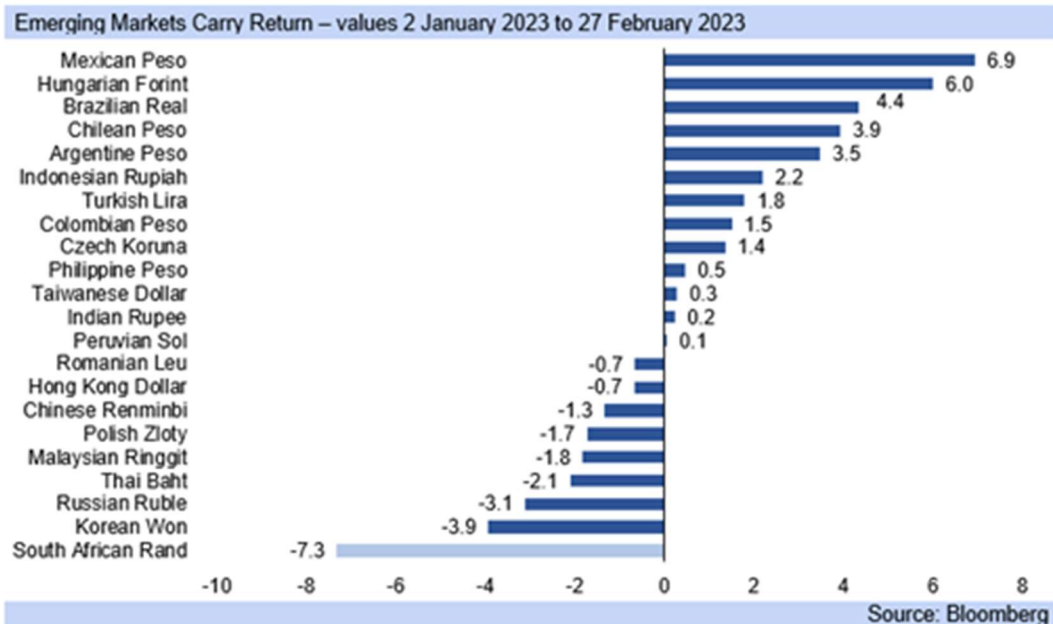
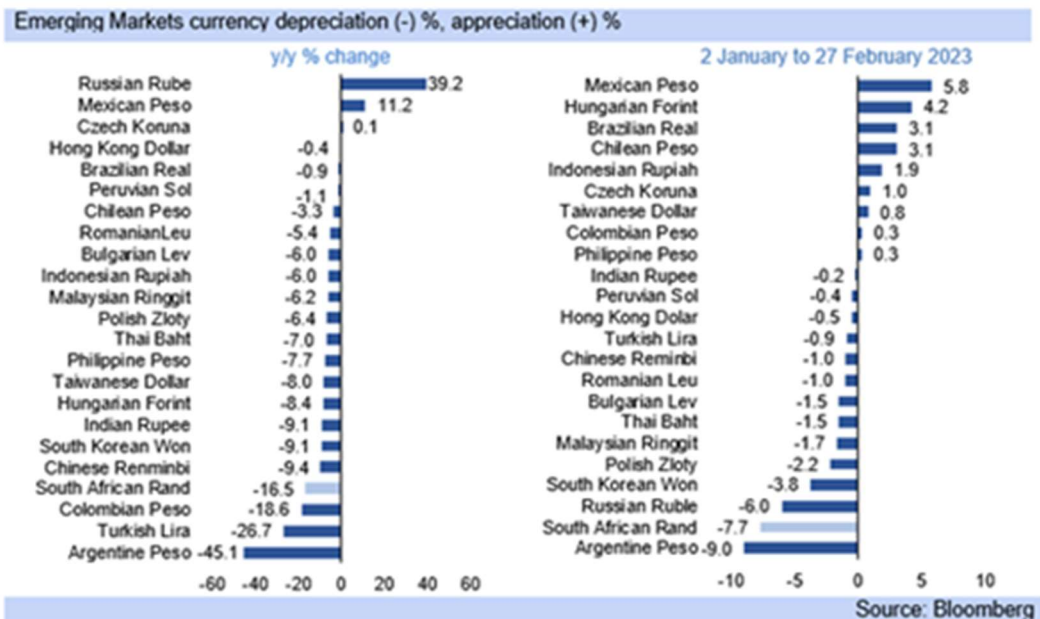
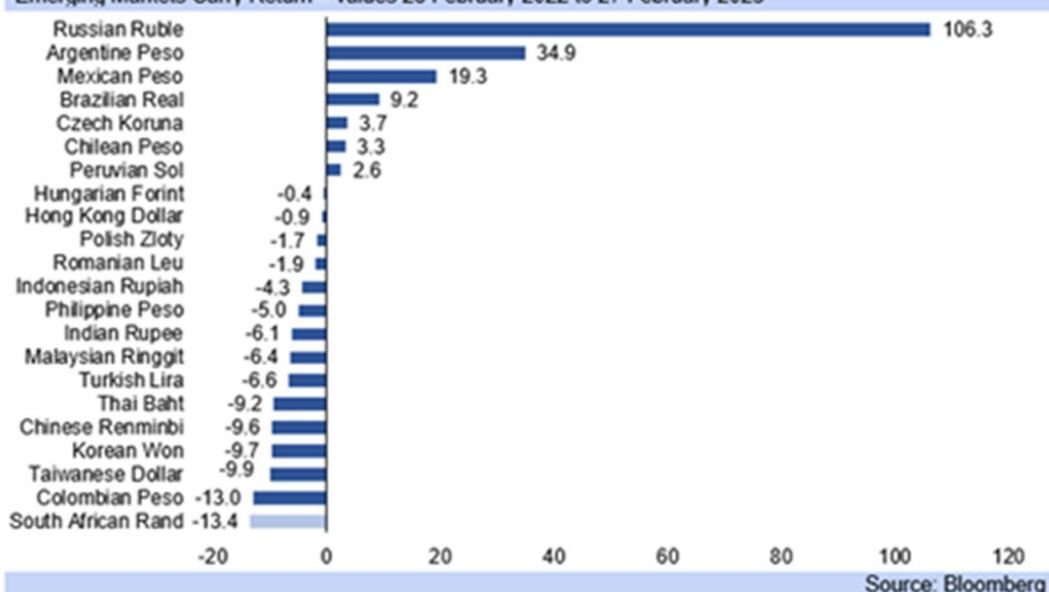


Rand note: weakened outlook on greylisting, lengthier US rate hike cycle

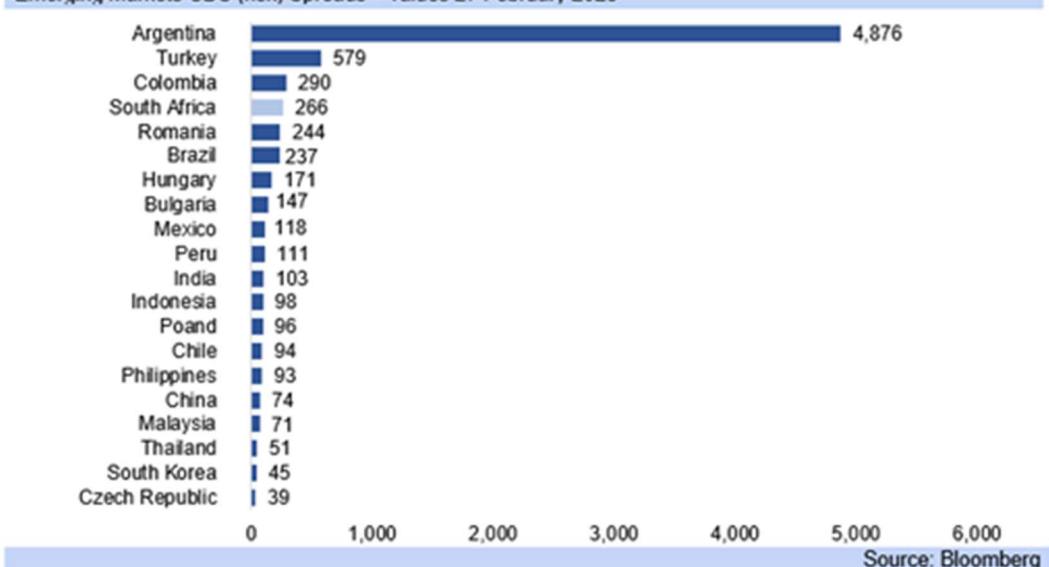
Monday 27 February 2023



Emerging Markets Carry Return – values 28 February 2022 to 27 February 2023



Emerging Markets CDS (risk) Spreads – values 27 February 2023



Expected Case: Exchange Rate forecasts

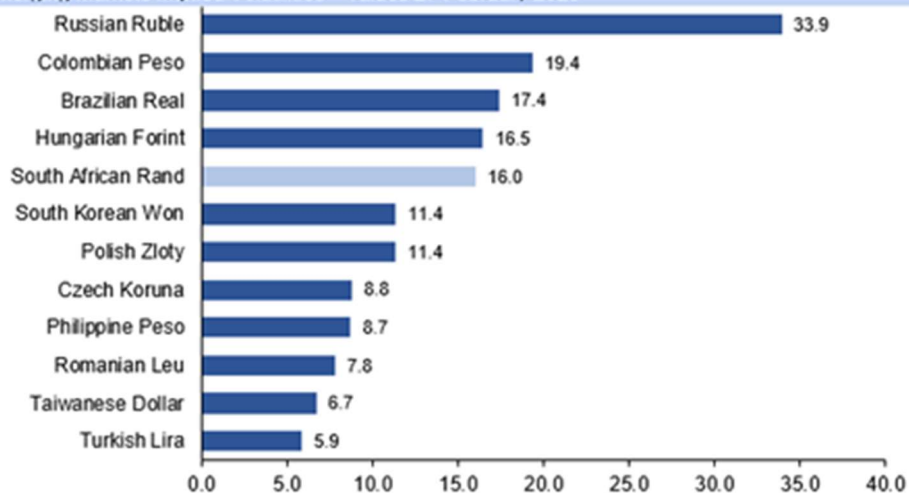
	2023				2024				2025			
	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24	Q1.25	Q2.25	Q3.25	Q4.25
USD/ZAR	17.80	18.40	18.60	18.30	17.80	18.00	18.30	17.90	17.60	17.60	17.70	17.50
GBP/ZAR	21.88	22.82	23.25	22.88	22.43	22.86	23.52	23.36	22.88	22.88	23.01	22.75
EUR/ZAR	19.26	20.15	20.65	20.50	20.11	20.52	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
CHF/ZAR	19.45	20.25	20.44	19.80	19.06	19.27	19.75	19.66	19.34	19.34	19.45	19.23
AUD/ZAR	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: averages, Source: Investec, 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.

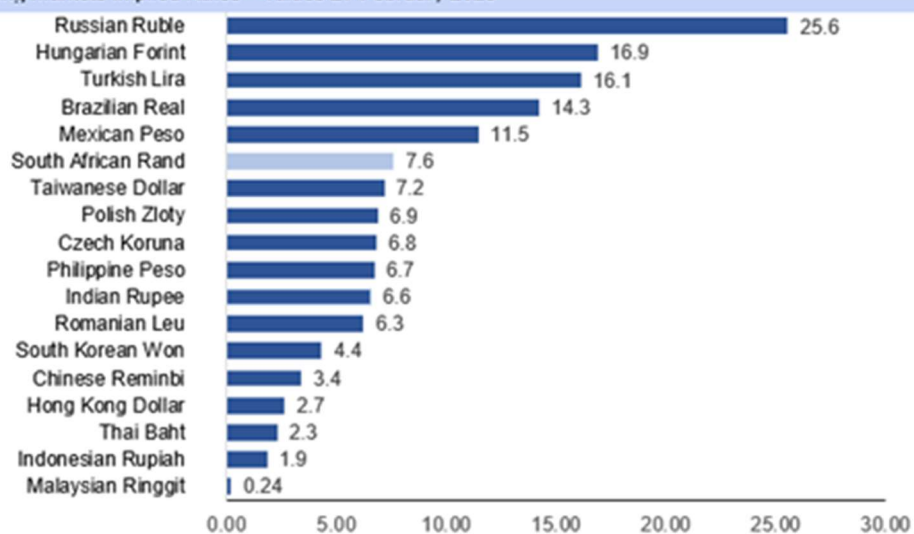
Please scroll down to the second section below

Emerging Markets Implied Volatilities – values 27 February 2023



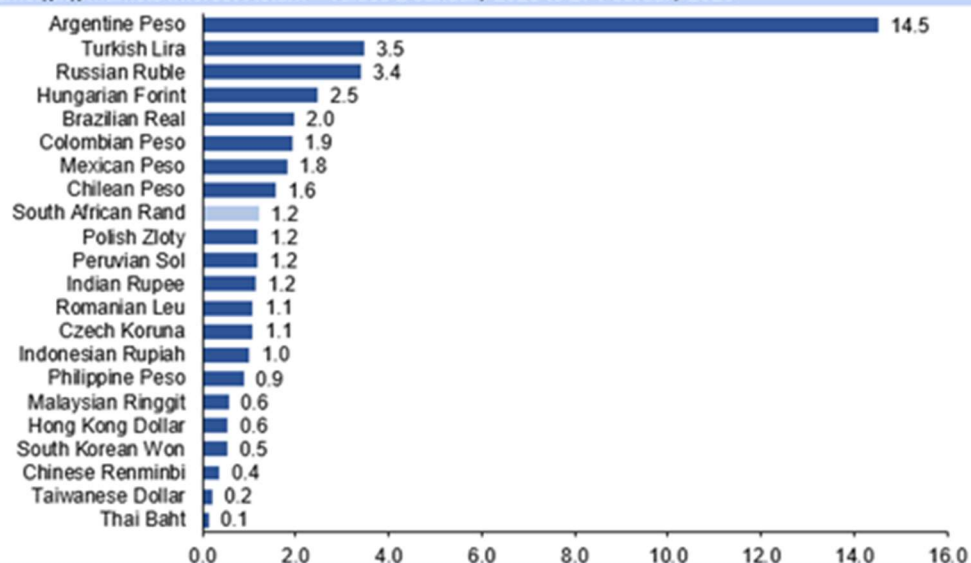
Source: Bloomberg

Emerging Markets Implied Rates – values 27 February 2023



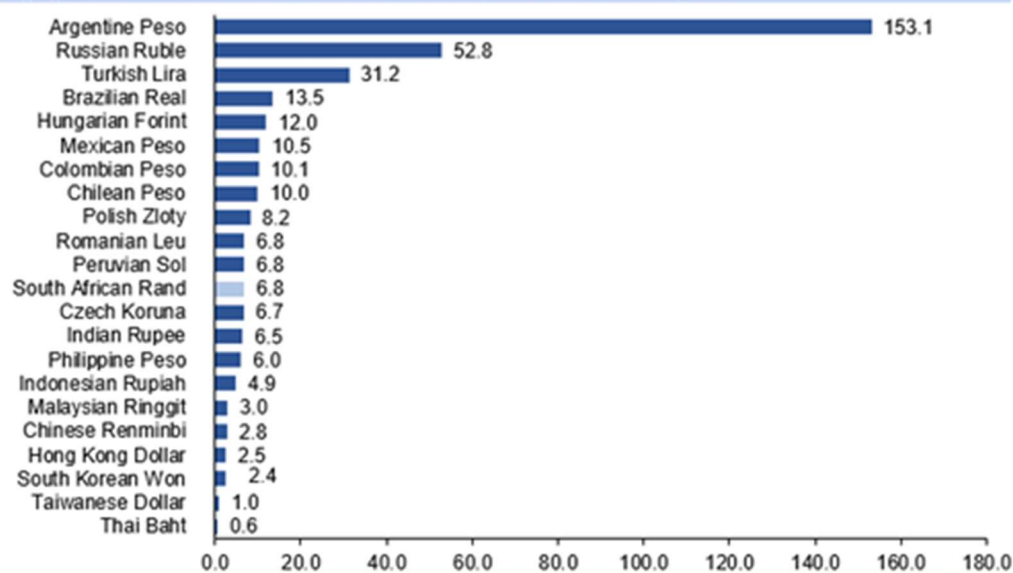
Source: Bloomberg

Emerging Markets Interest Return – values 2 January 2023 to 27 February 2023



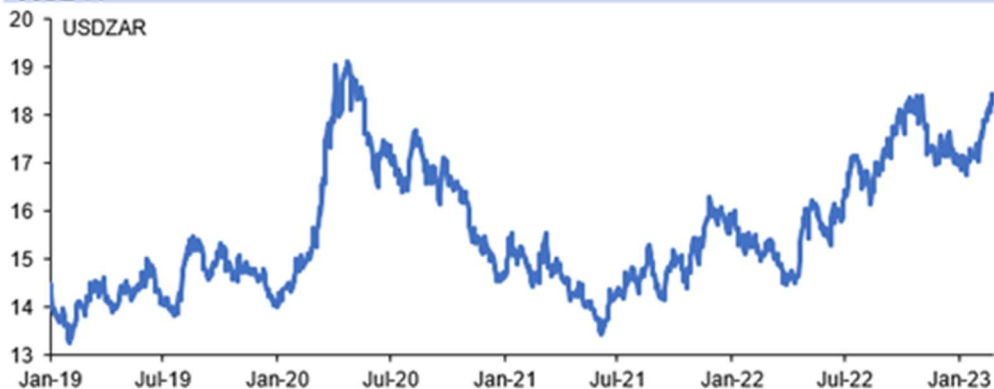
Source: Bloomberg

Emerging Markets Interest Return – values 28 February 2022 to 27 February 2023



Source: Bloomberg

USDZAR



Source: Iress

- Grey listing occurs when a country formally comes under increased monitoring from the Financial Action Task Force (FATF) following serious deficiencies in its anti-money 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.

Economic Scenarios: note updated probabilities

		Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24
Extreme	USD/Rand (average)	16.60	15.90	15.50	15.00	14.70	14.60	14.50	14.70
	Repo rate (end rate)	7.00	6.75	6.50	6.25	6.00	6.00	5.50	5.50
Up case	1% 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. Very short grey listing. Quick transition to renewable energy from fossil fuels.								
Up case	USD/Rand (average)	17.00	17.20	17.40	16.90	16.50	16.10	16.00	15.70
	Repo rate (end rate)	7.00	7.00	7.00	7.00	6.75	6.50	6.50	6.00
4%	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. Grey listed for less than eighteen months.								
Base	USD/Rand (average)	17.80	18.40	18.60	18.30	17.80	18.00	18.30	17.90
	Repo rate (end rate)	7.50	7.75	7.75	7.75	7.50	7.00	7.00	6.50
case	48% 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	USD/Rand (average)	18.00	18.90	19.00	19.20	18.60	18.75	18.90	18.70
	Repo rate (end rate)	7.75	8.00	8.50	9.00	9.00	9.00	9.00	9.00
(domestic)	Down 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, 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. Lengthy greylisting.								
case	36%								
Severe	USD/Rand (average)	18.70	19.30	19.70	20.00	20.20	20.50	20.80	21.20
	Repo rate (end rate)	8.00	9.00	10.00	10.50	10.5	11.00	11.00	11.50
down	case 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. Blacklisted.								
11%									

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	18.00	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
CHF/ZAR	19.66	20.80	20.88	20.78	19.92	20.07	20.40	20.53	20.22	20.27	20.27	20.22
AUD/ZAR	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

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	19.70	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

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	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 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	16.60	15.90	15.50	15.00	14.70	14.60	14.50	14.70	14.40	14.40	14.50	14.30
GBP/ZAR	20.40	19.72	19.38	18.75	18.52	18.54	18.63	19.18	18.72	18.72	18.85	18.59
EUR/ZAR	17.96	17.41	17.21	16.80	16.61	16.64	16.75	17.27	16.85	16.85	16.97	16.73
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	15.71
AUDZAR	11.51	11.29	11.24	11.03	10.88	10.80	10.80	11.03	10.94	11.09	11.46	11.30
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: averages. Source: Investec, Iress.