

Rand note: the second and third quarters of the year tend to be higher volatility periods for the rand

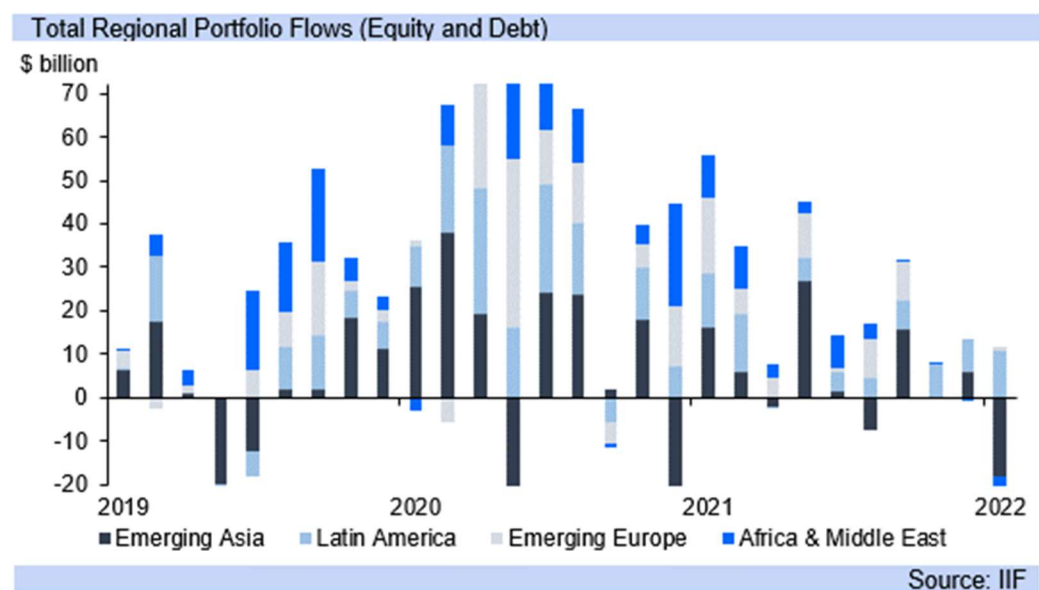
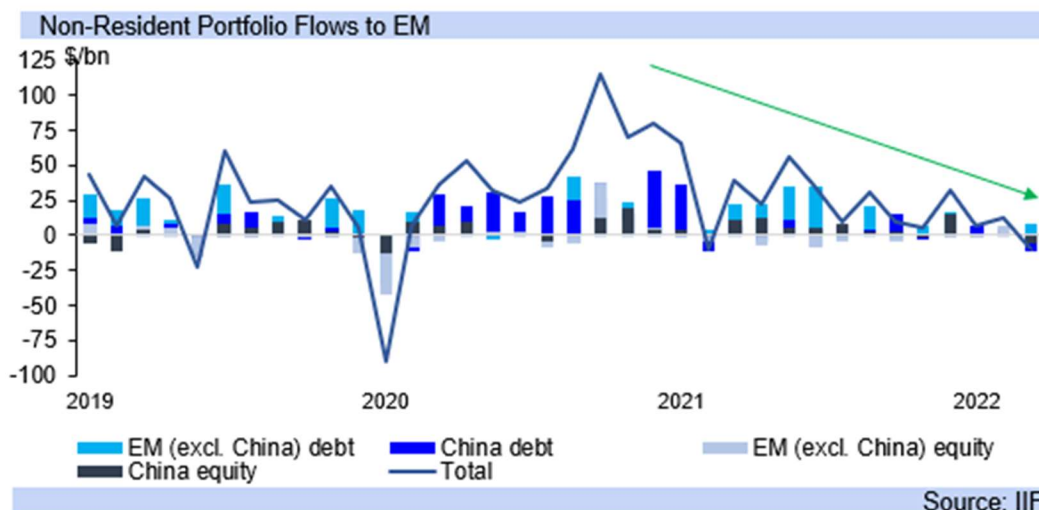
Expected Case: Exchange Rate forecasts												
	2022				2023				2024			
	Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.22	Q1.24	Q2.24	Q3.24	Q4.24
USD/ZAR	15.21	15.40	15.60	15.30	15.10	15.50	15.90	15.40	15.20	15.70	16.20	15.10
GBP/ZAR	20.40	19.99	20.12	20.04	20.08	20.93	21.62	21.02	21.28	22.45	23.49	20.08
EUR/ZAR	17.07	16.72	16.69	16.68	16.76	17.52	18.13	17.63	17.94	18.84	19.93	16.76
ZAR/JPY	7.65	8.03	8.04	8.10	8.08	7.77	7.55	7.79	7.76	7.32	6.79	8.08
CHF/ZAR	16.47	16.25	16.05	15.73	15.59	16.07	16.48	16.03	16.34	17.25	17.80	15.59
AUD/ZAR	11.02	11.33	11.47	11.70	11.78	12.25	12.72	12.32	11.86	12.25	12.64	11.78
GBP/USD	1.34	1.30	1.29	1.31	1.33	1.35	1.36	1.37	1.40	1.43	1.45	1.46
EUR/USD	1.12	1.09	1.07	1.09	1.11	1.13	1.14	1.15	1.18	1.20	1.23	1.25
USD/JPY	116	124	126	124	122	121	120	120	118	115	110	107

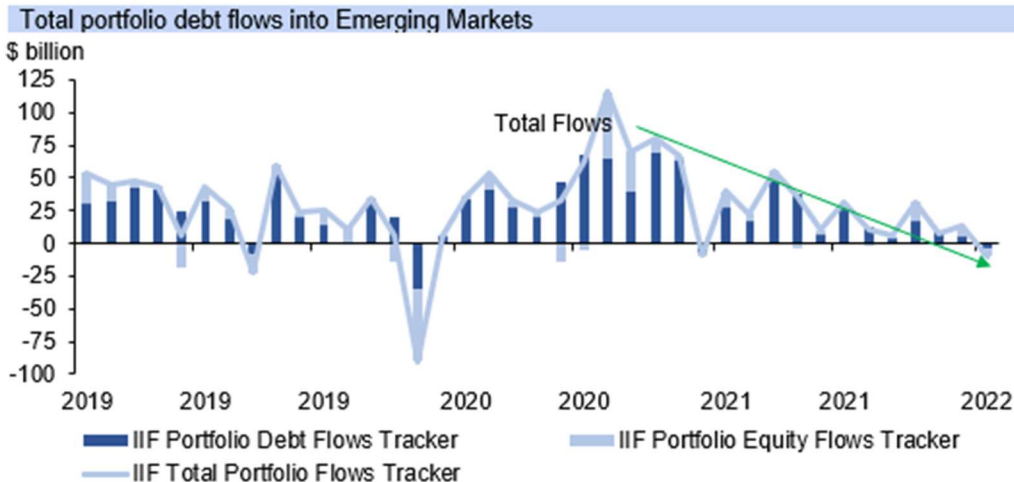
Note: averages, Source: Investec, Iress

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



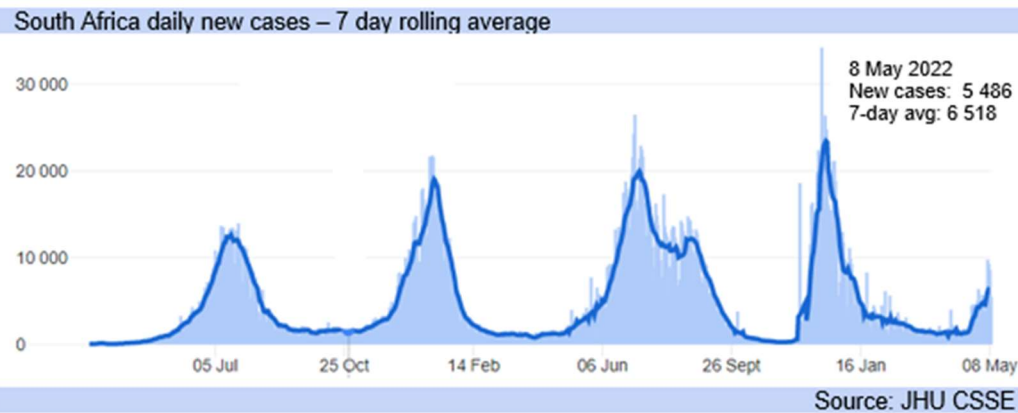
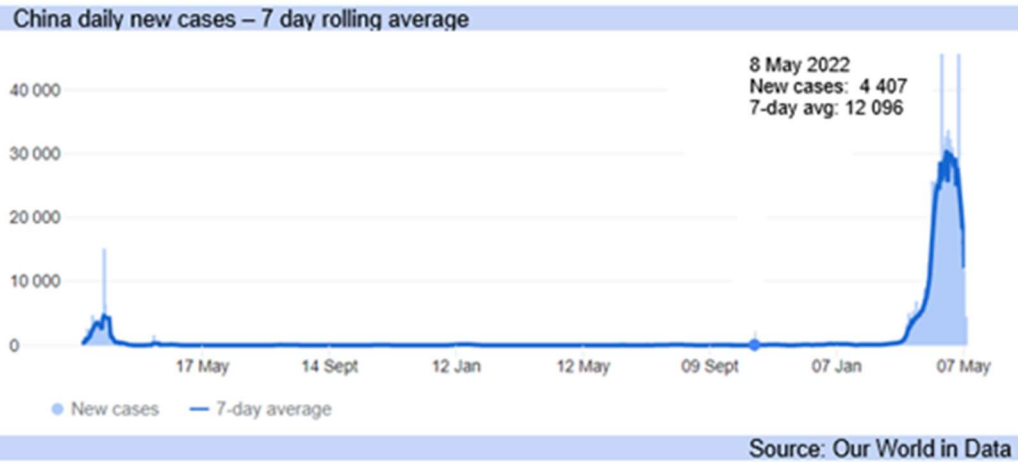
Source: Bloomberg



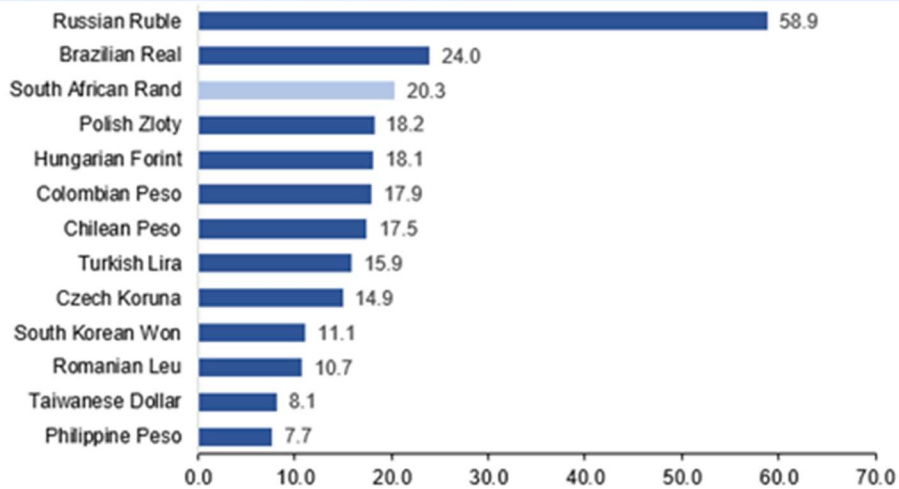


- Global financial markets have turned more severely risk off, driven by a number of factors, but chiefly that the typical risk averse period of the middle two quarters of the year (northern hemisphere summer period) coincides with the severe tightening cycle of the US.
- Global growth concerns have come to the fore, not just the effects of the severe interest rate hikes in the US, on both US and global growth, but also the surge in COVID-19 infections in China, and resultant lockdowns, and the increase in sanctions against Russia.
- The annual sell (risk assets)-in-May and-go-away (typically from risk asset trading) has exacerbated market sensitivity (typically increasingly thinner trading over Q2 and Q3), and the rand has increasingly weakened since the second half of April.
- Foreigners have been net sellers of SA equities, of -R26.7bn, respectively (net of purchases) from the second half of April to date (JSE trading data), which has weighed on the rand, while settled data shows only R2.8bn in net bond purchases (Bloomberg and the JSE).
- The JSE has dropped to 67 978, from 78 297 in March, while the MSCI emerging market bond index has tracked down since early April after some strength earlier in Q1.22, and then recovery in March from the impact of the start of the Russian/Ukraine conflict.
- However, foreigners are substantial sellers of EM portfolio assets, particularly China, and this has caught up with the rand too over April. Commodity prices fell over April, also subduing the rand, particularly for metals prices.
- Resource counters too cooled over the period, with this section of the JSE instrumental in its overall moderation. Coal prices are still elevated, a key export but SA is facing huge challenges meeting export demand, and stockpiles are growing for bulk exports.
- Indeed, rail deterioration has seen Transnet cancel long-term raiiling agreements for coal exporters reportedly under force majeure as the entity has been unable to overcome the damage from cable theft, inability to obtain locomotive spare parts and other issues.
- The April floods in KZN will also have damaged the currency's performance as it hit exports in that province, and in general foreign investors sentiment towards SA has been dulling. The rand has disassociated from the strong EM currencies' pack it was in earlier in the year.

Please scroll down to the second section below

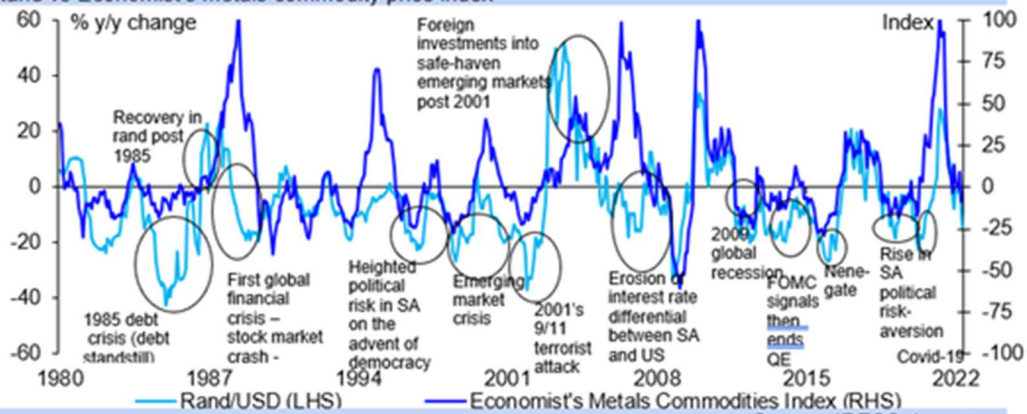


Emerging Markets Implied Volatilities – values 9 May 2022



Source: Bloomberg

Rand vs Economist's metals commodity price index



Source: IRESS, Investec

- The Brazilian real, Colombian and Mexican pesos, Russian ruble and Peruvian sol remain the leaders in the EM currency basket, all stronger since the start of the year, and the Brazilian real and the Russian ruble also against a year ago (Bloomberg data).
- The rand has failed to hold its own against increased USD strength, while the ruble has gained on special support measures, including requirements for oil and gas purchases to be made in rubles, export earnings to be converted into rubles and emergency capital controls.
- The Brazilian real has gained from the high prices of its key exports which include crude petroleum, wheat, soybeans, sugar, meat and iron ore, with many of these prices still high, or only seeing mild moderation against both a month and year ago.
- The rand is seen to be strongly undervalued at above R16.00/USD, and will likely track back to between R15.00/USD to R15.50/USD as USD strength eases. US CPI and PPI figures are due out on Wednesday and Thursday this week.

- Expectations are for US CPI inflation to ease to 8.1% y/y, from 8.5% y/y in March, and PPI inflation to drop to 10.7% y/y from 11.2% y/y, with lower outcomes likely highly positive for markets, which would reduce risk aversion and likely strengthen the rand.
- Base effects will increasingly suppress US inflation for the rest of 2022 and no further sharp run-up in commodity prices is expected. While 50bp hikes are expected at the next two FOMC meetings, a quicker run-down in inflation could see hikes of 25bp instead by Q3.22.
- Such a moderation in US rate hikes (a 50bp hike is still likely in the US in June but a 25bp in July instead is possible) would provide an extremely positive boost to financial markets, likely severely reducing the risk off mood currently prevailing.
- The USD's recent marked strength would likely ease, allowing the rand to recover. So far this quarter, the rand averages R15.20/USD, but is trading at R16.23/USD, R17.14/EUR and R20.11/GBP, with the crosses also suffering against the USD.
- SA's leading political party, the ANC, sees its elective conference at the end of this year with Cyril Ramaphosa expected to remain its leader, and so President of SA. However, noisy politics will also have the ability to weaken the rand.

Economic Scenarios: note tighter rate hike cycle for SA

		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	14.00	13.80	13.70	13.60	13.40	13.30	13.10
	Repo rate (end rate)	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50
	Impact of Covid-19 very rapidly resolved - economic growth of 3-5%, then 5-7% for SA. Good governance, growth-creating reforms (structural constraints overcome), strengthening of property rights - individuals obtain title deeds in EWC – no other EW or nationalisation. High business confidence and fixed investment growth, substantial FDI, strong fiscal consolidation (state debt falls back to low ratios of 2000s). Very subdued domestic inflation on extreme rand strength, rapid capacity expansion and very favourable weather conditions. Strong global growth, commodity boom. Stabilisation of credit ratings, then upgrades.								
Up case 2%	USD/Rand (average)	15.21	14.50	15.00	14.90	14.90	14.70	14.60	14.50
	Repo rate (end rate)	4.25	4.00	4.00	4.00	4.00	4.00	4.25	4.25
	Quick rebound from Covid-19 pandemic, rising confidence and investment levels - structural problems eroded. No further credit rating downgrades, become positive on fiscal consolidation (debt projections fall substantially). Global risk-on, global demand quickly returns to trend growth. Very limited impact of expropriation without compensation) to abandoned, labour tenants' and government land (individuals are new owners and receive title deeds) does not have a negative effect on economy - no nationalisation. Low domestic inflation on favourable weather conditions, rand strength reduction in state-controlled price inflation on increased private privatisation.								
Base case 5%	USD/Rand (average)	15.21	15.40	15.60	15.30	15.10	15.50	15.90	15.40
	Repo rate (end rate)	4.25	4.75	5.00	5.00	5.25	5.50	5.75	5.75
	Recovery from the sharp global economic slowdown by 2024 in real terms – sufficient global and domestic monetary and other policy supports to growth and financial markets occur and risk sentiment neutral to positive. Expropriation of private sector property is limited and does not have a negative impact on the economy or on market sentiment. SA remains in the BB category rating bracket fiscal consolidation (debt to GDP stabilisation) occurs. Civil and political unrest wanes. Inflation impacted by normal course of weather patterns via food price inflation and rand, with modest transition to renewable energy and slow move away from fossil fuel usage, measures to alleviate impact of climate change on economy are modestly implemented.								
Lite (domestic) Down case 40%	USD/Rand (average)	15.21	15.70	16.65	16.90	17.00	17.50	17.60	17.50
	Repo rate (end rate)	4.25	5.00	5.25	5.50	5.75	6.00	6.25	6.50
	The international environment (incl. risk sentiment) is that of the base case. South Africa fails to see its debt projections stabilise and falls into single B credit ratings from all three agencies for local and foreign currency. Recession occurs. Very limited expropriation of private commercial sector property without compensation, with some negative impact on the economy. Business confidence depressed, marked rand weakness and higher inflation (adverse weather), significant load shedding and weak investment growth. Substantial fiscal consolidation ultimately occurs, preventing ratings falling into the C grades.								
Severe down case 6%	USD/Rand (average)	15.21	16.80	17.50	18.00	18.50	18.70	19.20	19.55
	Repo rate (end rate)	4.25	5.25	5.75	6.25	6.50	7.00	7.50	7.75
	Lengthy global recession, global financial crisis – insufficient monetary and other policy supports to growth domestically and internationally. Depression in SA, severe rand weakness, very high inflation (very adverse weather). A somewhat wider level of nationalisation of private sector commercial property. SA rated single B from all three key agencies, with further rating downgrades eventually into CCC grade and the risk of moving towards default. Government borrows from increasingly wider sources as it sinks deeper into a debt trap, eventually include widespread civil unrest, services strike action and strike action.								

Note: Event risk begins Q222. Source: Investec

Lite Down Case: Exchange Rate forecasts

	2022				2023				2024			
	Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.22	Q1.24	Q2.24	Q3.24	Q4.24
USD/ZAR	15.25	15.70	16.65	16.90	17.00	17.50	17.60	17.50	17.20	17.00	16.80	17.00
GBP/ZAR	20.46	21.82	23.48	24.00	24.31	25.38	25.70	25.90	25.46	25.16	24.86	24.82
EUR/ZAR	17.10	18.06	19.31	19.94	20.23	21.00	21.30	21.35	21.50	21.25	21.00	21.25
ZAR/JPY	7.63	7.52	7.15	7.10	7.06	6.86	6.82	6.86	6.86	6.76	6.55	6.29
CHF/ZAR	16.51	17.07	18.10	18.57	18.48	19.02	19.13	19.02	18.90	18.68	18.46	18.68
AUD/ZAR	11.13	11.46	12.32	12.68	12.75	13.13	13.20	13.13	13.42	13.26	13.10	13.26
GBP/USD	1.34	1.39	1.41	1.42	1.43	1.45	1.46	1.48	1.48	1.48	1.48	1.46
EUR/USD	1.12	1.15	1.16	1.18	1.19	1.20	1.21	1.22	1.25	1.25	1.25	1.25
USD/JPY	116	118	119	120	120	120	120	120	118	115	110	107

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	Q4.22	Q1.24	Q2.24	Q3.24	Q4.24
USD/ZAR	15.25	14.50	15.00	14.90	14.90	14.70	14.60	14.50	14.50	14.40	14.40	14.30
GBP/ZAR	20.46	20.16	21.15	21.16	21.31	21.32	21.32	21.46	21.46	21.31	21.31	20.88
EUR/ZAR	17.10	16.68	17.40	17.58	17.73	17.64	17.67	17.69	18.13	18.00	18.00	17.88
ZAR/JPY	7.63	8.14	7.93	8.05	8.05	8.16	8.22	8.28	8.14	7.99	7.64	7.48
CHFZAR	16.51	15.76	16.30	16.37	16.20	15.98	15.87	15.76	15.93	15.82	15.82	15.71
AUDZAR	11.13	10.59	11.10	11.18	11.18	11.03	10.95	10.88	11.31	11.23	11.23	11.15
GBP/USD	1.34	1.39	1.41	1.42	1.43	1.45	1.46	1.48	1.48	1.48	1.48	1.46
EUR/USD	1.12	1.15	1.16	1.18	1.19	1.20	1.21	1.22	1.25	1.25	1.25	1.25
USD/JPY	116	118	119	120	120	120	120	120	118	115	110	107

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	Q4.22	Q1.24	Q2.24	Q3.24	Q4.24
USD/ZAR	15.25	14.00	13.80	13.70	13.60	13.40	13.30	13.10	12.90	12.80	12.60	12.30
GBP/ZAR	20.46	19.46	19.46	19.45	19.45	19.43	19.42	19.39	19.09	18.94	18.65	17.96
EUR/ZAR	17.10	16.10	16.01	16.17	16.18	16.08	16.09	15.98	16.13	16.00	15.75	15.38
ZAR/JPY	7.63	8.43	8.62	8.76	8.82	8.96	9.02	9.16	9.15	8.98	8.73	8.70
CHFZAR	16.51	15.22	15.00	15.05	14.78	14.57	14.46	14.24	14.18	14.07	13.85	13.52
AUDZAR	11.13	10.22	10.21	10.28	10.20	10.05	9.98	9.83	10.06	9.98	9.83	9.59
GBP/USD	1.34	1.39	1.41	1.42	1.43	1.45	1.46	1.48	1.48	1.48	1.48	1.46
EUR/USD	1.12	1.15	1.16	1.18	1.19	1.20	1.21	1.22	1.25	1.25	1.25	1.25
USD/JPY	116	118	119	120	120	120	120	120	118	115	110	107

Note: averages, Source: Investec, Iress

Severe Down Case: Exchange Rate forecasts												
	2022				2023				2024			
	Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.22	Q1.24	Q2.24	Q3.24	Q4.24
USD/ZAR	15.25	16.80	17.50	18.00	18.50	18.70	19.20	19.55	19.70	19.75	19.85	19.80
GBP/ZAR	20.46	23.35	24.68	25.56	26.46	27.12	28.03	28.93	29.16	29.23	29.38	28.91
EUR/ZAR	17.10	19.32	20.30	21.24	22.02	22.44	23.23	23.85	24.63	24.69	24.81	24.75
ZAR/JPY	7.63	7.02	6.80	6.67	6.49	6.42	6.25	6.14	5.99	5.82	5.54	5.40
CHFZAR	16.51	18.26	19.02	19.78	20.11	20.33	20.87	21.25	21.65	21.70	21.81	21.76
AUDZAR	11.13	12.26	12.95	13.50	13.88	14.03	14.40	14.66	15.37	15.41	15.48	15.44
GBP/USD	1.34	1.39	1.41	1.42	1.43	1.45	1.46	1.48	1.48	1.48	1.48	1.46
EUR/USD	1.12	1.15	1.16	1.18	1.19	1.20	1.21	1.22	1.25	1.25	1.25	1.25
USD/JPY	116	118	119	120	120	120	120	120	118	115	110	107

Note: averages, Source: Investec, Iress