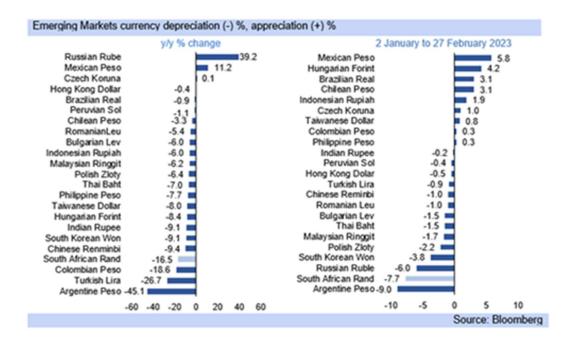
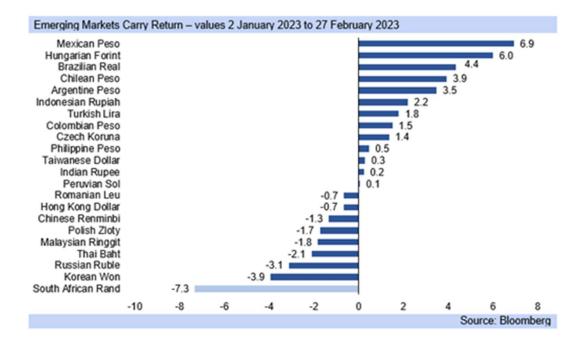
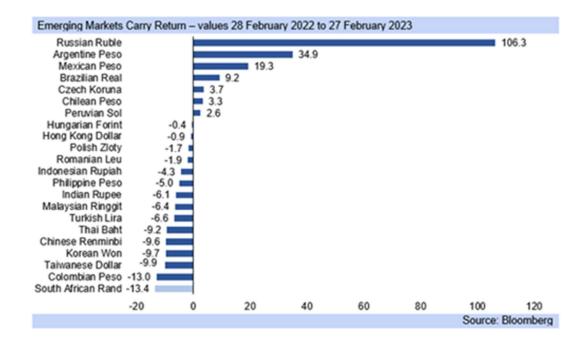
Rand note: weakened outlook on greylisting, lengthier US rate hike cycle

Monday 27 February 2023





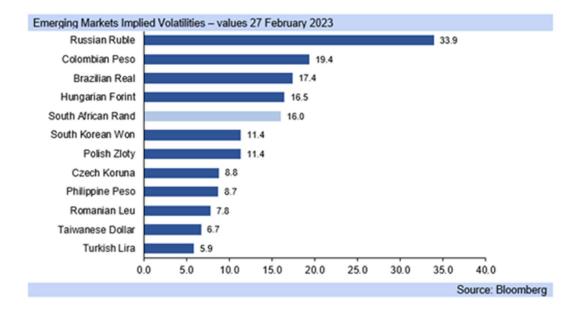


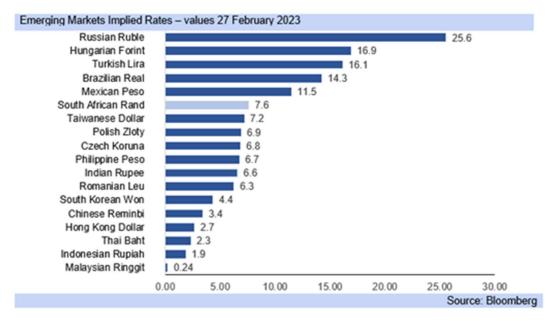
Argentina						4,876	
Turkey		579					
Colombia	290)					
South Africa	266	;					
Romania	244						
Brazil	237						
Hungary	171						
Bulgaria	147						
Mexico	118						
Peru	111						
India	103						
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Chile	94						
Philippines	93						
China	74						
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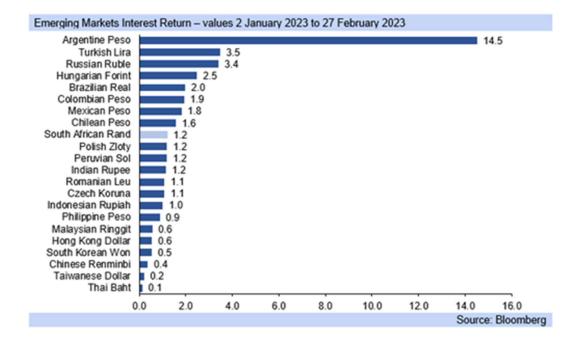
Expected C	ase: Exc	hange R	ate forec	asts								
		20	23		2024				2025			
	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24	Q1.25	Q2.25	Q3.25	Q4.25
USD/ZAR	17.80	18.40	18.60	18.30	17.80	18.00	18.30	17.90	17.60	17.60	17.70	17.50
GBP/ZAR	21.88	22.82	23.25	22.88	22.43	22.86	23.52	23.36	22.88	22.88	23.01	22.75
EUR/ZAR	19.26	20.15	20.65	20.50	20.11	20.52	21.14	21.03	20.59	20.59	20.71	20.48
ZAR/JPY	7.28	6.98	6.77	6.83	6.94	6.78	6.61	6.70	7.61	7.50	7.40	7.43
CHFZAR	19.45	20.25	20.44	19.80	19.06	19.27	19.75	19.66	19.34	19.34	19.45	19.23
AUDZAR	12.34	13.06	13.49	13.45	13.17	13.32	13.63	13.43	13.38	13.55	13.98	13.83
GBP/USD	1.23	1.24	1.25	1.25	1.26	1.27	1.29	1.31	1.30	1.30	1.30	1.30
EUR/USD	1.08	1.10	1.11	1.12	1.13	1.14	1.16	1.18	1.17	1.17	1.17	1.17
USD/JPY	130	129	126	125	124	122	121	120	134	132	131	130
								Note	: average	s, Sourc	e: Investe	ec, Iress

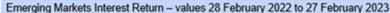
- The outlook for the rand has weakened on the greylisting of South Africa by the Financial Action Task Force (FATF), while Friday's worse than expected outcome of the key US inflation measure negatively affected global market risk sentiment.
- The Fed implicitly targets the core PCE deflator, seeking to achieve a 2.0% y/y annual average, while the measures came out at 5.4% y/y on Friday, higher than the 5.0% y/y, both, expected and prior, and well removed from the Fed's 2.0% aim.
- Global financial markets are now factoring in the expectation that the Fed will hike its interest rates higher than previously expected in the current cycle, due to the upside surprise in the key US inflation (implicit target) measure.
- The US's Personal Consumption Expenditure or PCE deflator reflects the strength of its consumer spend, and the robust nature of the economy, with US retail sales and manufacturing also posting data surprising on the upside last week.
- US home sales have in contrast weakened on the sharp hike trajectory of the US, but given the FOMC's focus on subduing inflation, the US terminal rate is now anticipated higher, with up to four more 25bp hikes this year in the US.
- The Fed funds futures now fully factor in a 25bp hike in the Fed funds target rate at each of the three upcoming FOMC meetings, of 22nd March, 3rd May and 14th June, while the 26th July meeting sees a 25bp hike beginning to be factored in.
- For South Africa, the shift in the US interest rate hike trajectory, along with the effect of greylisting which raises SA's sovereign risk premium, are both rand negative, and also place upwards pressure on SA interest rates, which are lagging US hikes.
- The domestic currency has weakened substantially over the past year on the weakening global outlook and rapid hike cycle in the US as SA has failed to match it, with a consequent narrowing in eth differential by 75bp and rand weakness.
- The rand has reached R18.48/USD today, R19.51/EUR and R22.13/GBP, from R17.00/USD, R18.13/USD and R20.47/GBP at the start of the year, with the rand at R15.36/USD a year ago, on lower risk aversion and a materially weaker USD.

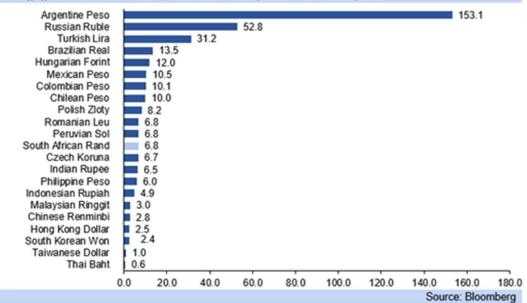
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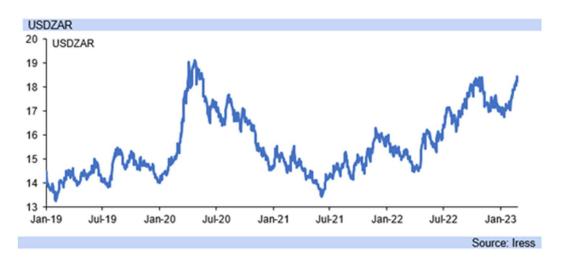












- Grey listing occurs when a country formally comes under increased monitoring from the Financial Action Task Force (FATF) following serious deficiencies in its antimoney laundering, terrorism and proliferation financing framework.
- Blacklisting in contrast is applied to countries that do not cooperate with the FATF, while greylisted countries are committed to addressing their identified inadequacies within a given timeframe to attempt to come off the greylist.
- Once a country is added to the FATF grey list, it is accordingly also added to the "EU high-risk third countries list" by the European Union and to the UK's "high-risk jurisdictions" list.
- The IMF has found that when a country is grey listed there is "a large, significant negative effect ... on capital inflows". In particular, "capital inflows decline on average by 7.6 percent of GDP".
- "In contrast, foreign direct (fixed) investment, or FDI, "inflows decline on average by -3.0 percent of GDP, portfolio inflows decline on average by -2.9 percent of GDP, and other investment inflows decline on average by -3.6 percent of GDP".
- South Africa attracts an extremely low level of FDI (foreign direct investment) inflows as it is, with the bulk of the activity on its capital account instead consisting of portfolio flows (purchases and sale of bonds and equities).
- FATF is intergovernmental, setting standards and promoting implementation of legal, regulatory and operational measures to combat money laundering, terrorist financing, and related threats to the integrity of the international financial system.
- With the rand already having factored in SA's greylisting, the domestic currency saw a mild reaction on Friday, driven more by the high PCE deflator outcome. The rise in the US interest rate outlook also pushed up SA's interest rate forecasts.
- SA is likely to match the US hike in March, and May, hiking by two further 25bp lifts at its two upcoming MPC meetings (30th March, 25th May), but there will be pressure for larger and more SA hikes, and so for further rand weakness as SA disappoints.

		Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.
Extreme	USD/Rand (average)	16.60	15.90	15.50	15.00	14.70	14.60	14.50	14.
Up case	Repo rate (end rate)	7.00	6.75	6.50	6.25	6.00	6.00	5.50	5.5
1%	SA economic growth very	quickly rises	to 3-5%	then 5-7	%. Good	overnanc	e, growth	-creating	refor
	(structural constraints erad	dicated), st	rong prop	erty rights	s, no nati	onalisatio	n or exp	ropriation	with
	compensation. High busine	ss confiden	ce and fixe	d investm	ent growt	n, substan	tial FDI, fit	scal cons	olidat
	drives debt to low ratios	of 2000s. \	ery subd	ued dome	estic inflat	ion on ex	treme rai	nd streng	gth, v
	favourable weather condition								
	ratings to investment grade	. Very short	grey listin	g. Quick t	ransition t	o renewal	ble energy	from fos	ssil fu
Up case		Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.
4%	USD/Rand (average)	17.00	17.20	17.40	16.90	16.50	16.10	16.00	15.
	Repo rate (end rate)	7.00	7.00	7.00	7.00	6.75	6.50	6.50	6.0
	Economic growth averages								
	confidence and investmen								
	markets risk-on. No nation								
	favourable weather and glo								
	privatisation. Credit rating								
	transition to renewable ene						easures to	o alleviate	e clim
	change impact on economy	y. Grey liste	d for less	than eight	een mont	1S.			
		Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.
Base	USD/Rand (average)	17.80	18.40	18.60	18.30	17.80	18.00	18.30	17.
case	Repo rate (end rate)	7.50	7.75	7.75	7.75	7.50	7.00	7.00	6.5
48%	Economic growth modest (je over 5 y	ears) but	lifts towar	1s 3.0% y/	v by end i	period on	refor
					_				
	global financial market risk			o positive			vs fiscal c		
	to GDP stabilisation) leading	ng to positiv	e outlook	o positive s, then like	ely credit	rating upg	rades. Th	ne rand s	tabili
	to GDP stabilisation) leading then strengthens somewhat	ng to positiv t. Inflation is	e outlook	o positive s, then like by the co	ely credit urse of we	ather patt	rades. Therns via f	ne rand s ood price	tabili
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Life Domit	Jase. Ex	change R		3515			~ .	2025				
		20	23			20	24			20	25	
	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	18.00	18.90	19.00	19.20	18.60	18.75	18.90	18.70	18.40	18.45	18.45	18.40
GBP/ZAR	22.12	23.44	23.75	24.00	23.44	23.81	24.29	24.40	23.92	23.99	23.99	23.92
EUR/ZAR	19.47	20.70	21.09	21.50	21.02	21.38	21.83	21.97	21.53	21.59	21.59	21.53
ZAR/JPY	7.20	6.80	6.63	6.51	6.64	6.51	6.40	6.42	7.28	7.15	7.10	7.07
CHFZAR	19.66	20.80	20.88	20.78	19.92	20.07	20.40	20.53	20.22	20.27	20.27	20.22
AUDZAR	12.48	13.42	13.78	14.11	13.76	13.88	14.08	14.03	13.98	14.21	14.58	14.54
GBP/USD	1.23	1.24	1.25	1.25	1.26	1.27	1.29	1.31	1.30	1.30	1.30	1.30
EUR/USD	1.08	1.10	1.11	1.12	1.13	1.14	1.16	1.18	1.17	1.17	1.17	1.17
USD/JPY	130	129	126	125	124	122	121	120	134	132	131	130

Severe Dov	vn Case:			orecasts			~		2025				
		20	23		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	19.70	20.00	20.20	20.50	20.80	21.20	20.90	20.90	21.00	20.80	
GBP/ZAR	22.99	23.93	24.63	25.00	25.45	26.04	26.73	27.67	27.17	27.17	27.30	27.04	
EUR/ZAR	20.23	21.13	21.87	22.40	22.83	23.37	24.02	24.91	24.45	24.45	24.57	24.34	
ZAR/JPY	6.93	6.66	6.40	6.25	6.11	5.95	5.82	5.66	6.41	6.32	6.24	6.25	
CHFZAR	20.43	21.24	21.65	21.64	21.64	21.94	22.45	23.28	22.97	22.97	23.08	22.86	
AUDZAR	12.96	13.70	14.28	14.70	14.95	15.17	15.50	15.90	15.88	16.09	16.59	16.43	
GBP/USD	1.23	1.24	1.25	1.25	1.26	1.27	1.29	1.31	1.30	1.30	1.30	1.30	
EUR/USD	1.08	1.10	1.11	1.12	1.13	1.14	1.16	1.18	1.17	1.17	1.17	1.17	
USD/JPY	130	129	126	125	124	122	121	120	134	132	131	130	

Up Case: E	xchange	Rate for	ecasts									
		20	23			20	24		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	17.00	17.20	17.40	16.90	16.50	16.10	16.00	15.70	15.40	15.40	15.50	15.30
GBP/ZAR	20.90	21.33	21.75	21.13	20.79	20.45	20.56	20.49	20.02	20.02	20.15	19.89
EUR/ZAR	18.39	18.83	19.31	18.93	18.65	18.35	18.48	18.45	18.02	18.02	18.14	17.90
ZAR/JPY	7.62	7.47	7.24	7.40	7.48	7.58	7.56	7.64	8.70	8.57	8.45	8.50
CHFZAR	18.57	18.93	19.12	18.29	17.67	17.23	17.27	17.24	16.92	16.92	17.03	16.81
AUDZAR	11.79	12.21	12.62	12.42	12.21	11.91	11.92	11.78	11.70	11.86	12.25	12.09
GBP/USD	1.23	1.24	1.25	1.25	1.26	1.27	1.29	1.31	1.30	1.30	1.30	1.30
EUR/USD	1.08	1.10	1.11	1.12	1.13	1.14	1.16	1.18	1.17	1.17	1.17	1.17
USD/JPY	130	129	126	125	124	122	121	120	134	132	131	130
								Note	e average	s, Sourc	e: Investe	ec, Iress

	0036.6		Rate for 23	cuasts		20	24		2025				
	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24	Q1.25	Q2.25	Q3.25	Q4.2	
JSD/ZAR	16.60	15.90	15.50	15.00	14.70	14.60	14.50	14.70	14.40	14.40	14.50	14.3	
3BP/ZAR	20.40	19.72	19.38	18.75	18.52	18.54	18.63	19.18	18.72	18.72	18.85	18.5	
EUR/ZAR	17.96	17.41	17.21	16.80	16.61	16.64	16.75	17.27	16.85	16.85	16.97	16.7	
ZAR/JPY	7.80	8.08	8.13	8.33	8.40	8.36	8.34	8.16	9.31	9.17	9.03	9.09	
CHFZAR	18.14	17.50	17.03	16.23	15.74	15.63	15.65	16.14	15.82	15.82	15.93	15.7	
AUDZAR	11.51	11.29	11.24	11.03	10.88	10.80	10.80	11.03	10.94	11.09	11.46	11.3	
SBP/USD	1.23	1.24	1.25	1.25	1.26	1.27	1.29	1.31	1.30	1.30	1.30	1.30	
UR/USD	1.08	1.10	1.11	1.12	1.13	1.14	1.16	1.18	1.17	1.17	1.17	1.17	
JSD/JPY	130	129	126	125	124	122	121	120	134	132	131	130	