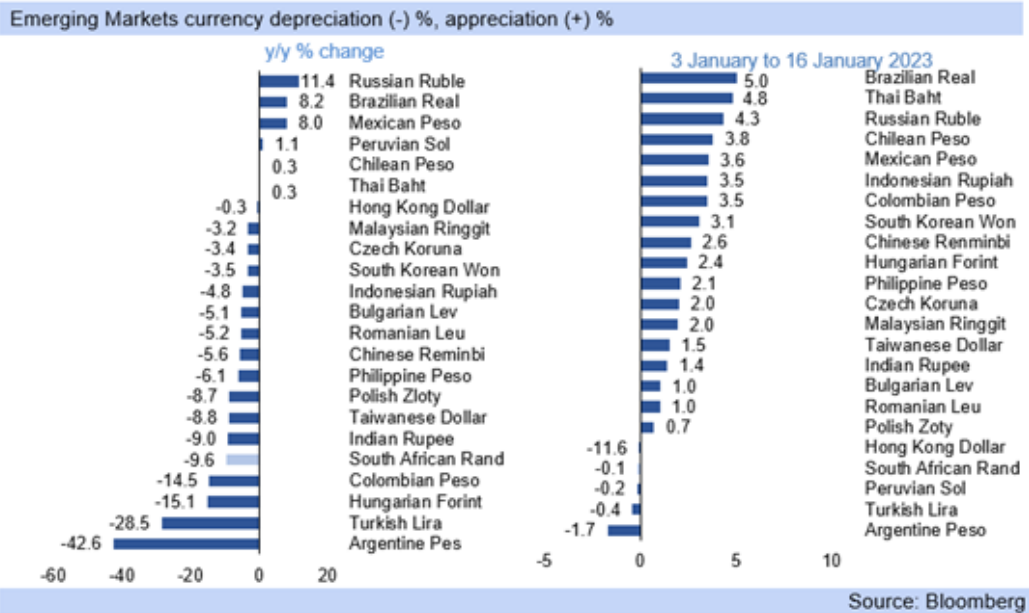


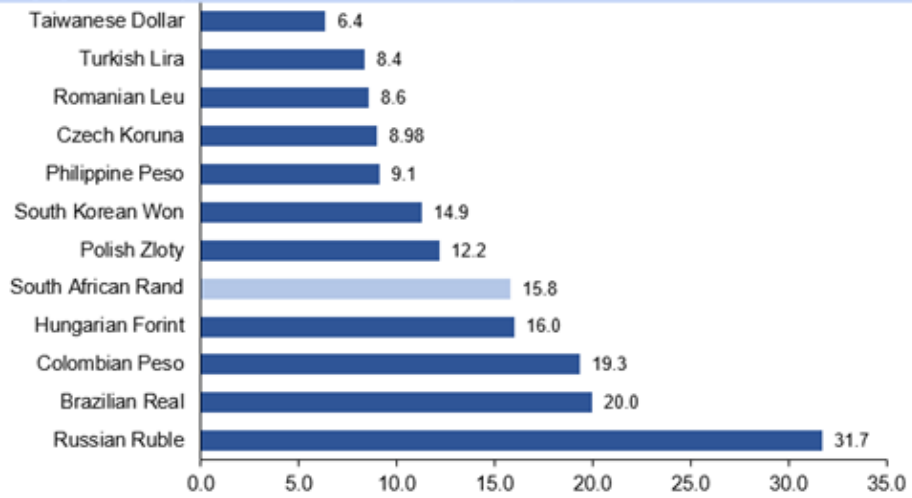


Rand note: signs of an improving outlook for the global economy has lifted market sentiment

Monday 16 January 2023

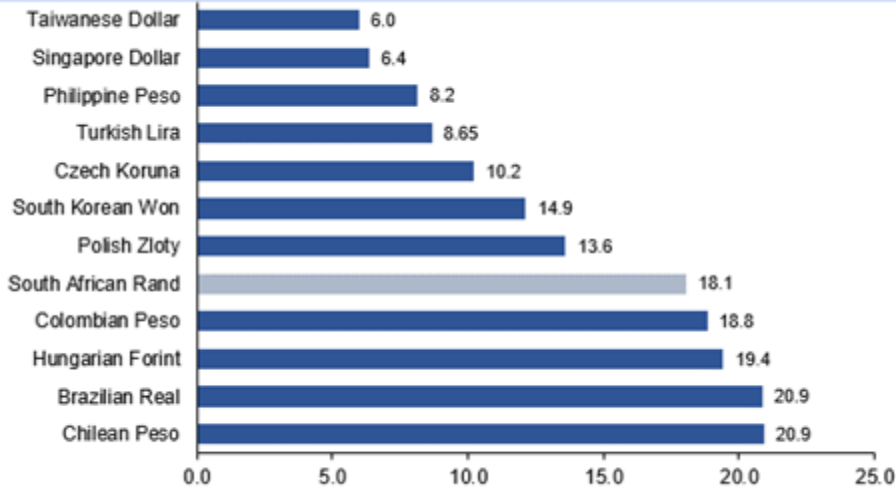


Emerging Markets Implied Volatilities – values 16 January 2023

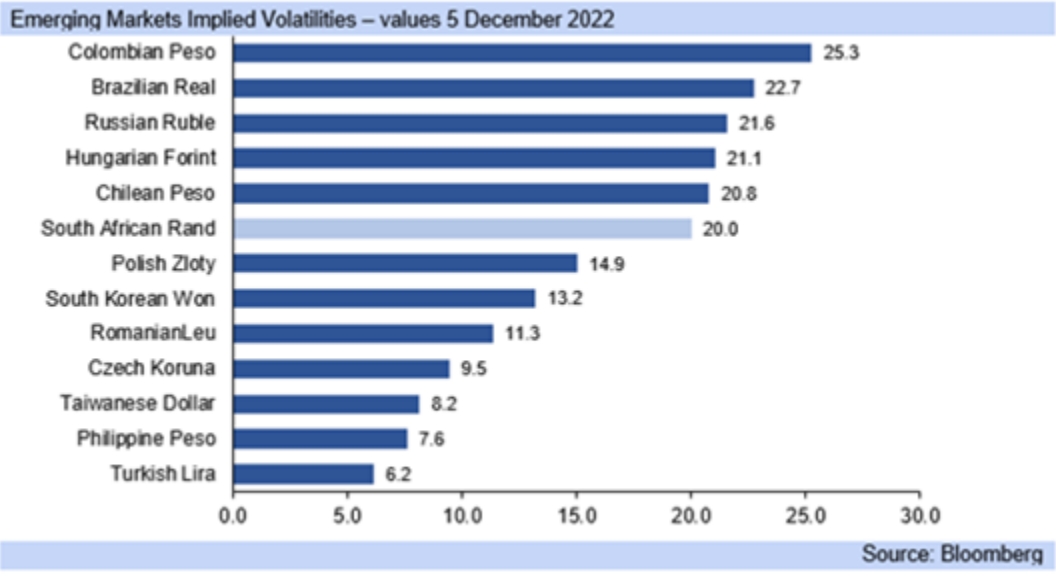


Source: Bloomberg

Emerging Markets Implied Volatilities – values 5 January 2023



Source: Bloomberg



**Expected Case: Exchange Rate forecasts**

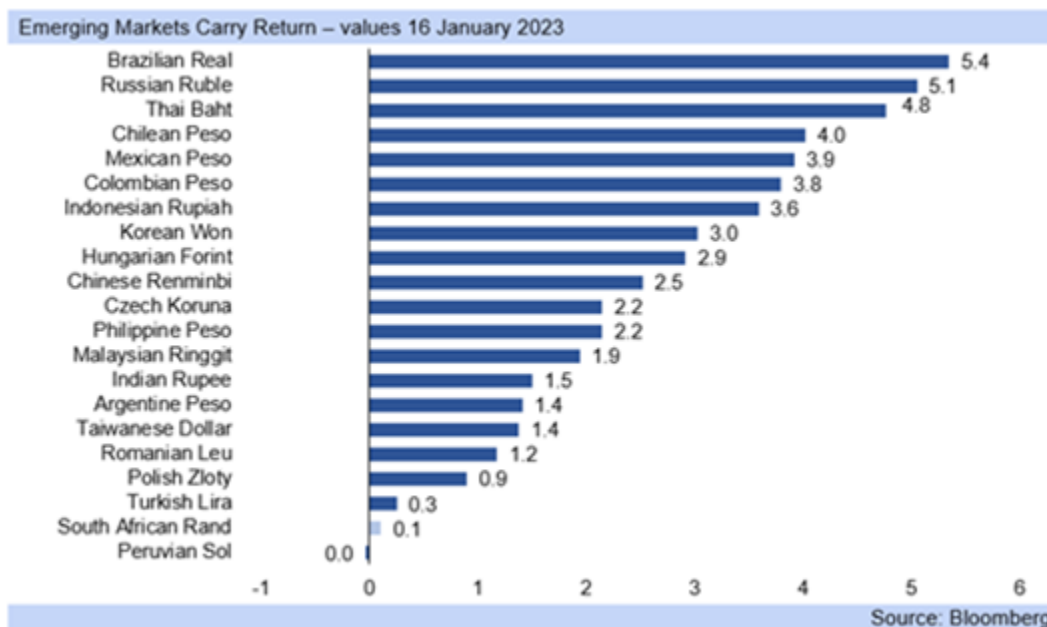
	2023				2024				2025			
	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24	Q1.25	Q2.25	Q3.25	Q4.25
USD/ZAR	16.90	16.45	16.20	16.40	16.20	16.45	16.80	16.60	16.50	16.50	16.80	16.60
GBP/ZAR	20.37	20.24	20.25	20.50	20.58	21.39	22.18	22.91	23.10	23.27	24.03	23.74
EUR/ZAR	17.58	17.28	17.26	17.80	18.15	18.92	19.83	20.42	20.63	20.63	21.00	20.75
ZAR/JPY	8.19	8.30	8.30	8.14	8.02	7.29	6.84	6.63	6.48	6.48	6.37	6.44
CHF/ZAR	17.79	17.32	17.06	17.27	17.06	17.69	18.46	18.24	18.13	18.13	18.46	18.24
AUD/ZAR	11.49	11.52	11.67	12.06	12.15	12.83	13.11	12.95	12.87	12.87	13.11	12.95
GBP/USD	1.21	1.23	1.25	1.25	1.27	1.30	1.32	1.38	1.40	1.41	1.43	1.43
EUR/USD	1.04	1.05	1.07	1.09	1.12	1.15	1.18	1.23	1.25	1.25	1.25	1.25
USD/JPY	139	137	135	134	130	120	115	110	107	107	107	107

Note: averages, Source: Investec, Iress

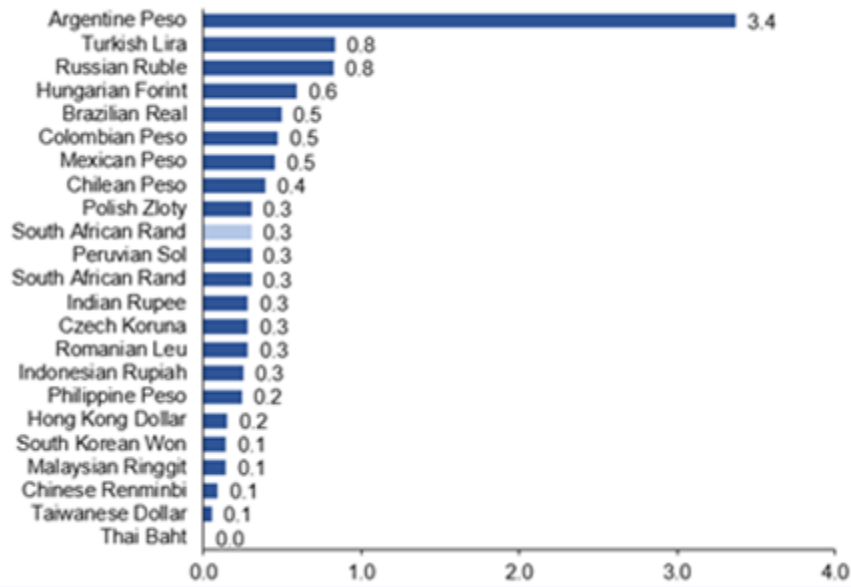
- The rand has attempted to consolidate below R17.00/USD, having achieved this for its daily close since Wednesday last week, while against the euro it is now above R18.00/EUR, as the euro returned to above parity against the USD in November.
- The rand has however calmed against the GBP, dipping to R20.48/GBP early this morning, versus R21.93/USD at the start of December, while the domestic currency reached R18.00/USD on that day, but since then risk aversion has subsided materially.
- Friday saw stronger than expected GDP data from the UK for November, reducing fears of recession, as “telecommunications and computer programming” pushed “the economy forward. Pubs and bars also did well” on “World Cup games” - ONS.
- Germany’s statistical agency also highlighted at the end of last week that the Eurozone’s largest economy likely avoided a recession “based on our current knowledge, GDP stagnated in the fourth quarter... after growing in the third quarter”.

- The IMF is sounding more positive on global growth, highlighting most recently that “the U.S. can still avoid tipping into a recession, not least because of labor market resilience” which it described as "remarkable".
- Echoing our view, the IMF now believes that "the trajectory of slowing global growth to reverse in the second half of 2023, possibly towards the end of 2023, and then to see in 2024 higher growth than we had in 2023."
- Furthermore “China is the single most important factor for global growth this year. If they stay the course, (around) mid-year China will turn into a positive contributor to average global growth”.
- The US saw lower than expected annual price inflation pressures, and markedly better than anticipated consumer sentiment, in the University of Michigan data released last week, adding to the improvement in risk sentiment.
- US PPI data is due this week Wednesday, and is expected to show some ‘deflationary’ price pressures, adding to some further improvement in sentiment, although the rand is likely to remain volatile, having returned to above R17.00/USD (R20.90/GBP) by this afternoon.

Please scroll down to the second section below



Emerging Markets Interest Return – values 16 January 2023



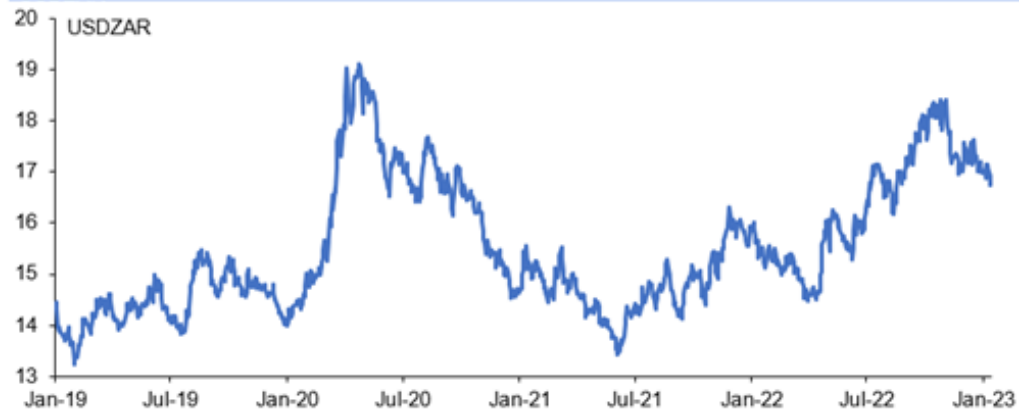
Source: Bloomberg

Long-term trend of the rand



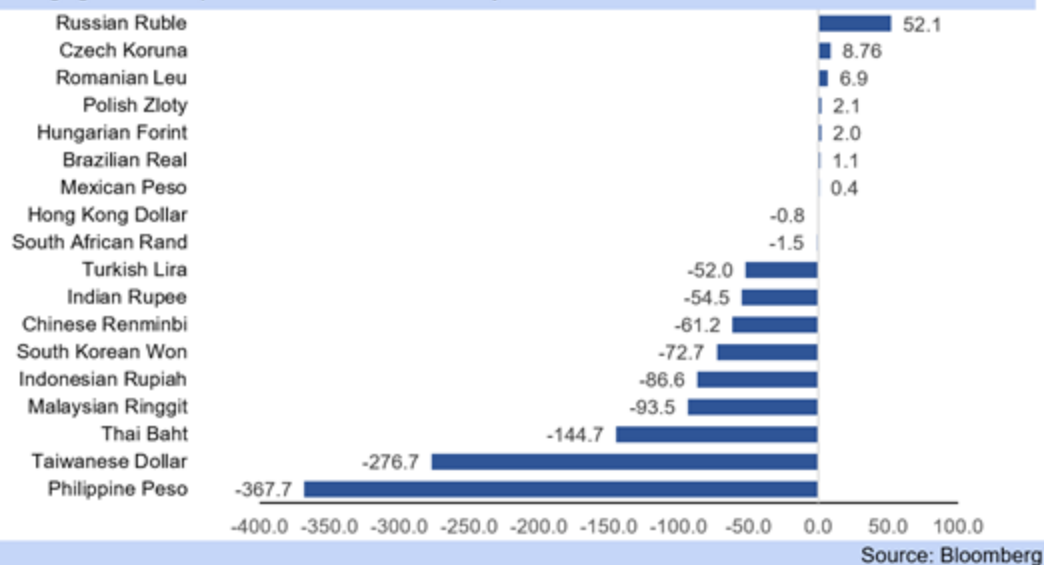
Source: Iress

USDZAR



Source: Iress

Emerging Markets Implied Rates – values 16 January 2023



- The IMF nevertheless warned that “2023 would be challenging, especially as central banks face tough decisions as to how much further to squeeze their economies in the face of persistently high inflation.”
- Also due out in the middle of this week in the US is the advance retail sales reading for December which is expected to fall -0.9% m/m. With unemployment still low in the US, and inflationary pressures subsiding, retail sales could surprise on the upside.
- Sentiment in global financial markets will remain focused on US economic data, particularly the pace at which inflationary pressures slow, and the strength of the jobs markets, the consumer and businesses.
- Expectations for a soft landing for the US economy have broadened, as economic data holds up, which has allowed the US dollar to retreat, and the euro to return to parity, then exceed it with the greenback.
- The US dollar is likely to see further weakening this year, as terminal interest rates are reached (the high point in the current interest rate hike cycle), while inflation falls, potentially quicker than expected.
- Last year saw the peaking of inflation measures at historically high rates for most economies, with a very rapid interest rate hike cycle, fears of economic slowdowns and recession, and so prevalent market risk aversion, leading to US dollar strength.
- High commodity prices, which boosted inflation, along with supply chain pressures last year, have seen substantial easing, lowering inflation over most of H2.22, but remain a risk, significantly for H2.23, although base effects should pull inflation pressures down substantially in H1.23.

- Higher metals and mineral commodity prices are a benefit for the rand, but the looming threat of stage 8 load shedding, and persistence of stage 6 so far, is eroding confidence in the domestic economic outlook, with no government solution in sight, pushing the rand weaker this afternoon as the President skips Davos.
- A worsening in rail and port capacity is a further risk for SA and so the rand this year. While global financial market sentiment has improved in 2023 so far, January typically sees seasonal strength in the rand, while the year is just at its start.

Economic Scenarios: note updated probabilities		Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24
<b>Extreme</b> Up case 1%	USD/Rand (average)	16.40	15.50	14.50	14.00	13.60	13.40	13.30	13.10
	Repo rate (end rate)	6.50	6.25	6.00	5.75	5.50	5.25	4.75	4.75
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. No grey listing. Quick transition to renewable energy from fossil fuels.									
<b>Up case</b> 4%	USD/Rand (average)	16.60	15.90	15.50	15.00	14.70	14.60	14.50	14.90
	Repo rate (end rate)	7.00	6.75	6.50	6.25	6.00	6.00	5.50	5.50
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. No grey listing.									
<b>Base case</b> 48%	USD/Rand (average)	16.90	16.45	16.20	16.40	16.20	16.45	16.80	16.60
	Repo rate (end rate)	7.50	7.50	7.00	7.00	6.50	6.50	6.50	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)</b> Down case 36%	USD/Rand (average)	18.30	18.50	18.00	18.20	17.90	18.10	18.20	18.30
	Repo rate (end rate)	7.50	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, very 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. Grey listed.									
<b>Severe down case</b> 11%	USD/Rand (average)	18.70	19.30	19.50	19.70	19.90	19.90	20.00	20.50
	Repo rate (end rate)	8.00	9.00	10.00	10.50	10.50	11.00	11.50	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. Grey listed									

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	18.30	18.50	18.00	18.20	17.90	18.10	18.20	18.30	18.35	18.45	18.45	18.40
GBP/ZAR	22.05	22.76	22.50	22.75	22.73	23.53	24.02	25.25	25.69	26.01	26.38	26.31
EUR/ZAR	19.03	19.43	19.17	19.75	20.05	20.82	21.48	22.51	22.94	23.06	23.06	23.00
ZAR/JPY	7.57	7.38	7.47	7.34	7.26	6.63	6.32	6.01	5.83	5.80	5.80	5.82
CHF/ZAR	19.26	19.47	18.95	19.16	18.84	19.46	20.00	20.11	20.16	20.27	20.27	20.22
AUD/ZAR	12.44	12.95	12.96	13.38	13.43	14.12	14.20	14.27	14.31	14.39	14.39	14.35
GBP/USD	1.21	1.23	1.25	1.25	1.27	1.30	1.32	1.38	1.40	1.41	1.43	1.43
EUR/USD	1.04	1.05	1.07	1.09	1.12	1.15	1.18	1.23	1.25	1.25	1.25	1.25
USD/JPY	139	137	135	134	130	120	115	110	107	107	107	107

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	19.50	19.70	19.90	19.90	20.00	20.50	20.40	20.40	20.70	20.50
GBP/ZAR	22.53	23.74	24.38	24.63	25.27	25.87	26.40	28.29	28.56	28.76	29.60	29.32
EUR/ZAR	19.45	20.27	20.77	21.37	22.29	22.89	23.60	25.22	25.50	25.50	25.88	25.63
ZAR/JPY	7.41	7.07	6.90	6.78	6.53	6.03	5.75	5.37	5.25	5.25	5.17	5.22
CHF/ZAR	19.68	20.32	20.53	20.74	20.95	21.40	21.98	22.53	22.42	22.42	22.75	22.53
AUD/ZAR	12.72	13.51	14.04	14.48	14.93	15.52	15.60	15.99	15.91	15.91	16.15	15.99
GBP/USD	1.21	1.23	1.25	1.25	1.27	1.30	1.32	1.38	1.40	1.41	1.43	1.43
EUR/USD	1.04	1.05	1.07	1.09	1.12	1.15	1.18	1.23	1.25	1.25	1.25	1.25
USD/JPY	139	137	135	134	130	120	115	110	107	107	107	107

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	16.60	15.90	15.50	15.00	14.70	14.60	14.50	14.90	15.00	14.50	14.50	14.60
GBP/ZAR	20.00	19.56	19.38	18.75	18.67	18.98	19.14	20.56	21.00	20.45	20.74	20.88
EUR/ZAR	17.26	16.70	16.51	16.28	16.46	16.79	17.11	18.33	18.75	18.13	18.13	18.25
ZAR/JPY	8.34	8.58	8.68	8.90	8.84	8.22	7.93	7.38	7.13	7.38	7.38	7.33
CHF/ZAR	17.47	16.74	16.32	15.79	15.47	15.70	15.93	16.37	16.48	15.93	15.93	16.04
AUD/ZAR	11.29	11.13	11.16	11.03	11.03	11.39	11.31	11.62	11.70	11.31	11.31	11.39
GBP/USD	1.21	1.23	1.25	1.25	1.27	1.30	1.32	1.38	1.40	1.41	1.43	1.43
EUR/USD	1.04	1.05	1.07	1.09	1.12	1.15	1.18	1.23	1.25	1.25	1.25	1.25
USD/JPY	139	137	135	134	130	120	115	110	107	107	107	107

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	16.40	15.50	14.50	14.00	13.60	13.40	13.30	13.10	13.10	12.90	12.80	12.70
GBP/ZAR	19.76	19.07	18.13	17.50	17.27	17.42	17.56	18.08	18.34	18.19	18.30	18.16
EUR/ZAR	17.06	16.28	15.44	15.19	15.23	15.41	15.69	16.11	16.38	16.13	16.00	15.88
ZAR/JPY	8.45	8.81	9.28	9.54	9.56	8.96	8.65	8.40	8.17	8.29	8.36	8.43
CHF/ZAR	17.26	16.32	15.26	14.74	14.32	14.41	14.62	14.40	14.40	14.18	14.07	13.96
AUD/ZAR	11.15	10.85	10.44	10.29	10.20	10.45	10.37	10.22	10.22	10.06	9.98	9.91
GBP/USD	1.21	1.23	1.25	1.25	1.27	1.30	1.32	1.38	1.40	1.41	1.43	1.43
EUR/USD	1.04	1.05	1.07	1.09	1.12	1.15	1.18	1.23	1.25	1.25	1.25	1.25
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