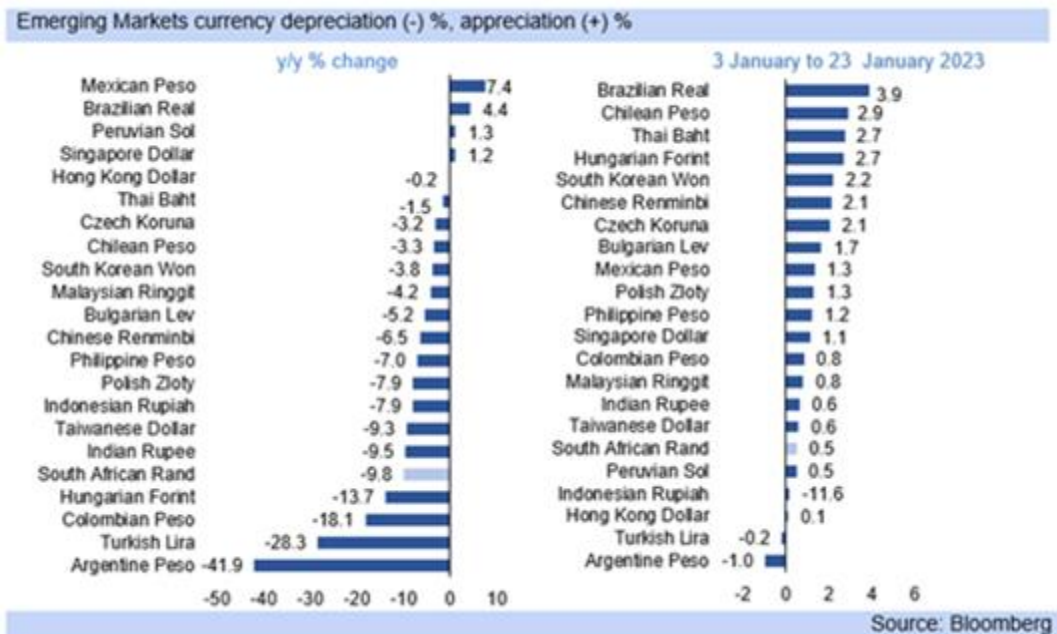


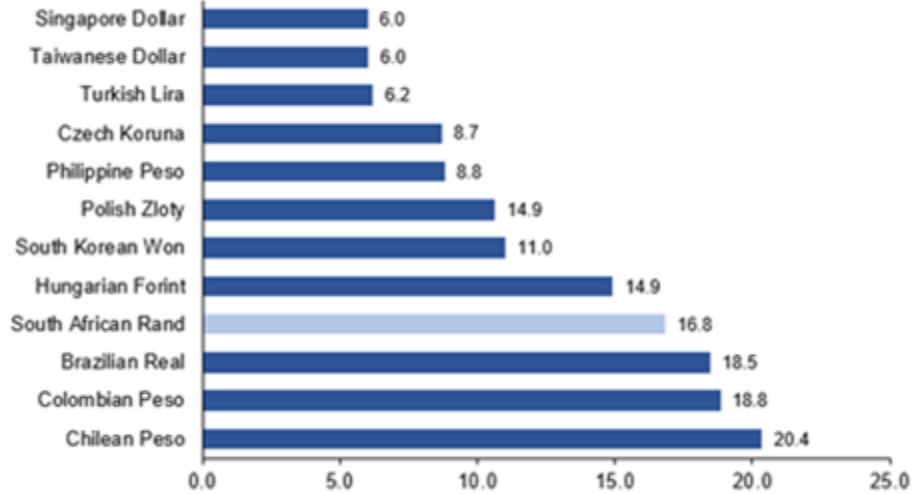


Rand note: weakness against the key crosses reflects concerns over SA's productive capacity

Monday 23 January 2023

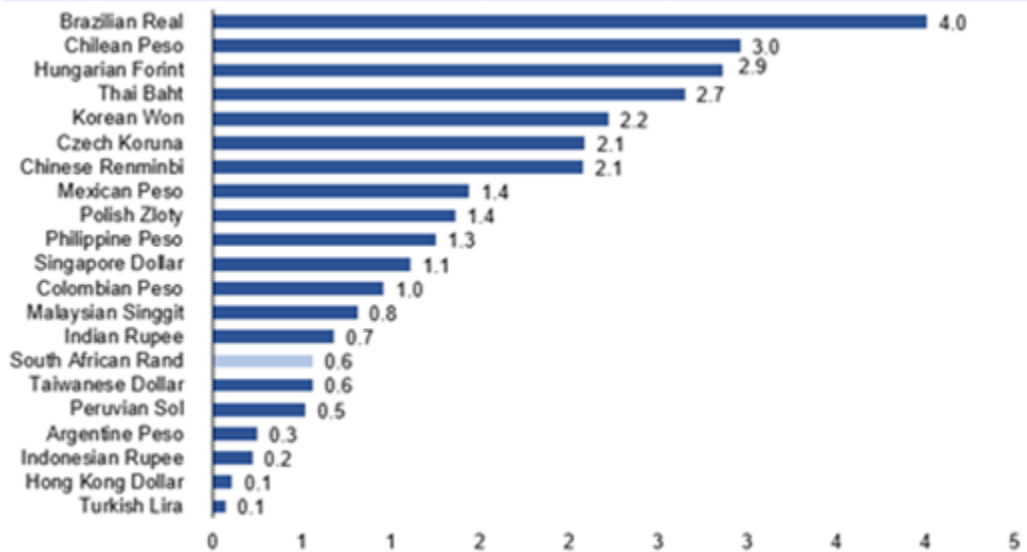


Emerging Markets Implied Volatilities – values 23 January 2023

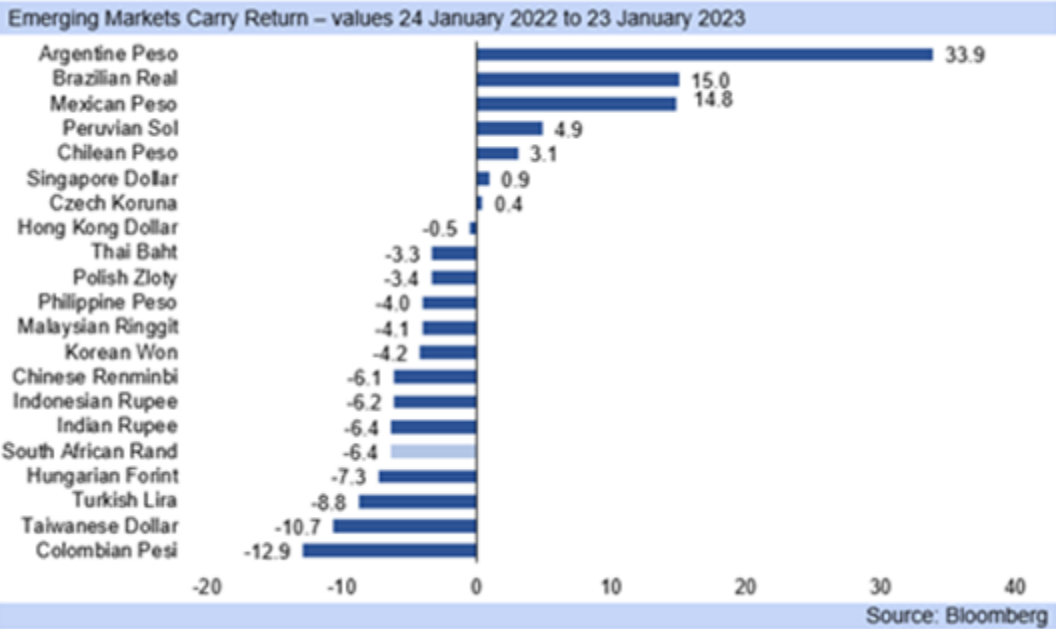


Source: Bloomberg

Emerging Markets Carry Return – values 3 January 2023 to 23 January 2023



Source: Bloomberg



Expected Case: Exchange Rate forecasts

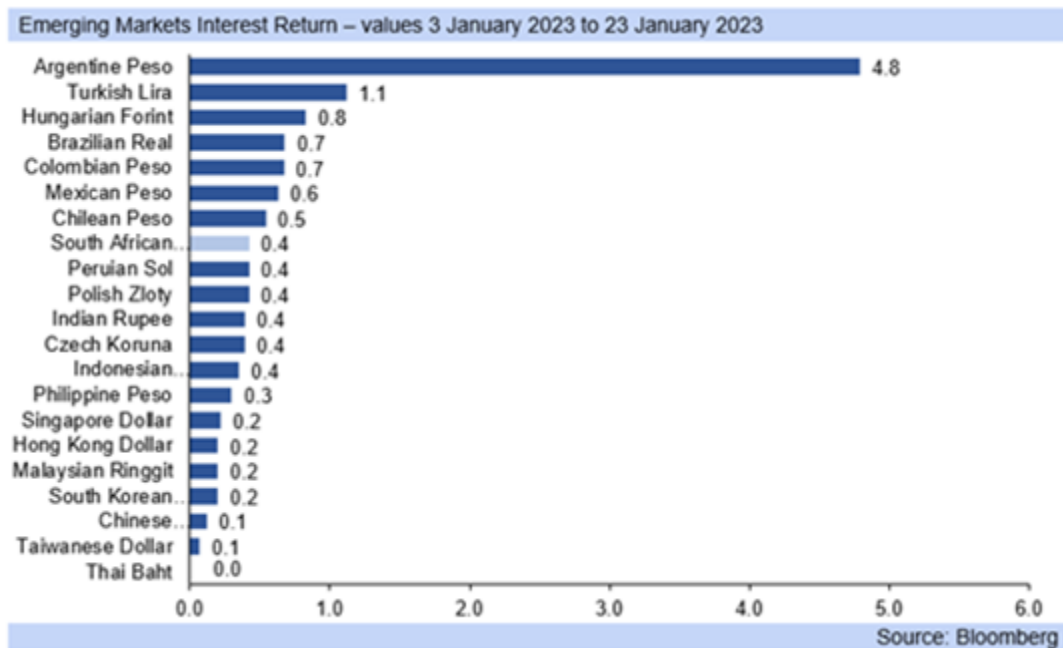
| | 2023 | | | | 2024 | | | | 2025 | | | |
|---------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | Q1.23 | Q2.23 | Q3.23 | Q4.23 | Q1.24 | Q2.24 | Q3.24 | Q4.24 | Q1.25 | Q2.25 | Q3.25 | Q4.25 |
| USD/ZAR | 16.90 | 16.45 | 16.20 | 16.40 | 16.20 | 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

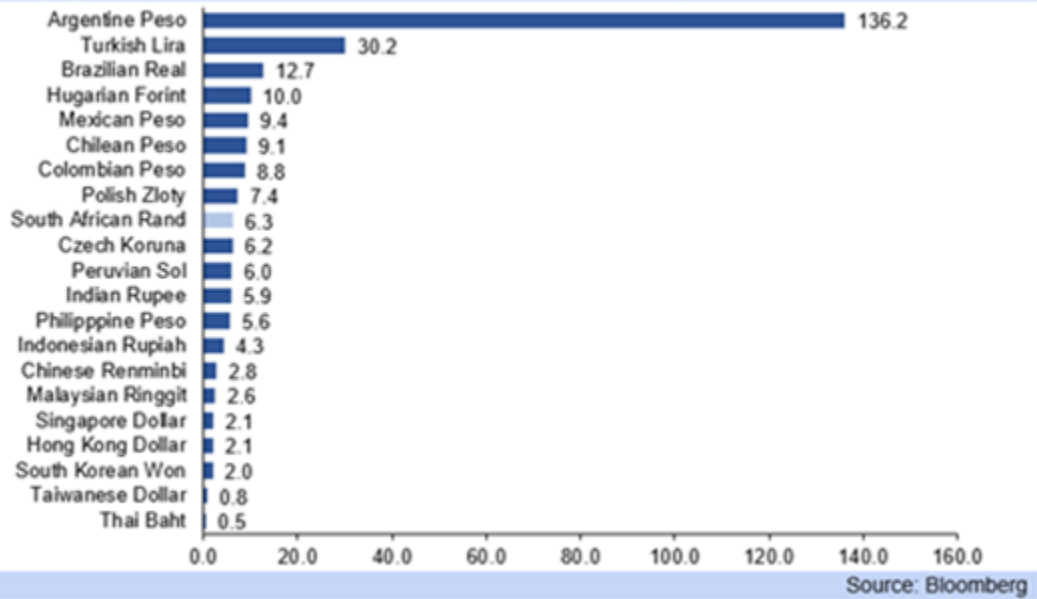
- The rand reached R21.49/GBP and R18.81/EUR on Friday, weakening over the course of this month against the USD as well, although to a lesser extent as the greenback lost some ground itself.
- Risk aversion has subsided in global markets somewhat, as the economic outlook is not seen to be as dire for this year as was previously feared, which has seen safe haven flows into the US lessen.
- The IMF said last week amidst the World Economic Forum's (WEF) Davos meetings that "the IMF projects 2023 to be a difficult year and for growth to fall further, we don't expect a global recession."
- Adding "resilient labor markets and consumer spending, the post-Covid reopening of China and signs of inflation trending downwards" are creating a more optimistic outlook, although risks persist.

- Specifically IMF Managing Director Kristalina Georgieva told a panel of the WEF “that what had improved was the potential for China to boost growth and that the IMF now forecast Chinese growth of 4.4% for 2023.”
- However, she saw no "dramatic improvement in the current IMF 2023 global growth forecast of 2.7%”, while “the war in Ukraine remained a tremendous risk for confidence, particularly in Europe.”
- The US has reached its debt ceiling again, at its US\$31.4trillion borrowing limit, with the Republican-controlled House of Representatives and President’s Democratic party not agreeing to raise the limit, risking a fiscal crisis in a few months.
- The US Treasury is using extraordinary cash management measures to delay default, which will give some breathing room until early June, with Republicans expected to push for spending cuts from the Democratic-led Senate.
- The US has reached its debt ceiling many times before, with markets largely ignoring the event, focusing instead on the waning market expectations on US rate hikes as US inflation, and areas of its economy, cools.

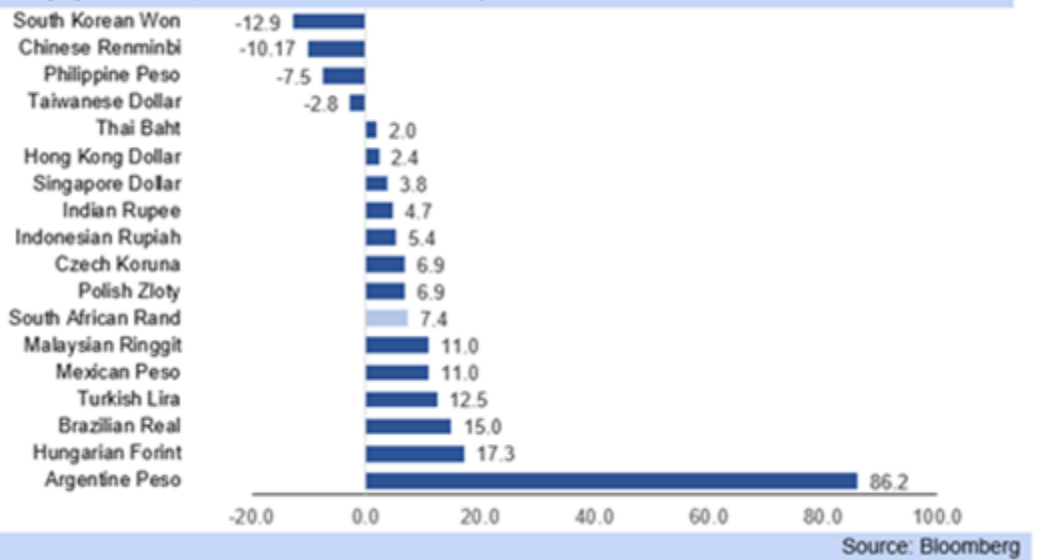
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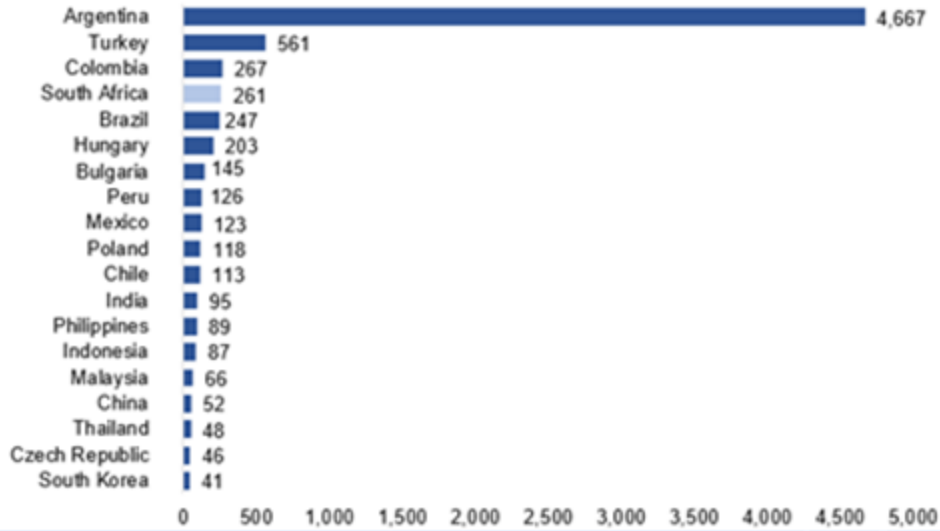
Emerging Markets Interest Return – values 24 January 2022 to 23 January 2023



Emerging Markets Implied Rates – values 23 January 2023

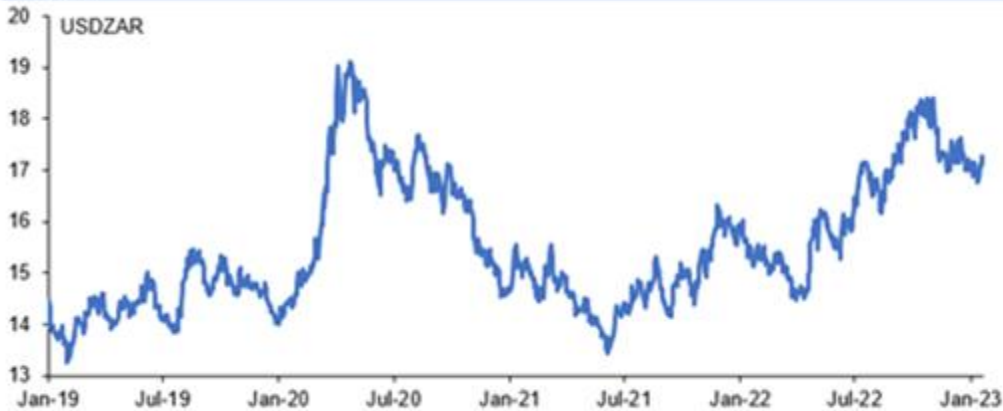


Emerging Markets CDS (risk) Spreads – values 23 January 2023



Source: Bloomberg

USDZAR



Source: Iress

- The rand weakened on the resignation of Eskom CEO Andre Du Ruyter (for end March), and on the deteriorated relationship between the Department of Energy and Eskom’s Chief, with load shedding now seen as permanent for this year and next.
- The persistence of loadshedding has eroded investor confidence in the domestic economy, with no government solution to end the damaging effect on the productive capacity of the economy in the near term.
- NERSA has approved a 18.65% increase in electricity costs this year, and with Stats SA typically capturing the annual electricity price increase for CPI inflation in July, it translates to around a 0.7% m/m contribution.

- Absent a very sharp rise in fuel prices in the month, or another shock, the CPI inflation outcome for the month of July 2023 could actually drop to 4.3% y/y, from 4.9% y/y in June on base effects from H1.22's high fuel and food price increases .
- However, H2.23, if not Q2.23 already, risks seeing higher fuel prices on a rapid reopening of the Chinese economy, which would put upwards pressure on inflation. President Ramaphosa has in the meantime urged Eskom to delay its price hike.
- But the electricity utility faces high and rising costs from its usage of diesel to fuel open-cycle gas turbines, and desperately needs cash injections to pay for the diesel costs, absent which the stages of load shedding will rise.
- Additionally, with Transnet's ability to meet demand for its rail and port transport services deteriorating, investor and business confidence has been further dented, in turn afflicting the rand.
- January typically sees seasonal strength in the rand, but this year market players are penalising the domestic currency, as the state fails to allay investor concerns over the electricity crisis, having yet to obtain additional capacity identified.
- Outages are expected to reduce this week as a number of units return to operation, while De Ruyter highlighted that Eskom's "system operat(ions) are truly world-class". However, the rand is likely to remain volatile afflicted by domestic and global risks.

Economic Scenarios: note updated probabilities

| | | Q1.23 | Q2.23 | Q3.23 | Q4.23 | Q1.24 | Q2.24 | Q3.24 | Q4.24 |
|--------------------------------------|---|-------|-------|-------|-------|-------|-------|-------|-------|
| Extreme 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. | | | | | | | | |
| Up case 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. | | | | | | | | |
| Base case 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. | | | | | | | | |
| Lite (domestic) 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. | | | | | | | | |
| Severe down case 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 |
| CHFZAR | 19.26 | 19.47 | 18.95 | 19.16 | 18.84 | 19.46 | 20.00 | 20.11 | 20.16 | 20.27 | 20.27 | 20.22 |
| AUDZAR | 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 |
| CHFZAR | 19.68 | 20.32 | 20.53 | 20.74 | 20.95 | 21.40 | 21.98 | 22.53 | 22.42 | 22.42 | 22.75 | 22.53 |
| AUDZAR | 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 |
| CHFZAR | 17.47 | 16.74 | 16.32 | 15.79 | 15.47 | 15.70 | 15.93 | 16.37 | 16.48 | 15.93 | 15.93 | 16.04 |
| AUDZAR | 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 |
| CHFZAR | 17.26 | 16.32 | 15.26 | 14.74 | 14.32 | 14.41 | 14.62 | 14.40 | 14.40 | 14.18 | 14.07 | 13.96 |
| AUDZAR | 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 |
| USD/JPY | 139 | 137 | 135 | 134 | 130 | 120 | 115 | 110 | 107 | 107 | 107 | 107 |

Note: averages, Source: Investec, Iress