

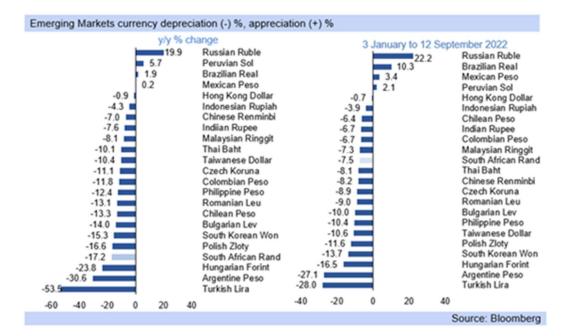


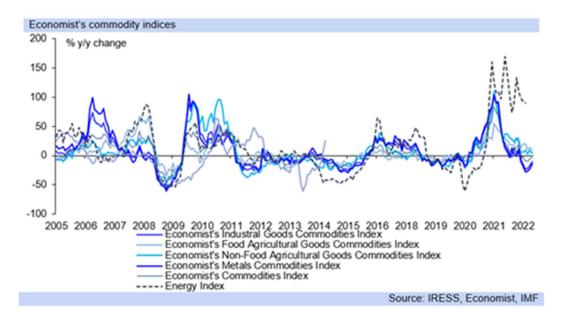
SA Economics

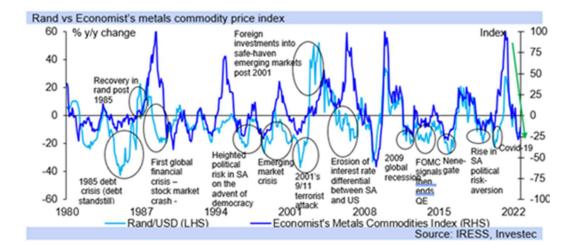
Monday 12 September 2022

Rand note: the volatile rand pulls stronger as risk sentiment in financial markets fluctuates





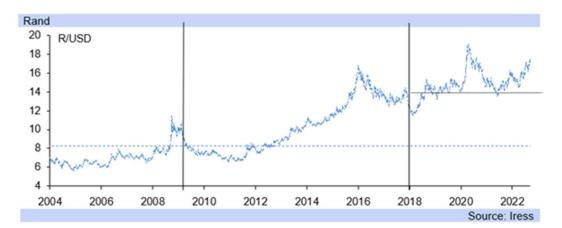




Expected C	ase: Exc	hange R	ate foreca	asts									
	2022					20	23		2024				
	Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24	
USD/ZAR	15.21	15.59	16.80	16.00	15.80	16.20	16.60	16.10	15.90	16.40	16.90	16.40	
GBP/ZAR	20.40	19.59	20.08	19.04	18.88	19.52	20.34	20.13	20.35	21.32	22.82	22.63	
EUR/ZAR	17.07	16.60	17.14	16.32	16.27	17.01	17.76	17.55	17.81	18.86	19.94	20.17	
ZAR/JPY	7.65	8.33	8.13	8.34	8.29	7.96	7.65	7.80	7.74	7.20	6.80	6.71	
CHFZAR	16.47	16.15	17.37	16.65	16.60	17.18	17.59	16.96	17.47	18.02	18.57	18.02	
AUDZAR	11.02	11.14	11.63	11.20	11.30	11.99	12.53	12.32	12.40	12.79	13.18	12.79	
GBP/USD	1.34	1.26	1.20	1.19	1.20	1.21	1.23	1.25	1.28	1.30	1.35	1.38	
EUR/USD	1.12	1.06	1.02	1.02	1.03	1.05	1.07	1.09	1.12	1.15	1.18	1.23	
USD/JPY	116	130	137	134	131	129	127	126	123	118	115	110	
								Note	: average:	s, Source	e: Investe	ec, Iress	

- US CPI inflation is due for release, with markets' expecting a second month of disinflation (falling inflation) in the print, driving some risk taking sentiment recently as the rand closed at R17.28/USD on Friday, and reached R17.07/USD today.
- The US dollar is weakening in anticipation of the US headline (CPI) inflation print dropping to 8.0% y/y for August, down from 8.5% y/y, and a -0.1% m/m move in CPI, although excluding food and energy, the reading is likely to rise to 6.1% y/y in August, from 5.9% y/y in July.
- While markets are taking a positive view of this week's headline US inflation release, the Fed will, in particular, look for broadening base effects, which the CPI excluding food and energy is likely to show, and so the recent dollar weakness/ rand strength risks being temporary.
- With the US CPI figures released tomorrow afternoon there could be space for the rand to strengthen in the interim. However, overall the rand is still very weak, well removed from fair value and still reflective of an elevated risk aversion environment, despite some volatility.
- The rand is likely to fluctuate, weaker and stronger, for the remainder of this month and into Q4.22, retaining high sensitivity to any and all US inflation figures, but key for the Fed remains the core PCE deflator. Q4.22 may bring increased possibility of rand strength however.

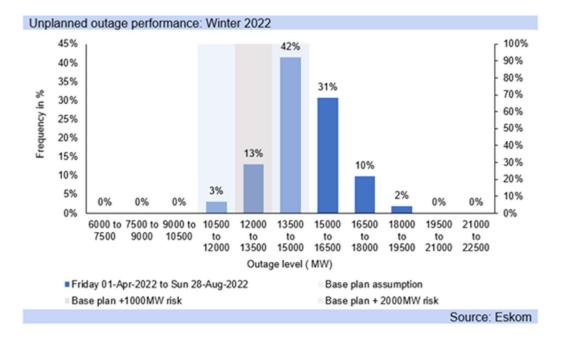
- This week, markets will react directly to the US CPI figures, influencing the US dollar and so the rand. Currently the Fed funds futures rate shows a 73bp hike is factored in by markets at the FOMC meeting this month (on 21st September), essentially factoring in a 75bp move.
- Market expectations for September's US interest rate move have been fluctuating, closer to between 50bp and 75 earlier in the month, and a lower than expected CPI print tomorrow could see the market move its rate hike view back closer to 50bp if this occurs.
- The rand could see further strength against the greenback on such an eventuality as the US dollar weakens a bit further, but this short-term volatility risks being overrode by the PPI print coming out higher than expected later in the week, or any following inflation indicator.
- Volatility is likely to persist for the rand against the US dollar, while it has experienced greater stability against the GBP and EUR. However, over Q4.22 it may well see some more fundamental strengthening, drawing towards R16.00/USD instead of R17.00/USD.



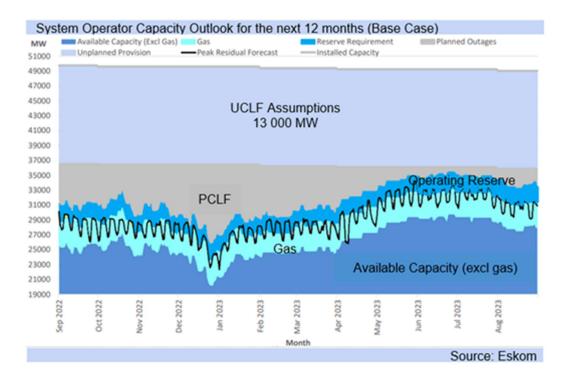
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		Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.23
xtreme	USD/Rand (average)	15.21	15.59	15.00	14.50	14.00	13.60	13.40	13.30
p case	Repo rate (end rate)	4.25	4.75	4.50	4.00	3.75	3.75	3.50	3.50
b case	SA economic growth rises								
	constraints eradicated), stro High business confidence al low ratios of 2000s. Very su conditions. Strong global g transition away from fossil for	ng propert nd fixed inv ubdued dor rowth, risk	y rights, no restment g nestic infla -on, comm	o national rowth, su ation on e nodity bo	lisation or bstantial F xtreme rar om. Rapic	expropria DI, fiscal nd strengt upgrade	tion witho consolidat h, very fa	ut competion drive vourable	ensation. s debt to weather
p case		Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.23
%	USD/Rand (average)	15.21	15.59	15.70	15.30	15.00	14.70	14.60	14.50
	Repo rate (end rate) Economic growth of 3%, ris	4.25	4.75	4.75	4.50	4.25	4.25	4.25	4.25
	growth strong, global financ Low domestic inflation on fa price inflation on increased p consolidation, debt projectii fossil fuel usage, comprehe	vourable w private private pri	eather an atisation. P ostantially.	d global o ositive ou Substan	tionditions, tooks on tial transit	rand street credit ration ion to ren	ngth, lowe gs turn in ewable e	to upgrad nergy av	ontrolled les fiscal
	loosi lael asayo, comprene	Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.23
ase	USD/Rand (average)	15.21	15.59	16.80	16.00	15.80	16.20	16.60	16.10
ase	Repo rate (end rate)	4.25	4.75	6.00	6.50	6.50	6.50	6.50	6.50
	reportate (end rate)	4.2.0	4.10	0.00	0.00	0.00	0.00	0.00	
0%	Economic growth modest b measures, global financial n category bracket as fiscal outlooks. The rand sees mi food price inflation. Little	narket risk consolidati ild weaknes expropriati	sentiment ion (debt ss and infl on withou	is neutral to GDP ation is in t compen	to positive stabilisation mpacted be sation oc	e. South A n) occurs y the cou curs and	drica in the leading rse of we has no n	to some ather patiegative	dit rating positive terns via effect on
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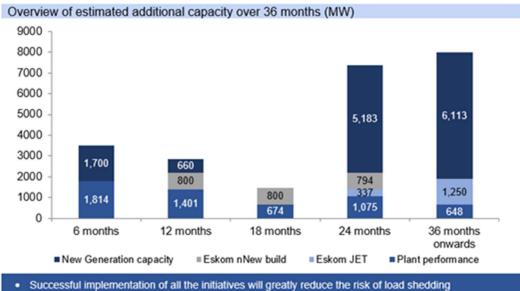
Emerging Markets CDS (risk) Spreads - values 12 September 2022



- That is, marked evidence US inflation is on a definite downwards trend would relieve a lot of the fundamental risk aversion that is in financial markets (versus the short-term volatility in reaction to key economic data readings which causes some currency swings).
- Indeed, the rand would likely strengthen quite quickly as the US dollar retreats, with the US Fed reducing the size of its rate hikes on a falling US inflation trend. Market expectations tend to run ahead of events, which could see a sudden rand acceleration in strength.
- Our forecast for Q4.22 may prove too strong, and the Q3.22 forecast average more in line with Q3.22's outcome. However, high volatility is likely too, with the potential for marked rand strength over the remainder of this month and Q4.22 seasonally as well.
- The last time the rand was below R17.00/USD was at the end of August, but September is often a month of churn where Northern Hemisphere market players take on more investment risk, having returned from summer vacations, and are back in the markets.
- The highly volatile rand could very easily track back towards R16.60/USD by the end of this month, but to move to R16.00/USD over Q4.22 will however require much more momentum, and a shift in global financial market sentiment to risk-on.
- While this is possible, and the rand has moved very substantially before, it will require more market certainty on the direction of US inflation and interest rates than currently, as well as a lessening in perceived risk of both US and global recession.
- For South Africa, frequent load shedding this year adds to risks of a weaker growth outlook, as does slowing global growth. The current load shedding is due to some unplanned outages (including Arnot, Duvha and Medupi) as well as scheduled maintenance (Koeberg- refueling).
- Other power stations are underperforming, particularly Kusile, with emissions controls (flue gas desulfurisation) causing unplanned outages, as the technology remains

problematic with a single point of failure causing an entire electricity producing unit to be shut down.

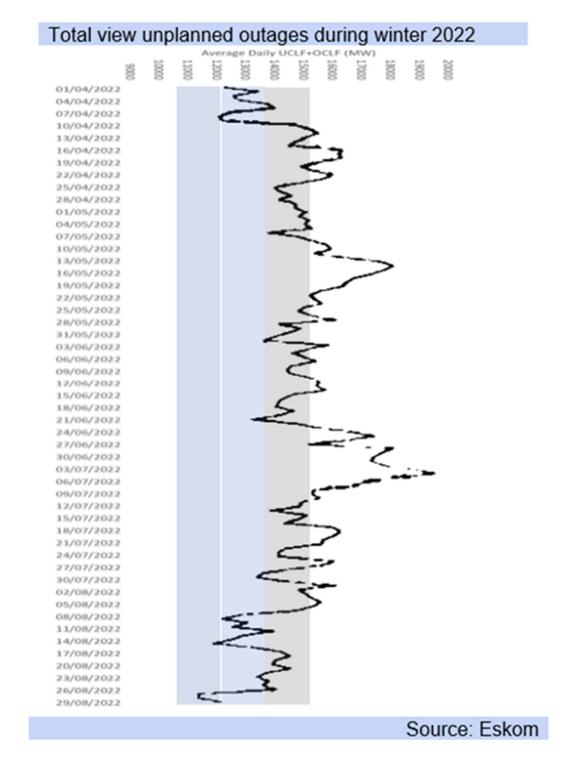
 Kriel power station experienced a reported a large theft of diesel by a criminal syndicate, causing a severe loss of power. These factors all add a weak underpin to the rand and the domestic currency is not expected to return to R15.00/USD in the remainder of this year.



Timing of the new generation capacity is dependent on the market response and regulatory processes

Source: Eskom

Notes: Plant performance is based on generation recovery plan to address load losses and includes Kusile units currently in operation. New build includes commissioning of units 5 and 6 at Kusile, and recovery of unit 4 at Medupi (Aug 2024). Procurement of new generation capacity consists of 1. Standard offer emergency procurement, imports from the region – 2300MW in the next 12 months. 2. Land leasing initiative and section 34 procurement (RMIPPPP, battery storage and bod window 5,6 included in the latter part of the plan), 24 months onwards. Additional -1450 MW of demand management interventions over 3 years.



		20	22			20	23		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	17.60	18.00	18.30	18.50	18.60	19.00	19.30	19.40	19.30	19.30
GBP/ZAR	20.40	19.59	21.03	21.42	21.87	22.29	22.79	23.75	24.70	25.22	26.06	26.63
EUR/ZAR	17.07	16.60	17.95	18.36	18.85	19.43	19.90	20.71	21.62	22.31	22.77	23.74
ZAR/JPY	7.65	8.33	7.76	7.42	7.16	6.97	6.83	6.61	6.37	6.08	5.96	5.70
CHFZAR	16.47	16.15	18.20	18.73	19.23	19.62	19.71	20.01	21.21	21.32	21.21	21.21
AUDZAR	11.02	11.14	12.18	12.60	13.08	13.69	14.04	14.54	15.05	15.13	15.05	15.05
GBP/USD	1.34	1.26	1.20	1.19	1.20	1.21	1.23	1.25	1.28	1.30	1.35	1.38
EUR/USD	1.12	1.06	1.02	1.02	1.03	1.05	1.07	1.09	1.12	1.15	1.18	1.23
USD/JPY	116	130	137	134	131	129	127	126	123	118	115	110
								Note	: average	s, Sourc	e: Investe	ec, Iress

	xchange		22			20	22		2024				
		20	22			20	23		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	15.70	15.30	15.00	14.70	14.60	14.50	14.90	15.00	14.50	14.50	
GBP/ZAR	20.40	19.59	18.76	18.21	17.93	17.71	17.89	18.13	19.07	19.50	19.58	20.01	
EUR/ZAR	17.07	16.60	16.02	15.61	15.45	15.44	15.62	15.81	16.69	17.25	17.11	17.84	
ZAR/JPY	7.65	8.33	8.70	8.73	8.73	8.78	8.70	8.66	8.26	7.87	7.93	7.59	
CHFZAR	16.47	16.15	16.23	15.92	15.76	15.59	15.47	15.27	16.37	16.48	15.93	15.93	
AUDZAR	11.02	11.14	10.87	10.71	10.73	10.88	11.02	11.09	11.62	11.70	11.31	11.31	
GBP/USD	1.34	1.26	1.20	1.19	1.20	1.21	1.23	1.25	1.28	1.30	1.35	1.38	
EUR/USD	1.12	1.06	1.02	1.02	1.03	1.05	1.07	1.09	1.12	1.15	1.18	1.23	
USD/JPY	116	130	137	134	131	129	127	126	123	118	115	110	

	2022					20	23		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	17.25	17.40	17.70	17.80	17.70	17.90	18.10	18.20	18.20	18.00
GBP/ZAR	20.40	19.59	20.61	20.71	21.15	21.45	21.68	22.38	23.17	23.66	24.57	24.84
EUR/ZAR	17.07	16.60	17.60	17.75	18.23	18.69	18.94	19.51	20.27	20.93	21.48	22.14
ZAR/JPY	7.65	8.33	7.92	7.67	7.40	7.25	7.18	7.01	6.80	6.48	6.32	6.11
CHFZAR	16.47	16.15	17.83	18.11	18.60	18.88	18.75	18.85	19.89	20.00	20.00	19.78
AUDZAR	11.02	11.14	11.94	12.18	12.66	13.17	13.36	13.69	14.12	14.20	14.20	14.04
GBP/USD	1.34	1.26	1.20	1.19	1.20	1.21	1.23	1.25	1.28	1.30	1.35	1.38
EUR/USD	1.12	1.06	1.02	1.02	1.03	1.05	1.07	1.09	1.12	1.15	1.18	1.23
USD/JPY	116	130	137	134	131	129	127	126	123	118	115	110