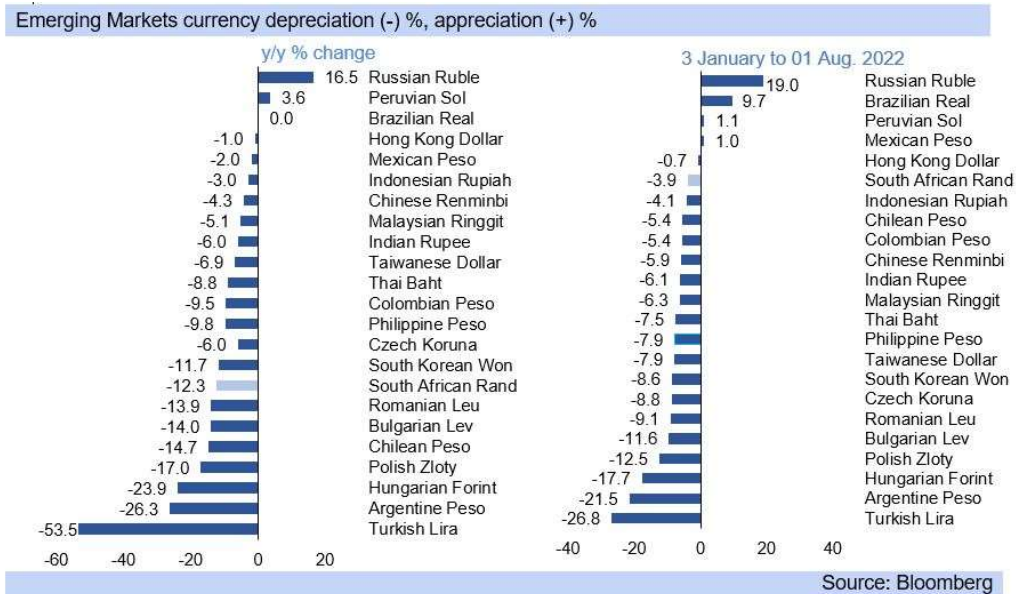




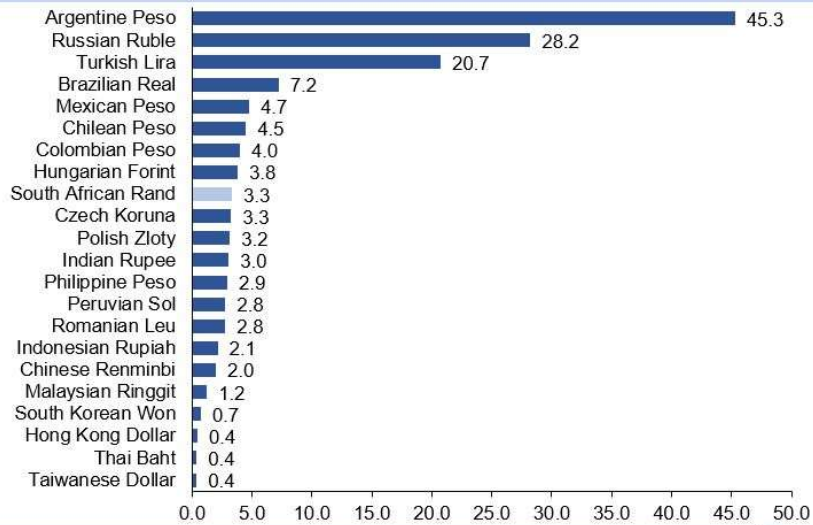
SA Economics

Monday 1 August 2022

Rand note: the rand has continued its strength from last week, buoyed mainly by international events

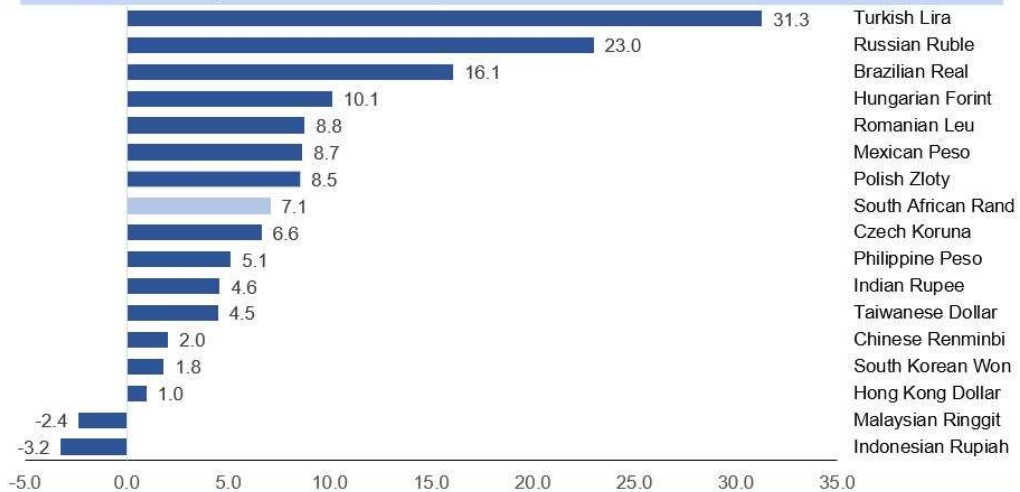


Emerging Markets Interest Return – values 1 August 2022



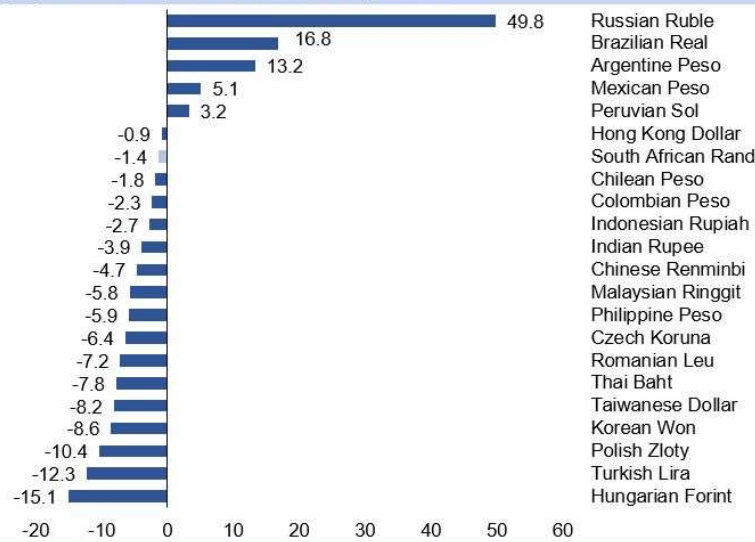
Source: Bloomberg

Emerging Markets Implied Rates – values 1 August 2022



Source: Bloomberg

Emerging Markets Carry Return – values 1 August 2022



Source: Bloomberg

Expected Case: Exchange Rate forecasts

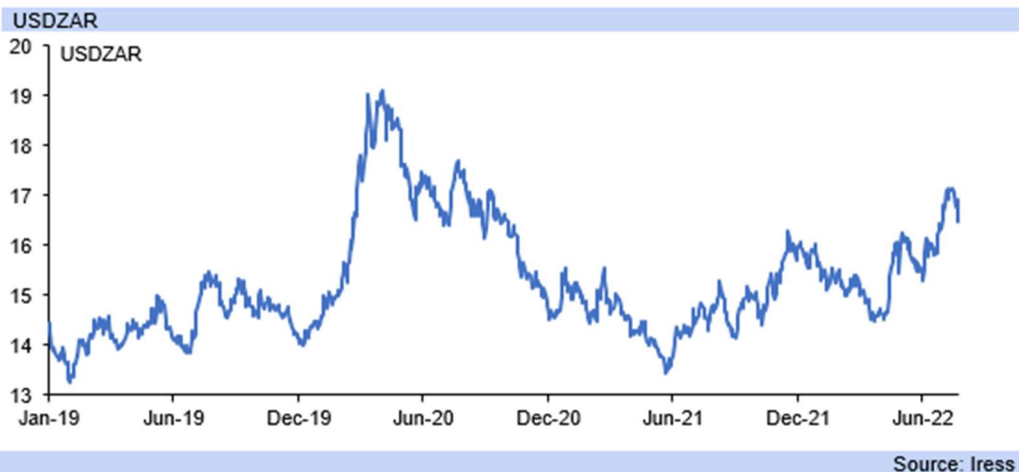
	2022				2023				2024			
	Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24
USD/ZAR	15.21	15.59	16.60	15.80	15.60	16.00	16.40	15.90	15.70	16.20	16.70	16.20
GBP/ZAR	20.40	19.59	19.87	18.80	18.64	19.28	20.09	19.88	20.10	21.06	22.55	22.36
EUR/ZAR	17.07	16.60	16.88	16.35	16.46	16.96	17.55	17.33	18.06	19.12	20.04	19.93
ZAR/JPY	7.65	8.33	8.32	8.70	8.49	8.06	7.74	7.89	7.83	7.28	6.89	6.79
CHF/ZAR	16.47	16.15	17.47	16.81	16.77	17.39	18.02	17.47	17.25	17.80	18.35	17.80
AUD/ZAR	11.02	11.14	11.50	11.06	11.15	12.00	12.55	12.00	12.25	12.64	13.03	12.64
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	1.04	1.06	1.06	1.07	1.09	1.15	1.18	1.20	1.23
USD/JPY	116	130	138	138	133	129	127	126	123	118	115	110

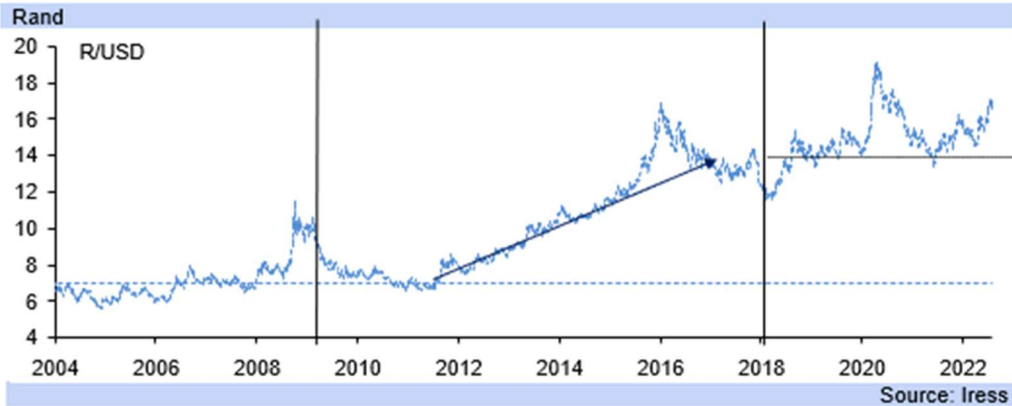
Note: averages, Source: Investec, Iress

- The rand strengthened to R16.47/USD last week (R16.81/EUR, R20.08/GBP), as the USD dollar weakened to 1.03 to the EUR, while the FOMC's less hawkish tone for interest rates at the end of this year and next year on Wednesday night also drove some recovery.
- Safe haven flows eased somewhat, allowing other currencies small gains against the USD, with Friday also seeing market positive news as the Eurozone released data showing economic activity quickened in Q2.22, despite the effects of the Russian/Ukraine war.
- The removal of most COVID-19 lockdown restrictions in the Eurozone in H1.22 saw a quicker than expected acceleration in GDP growth, to 0.7% q/q against market expectations of a 0.2% q/q outcome, and 4.0% y/y versus an expected 3.4% y/y (Q1.22 0.6% q/q, 5.4% y/y).
- This outcome for the euro bloc's growth also boosted its currency, as the euro tracked back from parity mid-July, and then saw a further boost after its rate hike while still good GDP figures prevailed, despite high food and energy price inflation and supply chain issues.

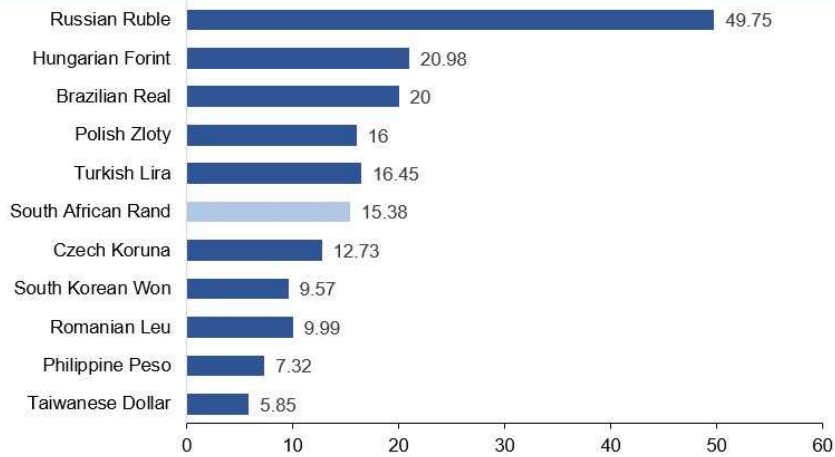
- In particular, France, Spain and Italy led the growth over Q1.22, with Germany seeing activity halt, as Q2.22 recorded no improvement over Q1.22. France in particular benefited from tourism, up 0.5%. Spain and Italy saw 1.1% and 1.0% (expected 0.4%, 0.3%) respectively.
- Optimism on the Eurozone avoiding recession is also bolstering the bloc's currency, with increased fiscal support to aid in households overcoming the effect of high inflation. The region has seen some cuts to energy (natural gas) supplies, but also lower gas prices.
- The weekend saw the outcomes of the ANC policy conference, with support for Ramaphosa's policies, including maintaining the step aside rule for those facing criminal charges, adding to some positivity for the rand, and support for the President's reelection also shown.
- December however will see policies adopted, as well as the ANC presidential election, with Ramaphosa still seen as maintaining his position, which will create political noise. This weekend however did show Ramaphosa's detractors did not see overall party support.
- Market friendly policies benefit the domestic currency, and the conference also showed support for the overall of local government. However, the rand is still far from R14.40/USD in March this year, when the dollar was particularly weak, and there remain risk concerns.

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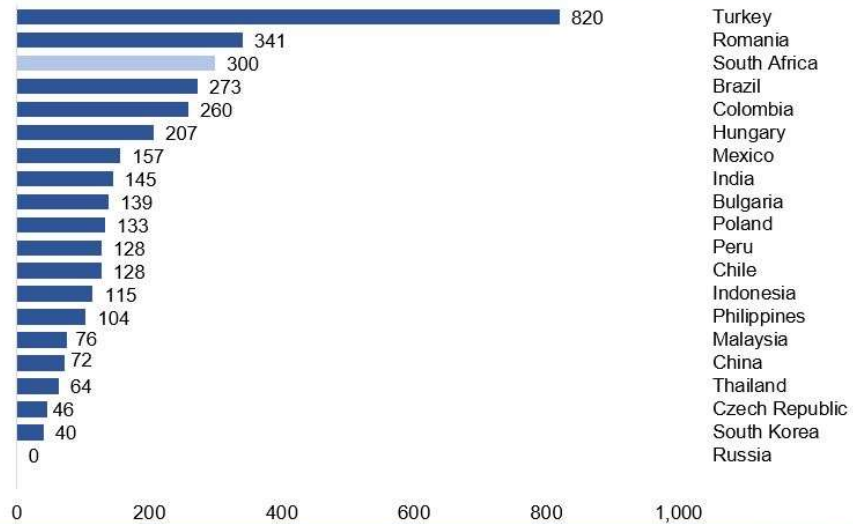


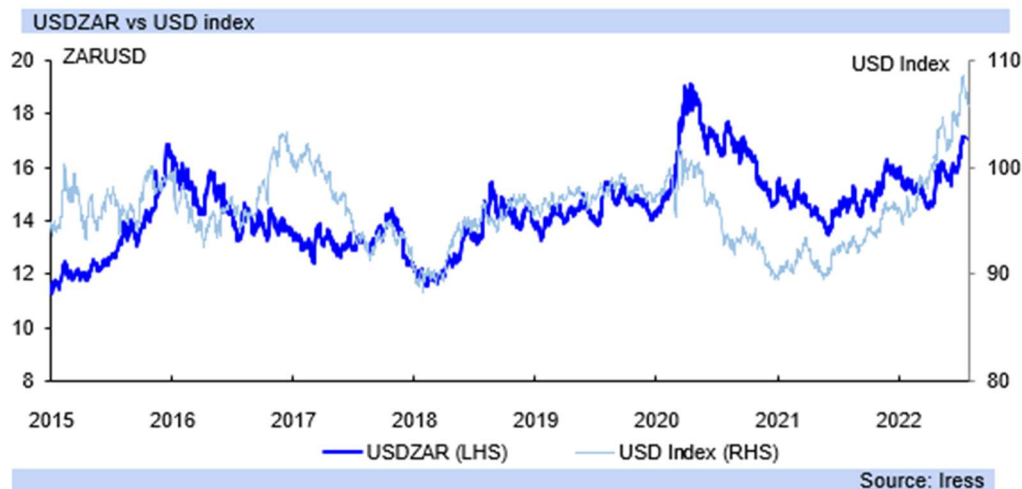


Emerging Markets Implied Volatilities – values 1 August 2022



Emerging Markets CDS Spreads – values 1 August 2022





- This year started off with the dollar close to 1.15 per euro, as risk aversion was suppressed and financial markets were risk-on, allowing the rand to strengthen over the quarter, from R15.98/USD down to R14.40/USD.
- Concerns over a sharp slowdown in global growth however occurred in April, with Q2.22 then seeing building fears of recession. The Eurozone's recent publication of its GDP figures have consequently caused some market calm.
- The US has now seen two quarters of contraction, with the FOMC not evincing an extremely hawkish tone over the entire forecast period it makes projections for at its last meeting, and seemingly instead indicating hikes could be smaller in Q4.22.
- This has created some optimism that the hikes could moderate to 50bp instead of 75bp lifts this year. However, markets tend to run ahead and already the implied fed funds futures is factoring in a 50bp hike in September instead of 75bp, adding to some reduction in risk-off.
- 2023 is also expected to see a moderation in US interest rate moves. Technical details are defining whether the US is in recession or not, but the marked slowdown in activity is also likely contributing to some rate hike expectation moderations, benefiting the rand.
- As the differential narrows between SA and US interest rates so there is pressure on the domestic currency to weaken, and so a 50bp instead of a 75bp hike at the FOMC's next meeting, 21st September, (SA's next MPC meeting is on 22nd September) is rand positive.
- While the outlook is potentially seen to be improved for the Eurozone by markets, and the risk of global recession potentially reduced somewhat, it is by no means eliminated, and rapid rand strength back to R14.50/USD this quarter is currently unlikely.
- The rand will remain heavily dependent on the global market environment, but the past few days have seen some small, positive outcomes, which has allowed the domestic currency to strengthen towards R16.44/USD today, although it is at risk of volatility this quarter.
- August and September are typically months which see marked rand volatility, with August the key summer month in the northern hemisphere and traders likely to take vacations, moving out of risky investments, while September can see churn as market players return.

Economic Scenarios: note updated forecasts

		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	15.59	14.00	13.90	13.70	13.60	13.40	13.30
	Repo rate (end rate)	4.25	4.75	4.00	3.75	3.75	3.75	3.50	3.50
	SA economic growth 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. Strong transition away from fossil fuel usage, a quick transition to renewable energy.								
Up case 1%	USD/Rand (average)	15.21	15.59	15.00	14.90	14.90	14.70	14.60	14.50
	Repo rate (end rate)	4.25	4.75	4.50	4.25	4.00	4.00	4.25	4.25
	Economic growth of 3%, 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 private privatisation. Positive outlooks on credit ratings turn into upgrades fiscal consolidation, debt projections fair substantially. Substantial transition to renewable energy away from fossil fuel usage, comprehensive measures to alleviate climate change impact on economy.								
Base case 60%	USD/Rand (average)	15.21	15.59	16.60	15.90	15.60	16.00	16.40	15.90
	Repo rate (end rate)	4.25	4.75	5.50	6.50	6.50	6.50	6.50	6.50
	Economic growth modest but lifts towards 3.0% y/y over five years on sufficient domestic policy support measures, global financial market risk sentiment is neutral to positive. South Africa in the BB credit rating category bracket as fiscal consolidation (debt to GDP stabilisation) occurs leading to some positive outlooks. The rand sees mild weakness and inflation is impacted by the course of weather patterns via food price inflation. Little expropriation without compensation occurs and has no negative effect on economy, no nationalisation. A modest 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.								
Life (domestic) Down case 80%	USD/Rand (average)	15.21	15.59	16.90	17.00	17.50	17.60	17.50	17.70
	Repo rate (end rate)	4.25	4.75	5.75	6.75	6.75	7.25	7.75	8.25
	The international environment (incl. risk sentiment) is that of the base case. South Africa fails to see debt projections stabilise, falls into single B (local and foreign currency) credit ratings from all three agencies. Recession occurs. Business confidence depressed, significant load shedding, weak investment growth, civil and political unrest. High inflation on unfavorable weather conditions, marked rand weakness. Little transition to renewable energy or measures to alleviate the impact of climate change. Very limited expropriation of private sector property without compensation, with some negative impact on the economy. Substantial fiscal consolidation ultimately occurs, overall no ratings fall into the C grades.								
Severe down case 9%	USD/Rand (average)	15.21	15.59	17.50	18.00	18.30	18.50	18.60	19.00
	Repo rate (end rate)	4.25	4.75	6.00	7.00	7.50	8.00	8.50	9.00
	Lengthy global recession, global financial crisis – insufficient monetary and other support domestically and internationally. Limited expropriation of private property without compensation with a marked negative economic impact. Very high inflation on very adverse weather conditions, severe rand weakness. SA rated single B from all three key agencies, downgrades eventually into CCC grade, increased risk of default. Government borrows from increasingly wider sources, sinks deeper into a debt trap, widespread, severe services load shedding, severe civil and political unrest. SA economy in depression. Failure to transition to renewable energy and to sufficient measures to alleviate the impact of climate change on the economy.								

Note: Event risk begins Q3.22. Source: Investec

Life Down Case: Exchange Rate forecasts												
	2022				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	16.90	17.00	17.50	17.60	17.50	17.70	18.00	17.80	17.60	17.70
GBP/ZAR	20.40	19.59	20.23	20.23	20.91	21.21	21.44	22.13	23.04	23.14	23.76	24.43
EUR/ZAR	17.07	16.60	17.18	17.60	18.46	18.66	18.73	19.29	20.70	21.00	21.12	21.77
ZAR/JPY	7.65	8.33	8.17	8.09	7.57	7.33	7.26	7.09	6.83	6.63	6.53	6.21
CHF/ZAR	16.47	16.15	17.79	18.09	18.82	19.13	19.23	19.45	19.78	19.56	19.34	19.45
AUD/ZAR	11.02	11.14	11.71	11.90	12.51	13.20	13.39	13.36	14.04	13.88	13.73	13.81
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	1.04	1.06	1.06	1.07	1.09	1.15	1.18	1.20	1.23
USD/JPY	118	130	138	136	133	129	127	126	123	118	115	110

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	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24
USD/ZAR	15.21	15.59	17.50	18.00	18.30	18.50	18.60	19.00	19.30	19.40	19.30	19.30
GBP/ZAR	20.40	19.59	20.94	21.42	21.87	22.29	22.79	23.75	24.70	25.22	26.06	26.63
EUR/ZAR	17.07	16.60	17.79	18.63	19.31	19.61	19.90	20.71	22.20	22.89	23.16	23.74
ZAR/JPY	7.65	8.33	7.89	7.64	7.24	6.97	6.83	6.61	6.37	6.08	5.96	5.70
CHF/ZAR	16.47	16.15	16.42	19.15	19.65	20.11	20.44	20.88	21.21	21.32	21.21	21.21
AUD/ZAR	11.02	11.14	12.12	12.60	13.08	13.88	14.23	14.35	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	1.04	1.06	1.06	1.07	1.09	1.15	1.18	1.20	1.23
USD/JPY	118	130	138	138	133	129	127	126	123	118	115	110

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	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24
USD/ZAR	15.21	15.59	15.00	14.90	14.90	14.70	14.60	14.50	14.90	15.00	14.50	14.50
GBP/ZAR	20.40	19.59	17.95	17.73	17.81	17.71	17.89	18.13	19.07	19.50	19.58	20.01
EUR/ZAR	17.07	16.60	15.25	15.42	15.72	15.58	15.62	15.81	17.14	17.70	17.40	17.84
ZAR/JPY	7.65	8.33	9.21	9.23	8.89	8.76	8.70	8.66	8.26	7.87	7.93	7.59
CHF/ZAR	16.47	16.15	15.79	15.85	16.02	15.98	16.04	15.93	16.37	16.48	15.93	15.93
AUD/ZAR	11.02	11.14	10.39	10.43	10.65	11.03	11.17	10.95	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	1.04	1.06	1.06	1.07	1.09	1.15	1.18	1.20	1.23
USD/JPY	118	130	138	138	133	129	127	126	123	118	115	110

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	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24
USD/ZAR	15.21	15.59	14.00	13.80	13.70	13.60	13.40	13.30	13.10	13.10	12.90	12.80
GBP/ZAR	20.40	19.59	16.76	16.42	16.37	16.39	16.42	16.63	16.77	17.03	17.42	17.66
EUR/ZAR	17.07	16.60	14.23	14.28	14.45	14.42	14.34	14.50	15.07	15.46	15.48	15.74
ZAR/JPY	7.65	8.33	9.87	9.96	9.67	9.49	9.48	9.44	9.39	9.01	8.91	8.59
CHF/ZAR	16.47	16.15	14.74	14.68	14.73	14.78	14.73	14.62	14.40	14.40	14.18	14.07
AUD/ZAR	11.02	11.14	9.70	9.66	9.80	10.20	10.25	10.04	10.22	10.22	10.08	9.98
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	1.04	1.06	1.06	1.07	1.09	1.15	1.18	1.20	1.23
USD/JPY	116	130	138	138	133	129	127	126	123	118	115	110

Note: averages. Source: Investec, Iress