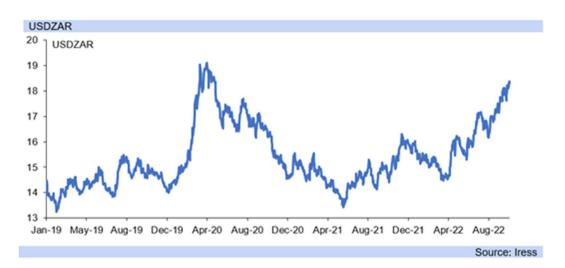


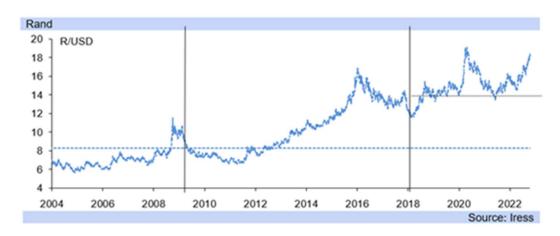


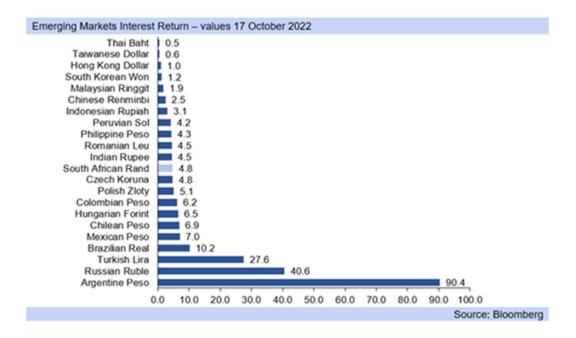
SA Economics

Monday 17 October 2022

Rand note: undervalued rand continues to see no respite from lengthy risk averse period







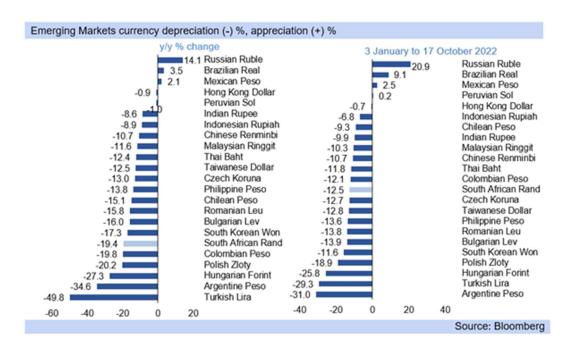


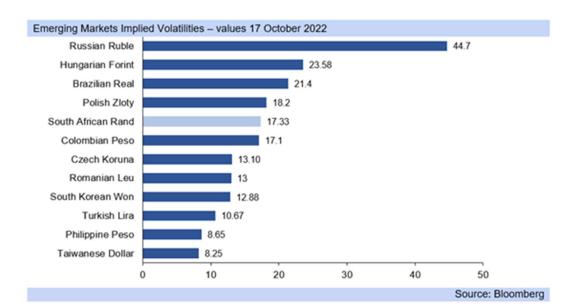
Economic	c Scenarios: note updated pro								
		Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.23
xtreme p case	USD/Rand (average) Repo rate (end rate)	15.21 4.25	15.59 4.75	17.05 6.25	15.40 5.25	14.50 4.25	14.00 3.75	13.60 3.75	13.40 3.50
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p case %	USD/Rand (average) Repo rate (end rate) Economic growth of 3%, ris growth strong, global financi Low domestic inflation on far price inflation on increased p	al markets vourable w	risk-on. N	lo nationa d global c	lisation or onditions,	expropria rand stree	tion withough, lowe	ut compe er state-co	ensation. ontrolled
	consolidation, debt projection	ns fall sul	bstantially.	Substan	tial transit	ion to ren	ewable e	nergy av	
	fossil fuel usage, comprehen	sive meas	ures to all	eviate clir	nate chan	ge impact	on econo	omy.	
ase	USD/Rand (average)	Q1.22 15.21	Q2.22 15.59	Q3.22 17.05	Q4.22 17.30	Q1.23 17.60	Q2.23 17.40	Q3.23 17.00	Q4.23 16.90
ase	Repo rate (end rate)	4.25	4.75	6.25	7.00	7.50	7.50	7.25	7.00
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- The rand has reached a new weak point this year against the US dollar, at R18.58/USD, still below its historic low of R19.35/USD in April 2020, but experiencing a longer sustained period of weakness than in 2020 as US dollar strength persists.
- Tightening financial conditions continue to spur risk aversion, keeping the rand weak, with
 policy makers expected to remain focused on quelling price inflation, crushing hopes of
 economic improvement and market recovery.
- US Treasury Secretary, Janet Yellen, recently stated "(i)n the United States, our top economic priority is to bring down inflation while maintaining a strong labor market," while recognizing that there will be "global repercussions".

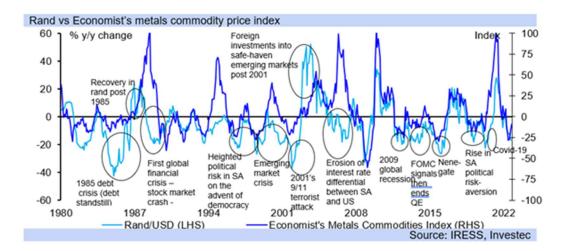
- The IMF added the need for fiscal policy tightening as well, highlighting "(g)overnments should keep trimming the budget deficits they ran up in the pandemic, even as they seek to help households hit by soaring energy and food prices".
- "Global public debt is set to reach 91% of GDP this year, some 7.5 percentage points above its pre-Covid level." "Fiscal policy should protect the most vulnerable while pursuing a tightening stance to avoid overburdening monetary policy in the fight against inflation."
- The UK has just undone most of the proposed unfunded fiscal stimulus announced by its Chancellor's predecessor, in a turbulent political year which has seen high levels of market volatility. The UK is now set to carry out fiscal tightening which has soothed markets.
- The IMF adds "(p)oliticians in charge of national budgets should avoid across-the-board subsidies and make sure support is targeted to those who need it most. Prioritizing policies and programs is increasingly vital as governments operate within tighter budgets."
- Next week South Africa sees its own mini-Budget, which is likely to make some strides in
 fiscal consolidation, but the impact of the good mini-budget this year on markets is likely
 to be overshadowed by the heavy risk aversion environment in global financial markets.
- The rand is currently trading at R17.69/EUR, R18.12/USD and R20.49/GBP, slightly stronger than last week Thursday when a US inflation miss was published, compared to market expectations, which are increasingly factoring in a slow, lengthy fall in inflation.

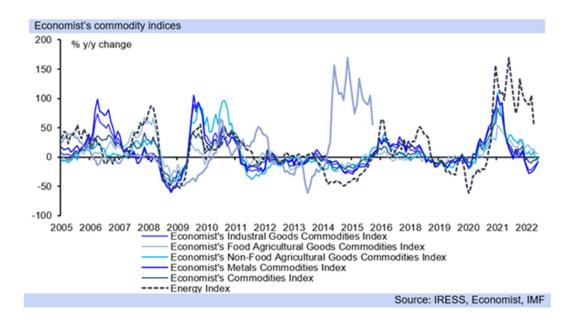
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Expected 0	ase: Exc	thange R	ate forec	asts										
		20	22			20	2023			2024				
	Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24		
USD/ZAR	15.21	15.59	17.05	17.30	17.60	17.40	17.00	16.90	16.70	17.20	17.70	17.20		
GBP/ZAR	20.40	19.59	20.06	17.73	17.95	18.36	18.53	19.10	19.71	21.50	23.36	23.74		
EUR/ZAR	17.07	16.60	17.16	16.95	17.78	18.18	18.19	18.42	18.70	19.78	20.89	21.16		
ZAR/JPY	7.65	8.33	8.12	8.21	7.90	7.84	7.85	7.75	7.66	6.98	6.50	6.40		
CHFZAR	16.47	16.16	17.64	17.12	17.95	18.27	18.01	17.80	17.96	18.90	19.45	18.90		
AUDZAR	11.02	11.14	11.65	11.42	12.06	12.44	12.58	12.84	13.03	13.42	13.81	13.42		
GBP/USD	1.34	1.26	1.18	1.03	1.02	1.06	1.09	1.13	1.18	1.25	1.32	1.38		
EUR/USD	1.12	1.06	1.01	0.98	1.01	1.05	1.07	1.09	1.12	1.15	1.18	1.23		
USD/JPY	116	130	138	142	139	137	134	131	128	120	115	110		
								Note	average	s, Source	e: Investe	ec, Iress		





- Markets continue to worry about recession, with high and rising interest rates one concern, but the self-correcting mechanism of commodity prices in shortening and reducing recessions are being impeded by OPEC+ quota cuts, as the cartel supports still high oil prices.
- The Brent crude oil price has averaged US\$57/bbl since 1995, and US\$65/bbl since the year 2000, from 2018 OPEC+ further limited supply to maintain a higher level, closer to US\$70/bbl, and now, since the pandemic is attempting to keep it nearer to US\$90/bbl.
- Inflationary pressures globally would have been more subdued if the upwards pressure
 on oil prices post the pandemic had been limited to around US\$70/bbl, with OPEC+ failing
 to drop quotas (and so increase oil supply) in order to weaken inflation.
- Still relatively high oil prices are slowing, and interrupting in some areas, the downwards momentum in inflation. Weakening global economic activity typically causes commodity prices to fall, but OPEC+ artificially keeps prices high via limiting supply.
- The IEA (International Energy Agency) warns that "with unrelenting inflationary pressures and interest rate hikes taking their toll, higher oil prices may prove the tipping point for a global economy already on the brink of recession".
- The IMF forecasts "GDP growth among the oil exporting nations that benefit from expensive oil will outperform", and "Middle East and North African GDP will grow by 5% this year, up from 4.1% in 2021."
- At a G-20 meeting of Finance Ministers the warning emerged that "(t)he world is in a dangerous condition. We are now facing increasing and compounding risk, high inflation, weak growth, energy and food insecurity or crisis, climate risk and geopolitical fragmentation".
- "The room to maneuver is becoming so narrow, or even now has been eliminated, so the trade-off is becoming so painful. We have to take a painful step in order for us to be able to restore the stability and recovery of the economy."
- A drop in oil prices to below US\$60/bbl would help to quickly bring down inflation, likely by around 2.0% y/y, restoring some market confidence, as well as having some knock-on

effects in reducing inflation expectations, and so could lower inflation further by up to another 1%.

Lite Down	Case: Ex			asts		-	••			-				
		20	22			2023				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	17.05	17.40	17.70	17.80	17.70	17.90	18.10	18.20	18.20	18.00		
GBP/ZAR	20.40	19.59	20.06	17.84	18.05	18.78	19.29	20.23	21.36	22.75	24.02	24.84		
EUR/ZAR	17.07	16.60	17.16	17.05	17.88	18.60	18.94	19.51	20.27	20.93	21.48	22.14		
ZAR/JPY	7.65	8.33	8.12	8.16	7.85	7.67	7.54	7.32	7.07	6.59	6.32	6.11		
CHFZAR	16.47	16.16	17.64	17.22	18.05	18.69	18.75	18.85	19.46	20.00	20.00	19.78		
AUDZAR	11.02	11.14	11.65	11.48	12.12	12.73	13.10	13.60	14.12	14.20	14.20	14.04		
GBP/USD	1.34	1.26	1.18	1.03	1.02	1.06	1.09	1.13	1.18	1.25	1.32	1.38		
EUR/USD	1.12	1.06	1.01	0.98	1.01	1.05	1.07	1.09	1.12	1.15	1.18	1.23		
USD/JPY	116	130	138	142	139	137	134	131	128	120	115	110		
								Note: av	rerages,	Source:	Investe	c, Iress		

Severe Do	wn Case:	Exchang	e Rate fo	orecasts									
		20	22		2023				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	17.05	18.00	18.30	18.50	18.60	19.00	19.30	19.40	19.30	19.30	
GBP/ZAR	20.40	19.59	20.06	18.45	18.67	19.52	20.27	21.47	22.77	24.25	25.48	26.63	
EUR/ZAR	17.07	16.60	17.16	17.64	18.48	19.33	19.90	20.71	21.62	22.31	22.77	23.74	
ZAR/JPY	7.65	8.33	8.12	7.89	7.60	7.38	7.18	6.89	6.63	6.19	5.96	5.70	
CHFZAR	16.47	16.16	17.64	17.82	18.66	19.43	19.71	20.01	20.75	21.32	21.21	21.21	
AUDZAR	11.02	11.14	11.65	11.88	12.54	13.23	13.76	14.44	15.05	15.13	15.05	15.05	
GBP/USD	1.34	1.26	1.18	1.03	1.02	1.06	1.09	1.13	1.18	1.25	1.32	1.38	
EUR/USD	1.12	1.06	1.01	0.98	1.01	1.05	1.07	1.09	1.12	1.15	1.18	1.23	
USD/JPY	116	130	138	142	139	137	134	131	128	120	115	110	
								Note	average	s, Sourc	e: Investe	ec, Iress	

Up Case: E	xchange	Rate for	ecasts									
		20	22			20	23			24		
	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	17.05	16.00	15.30	15.00	14.70	14.60	14.50	14.90	15.00	14.50
GBP/ZAR	20.40	19.59	20.06	16.40	15.61	15.83	16.02	16.50	17.11	18.63	19.80	20.01
EUR/ZAR	17.07	16.60	17.16	15.68	15.45	15.68	15.73	15.91	16.24	17.14	17.70	17.84
ZAR/JPY	7.65	8.33	8.12	8.88	9.08	9.10	9.08	8.97	8.83	8.05	7.67	7.59
CHFZAR	16.47	16.16	17.64	15.84	15.60	15.75	15.57	15.38	15.59	16.37	16.48	15.93
AUDZAR	11.02	11.14	11.65	10.56	10.48	10.73	10.88	11.10	11.31	11.62	11.70	11.31
GBP/USD	1.34	1.26	1.18	1.03	1.02	1.06	1.09	1.13	1.18	1.25	1.32	1.38
EUR/USD	1.12	1.06	1.01	0.98	1.01	1.05	1.07	1.09	1.12	1.15	1.18	1.23
USD/JPY	116	130	138	142	139	137	134	131	128	120	115	110
								Note	average	s, Sourc	e: Investe	ec, Iress

		20	22			20	23			20)24	
	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	17.05	15.40	14.50	14.00	13.60	13.40	13.30	13.10	13.10	12.90
GBP/ZAR	20.40	19.59	20.06	15.79	14.79	14.77	14.82	15.14	15.69	16.38	17.29	17.80
EUR/ZAR	17.07	16.60	17.16	15.09	14.65	14.63	14.55	14.61	14.90	15.07	15.46	15.87
ZAR/JPY	7.65	8.33	8.12	9.22	9.59	9.75	9.82	9.78	9.62	9.16	8.78	8.53
CHFZAR	16.47	16.16	17.64	15.24	14.79	14.70	14.41	14.11	14.30	14.40	14.40	14.18
AUDZAR	11.02	11.14	11.65	10.16	9.93	10.01	10.06	10.18	10.37	10.22	10.22	10.06
GBP/USD	1.34	1.26	1.18	1.03	1.02	1.06	1.09	1.13	1.18	1.25	1.32	1.38
EUR/USD	1.12	1.06	1.01	0.98	1.01	1.05	1.07	1.09	1.12	1.15	1.18	1.23
USD/JPY	116	130	138	142	139	137	134	131	128	120	115	110