end theirs this year, the SARB may wish to front load a rate hike this month, delivering a 50bp hike instead of 25bp.
- After the recent interest rate decision of the ECB, its President Christine Lagarde, noted that some members of its monetary policy setting committee had wanted a bigger hike than 25bp (50bp).

- For SA, the SARB should not miss this opportunity to restore some of the risk premium for the rand by hiking by 50bp instead of 25bp this month, with financial markets pulling in their expectation recently of the size of the domestic hike.
- That is, markets had factored in a 40bp hike a week ago and this has now fallen closer to 30bp, which means that delivering a 50bp hike at SA's MPC meeting on 25th May would likely move the rand stronger.
- The US-mini banking crisis occurred shortly after the last 50bp hike in SA interest rates, causing the domestic currency to strengthen by less than it would have if global financial markets had not turned substantially more risk-off at the time.
- The rand risks becoming entrenched at the current very weak levels, negatively affecting inflation and sentiment, and depreciation has not boosted the terms of trade either this year as falling electricity supply and freight capacity weakens exports.

Economic Scenarios: note updated probabilities

		Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24
Extreme	USD/Rand (average)	17.76	16.60	15.90	15.50	15.00	14.60	14.50	14.40
Up case	Repo rate (end rate)	7.75	7.00	6.75	6.50	6.00	6.00	5.75	5.50
1%	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		Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24
1%	USD/Rand (average)	17.76	17.50	17.20	16.90	16.50	16.10	16.00	15.70
	Repo rate (end rate)	7.75	7.25	7.25	7.25	6.75	6.75	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		Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24
	USD/Rand (average)	17.76	18.00	17.80	17.60	17.25	17.45	17.65	17.35
48%	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		Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24
(domestic)	USD/Rand (average)	17.76	18.60	18.70	19.00	18.60	18.75	18.90	18.70
Down case	Repo rate (end rate)	7.75	8.00	8.50	9.00	9.00	9.00	9.00	9.00
40%	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		Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24
down case	USD/Rand (average)	17.76	19.30	19.70	20.00	20.20	20.50	20.80	21.20
10%	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	18.60	18.70	19.00	18.60	18.75	18.90	18.70	18.60	18.70	18.70	18.60
GBP/ZAR	21.59	23.19	23.38	23.94	23.81	24.28	24.66	24.50	24.18	24.31	24.31	24.18
EUR/ZAR	19.06	20.45	20.76	21.47	21.39	21.84	22.21	22.07	21.76	21.88	21.88	21.76
ZAR/JPY	7.45	7.12	6.87	6.63	6.64	6.51	6.40	6.42	7.20	7.06	7.01	6.99
CHF/ZAR	19.20	20.68	20.55	20.74	20.27	20.51	20.75	20.62	20.44	20.55	20.55	20.44
AUD/ZAR	12.14	12.53	12.90	13.49	13.39	13.50	13.70	13.65	14.14	14.40	14.77	14.69
GBP/USD	1.22	1.25	1.25	1.26	1.28	1.30	1.31	1.31	1.30	1.30	1.30	1.30
EUR/USD	1.07	1.10	1.11	1.13	1.15	1.17	1.18	1.18	1.17	1.17	1.17	1.17
USD/JPY	132	132	129	126	124	122	121	120	122	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	17.50	17.20	16.90	16.50	16.10	16.00	15.70	15.40	15.40	15.50	15.30
GBP/ZAR	21.59	21.82	21.50	21.29	21.12	20.85	20.88	20.57	20.02	20.02	20.15	19.89
EUR/ZAR	19.06	19.24	19.09	19.10	18.98	18.76	18.80	18.53	18.02	18.02	18.14	17.90
ZAR/JPY	7.45	7.57	7.47	7.46	7.48	7.58	7.56	7.64	7.92	8.12	8.26	8.50
CHF/ZAR	19.20	19.46	18.90	18.45	17.99	17.61	17.57	17.31	16.92	16.92	17.03	16.81
AUD/ZAR	12.14	11.79	11.87	12.00	11.88	11.59	11.60	11.46	11.70	11.86	12.25	12.09
GBP/USD	1.22	1.25	1.25	1.26	1.28	1.30	1.31	1.31	1.30	1.30	1.30	1.30
EUR/USD	1.07	1.10	1.11	1.13	1.15	1.17	1.18	1.18	1.17	1.17	1.17	1.17
USD/JPY	132	132	129	126	124	122	121	120	122	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	24.06	24.63	25.20	25.86	26.55	27.14	27.77	27.17	27.17	27.30	27.04
EUR/ZAR	19.06	21.22	21.87	22.60	23.23	23.88	24.44	25.02	24.45	24.45	24.57	24.34
ZAR/JPY	7.45	6.86	6.52	6.30	6.11	5.95	5.82	5.66	5.84	5.98	6.10	6.25
CHF/ZAR	19.20	21.46	21.65	21.84	22.02	22.42	22.84	23.38	22.97	22.97	23.08	22.86
AUD/ZAR	12.14	13.00	13.59	14.20	14.54	14.76	15.08	15.48	15.88	16.09	16.59	16.43
GBP/USD	1.22	1.25	1.25	1.26	1.28	1.30	1.31	1.31	1.30	1.30	1.30	1.30
EUR/USD	1.07	1.10	1.11	1.13	1.15	1.17	1.18	1.18	1.17	1.17	1.17	1.17
USD/JPY	132	132	129	126	124	122	121	120	122	125	128	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	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	20.70	19.88	19.53	19.20	18.91	18.92	18.86	18.59	18.72	18.85	18.59
EUR/ZAR	19.06	18.25	17.65	17.52	17.25	17.01	17.04	16.99	16.73	16.85	16.97	16.73
ZAR/JPY	7.45	7.98	8.08	8.13	8.23	8.36	8.34	8.33	8.53	8.68	8.83	9.09
CHFZAR	19.20	18.46	17.47	16.92	16.35	15.97	15.92	15.88	15.71	15.82	15.93	15.71
AUDZAR	12.14	11.18	10.97	11.01	10.80	10.51	10.51	10.51	10.87	11.09	11.46	11.30
GBP/USD	1.22	1.25	1.25	1.26	1.28	1.30	1.31	1.31	1.30	1.30	1.30	1.30
EUR/USD	1.07	1.10	1.11	1.13	1.15	1.17	1.18	1.18	1.17	1.17	1.17	1.17
USD/JPY	132	132	129	126	124	122	121	120	122	125	128	130

Note: averages, Source: Investec, Iress