

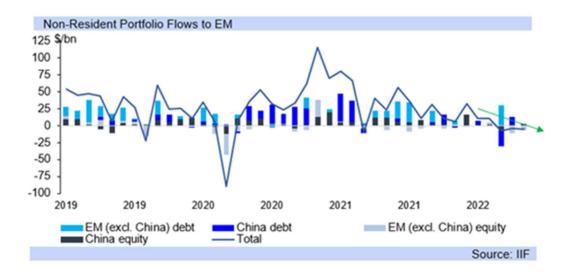


## **SA** Economics

Monday 27 June 2022

Rand note: rand runs towards forecasts for Q2.22 and Q3.22, but retains high risk of greater weakness

	c Scenarios: note updated fore								
		Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.23
xtreme		15.21	14.00	13.80	13.70	13.60	13.40	13.30	13.10
p case	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								
	constraints overcome), strong High business confidence and								
	low ratios of 2000s. Very sub								
	conditions. Strong global gre								
	transition away from fossil fue								
p case		Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.23
%	USD/Rand (average)	15.21	14.50	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
	Quickening economic growth	h, rising o	onfidence	and inv	estment le	vels, stru	ctural co	nstraints	eroded,
	global growth strong, global fi								
	fiscal consolidation, debt p								
	compensation. Low domestic								
	controlled price inflation on in-								
	from fossil fuel usage, compr	enensive r	neasures	to allevia	e climate	change in	npact on e	economy.	
		Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.23
ase	USD/Rand (average)	15.21	15.60	15.80	15.40	15.20	15.60	16.00	15.50
ase	Repo rate (end rate)	4.25	4.75	5.50	5.75	6.00	6.00	6.25	6.25
0%	Economic growth modest but	t lifts towa	rds 3.0%						
	measures, global financial macategory bracket as fiscal countries. The rand sees mile	arket risk s	entiment on (debt	is neutral to GDP	to positive stabilisatio	n) occurs	frica_in the leading	to some	dit rating positive
		arket risk s consolidation i weaknes expropriation A modest is to allevia	entiment on (debt is and inflormed i	is neutral to GDP s ation is in compen to renewal pact of companies	to positive stabilisatio npacted by sation occ ble energy limate ch	e, South Ann) occurs by the councurs and by and slow ange on t	frica_in the leading rse of we has no no move aw	to some ather pat regative or ray from f	positive terns via effect or lossil fue
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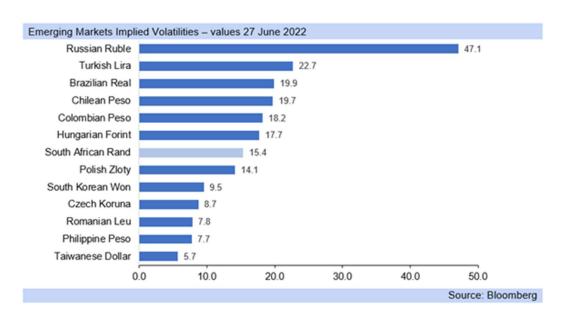


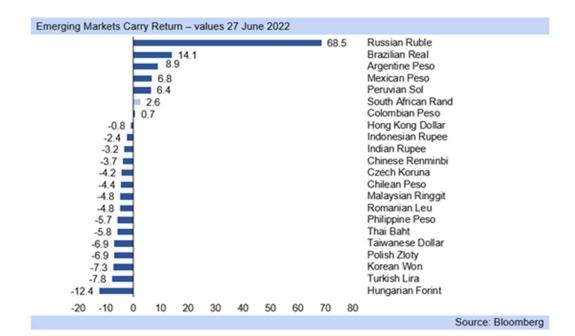
		20	22			20	23					
	Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.22	Q1.24	Q2.24	Q3.24	Q4.2
JSD/ZAR	15.21	15.60	15.80	15.40	15.21	15.60	15.80	15.40	15.21	15.60	15.80	15.4
3BP/ZAR	20.40	19.64	19.99	19.87	20.40	19.64	19.99	19.87	20.40	19.64	19.99	19.8
EUR/ZAR	17.07	16.57	16.91	16.79	17.07	16.57	16.91	16.79	17.07	16.57	16.91	16.7
ZAR/JPY	7.65	8.17	7.94	8.05	7.65	8.17	7.94	8.05	7.65	8.17	7.94	8.05
CHFZAR	16.47	16.07	16.26	15.84	16.47	16.07	16.26	15.84	16.47	16.07	16.26	15.8
AUDZAR	11.02	11.18	11.61	11.63	11.02	11.18	11.61	11.63	11.02	11.18	11.61	11.6
GBP/USD	1.34	1.26	1.27	1.29	1.32	1.35	1.36	1.37	1.40	1.43	1.45	1.46
EUR/USD	1.12	1.06	1.07	1.09	1.11	1.13	1.14	1.15	1.18	1.20	1.23	1.25
JSD/JPY	116	127	126	124	122	121	120	120	118	115	110	107

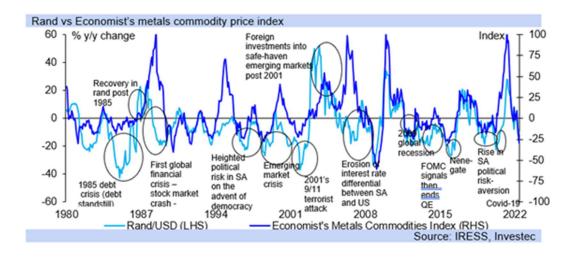
- With the rand averaging R15.59/USD so far this quarter, and only four readings left, the domestic currency is likely to attain its forecast (average) rate for Q2.22, while it is now tracking towards R15.80/USD, its Q3.22 forecast.
- However, Q3.22 is still at risk of marked volatility, despite some recent strength in the rand. While the domestic currency reached R15.77/USD today, before being rebuffed back towards R15.90/USD, it has yet to sustainably breach the R15.80/USD resistance level.
- The rand has gained from its geographical distance from the Russian/Ukraine conflict, and from Europe in general, as well as from portfolio disinvestment from China, with China seen as aligned with Russia, and having increased imports of Russian energy commodities.
- China has led EM non-resident portfolio outflows since the Russian/Ukraine war, while
  overall foreigners have been net disinvestors from EM portfolio assets, as higher interest
  rates (particularly in the US) and high inflation globally has driven recession fears and risk
  aversion.
- By the end of May, there was some evidence that the outflows had lessened, but investor sentiment has been volatile, and the volatility is likely to continue for emerging markets this quarter and next; and increased risk of US recession will heighten this.

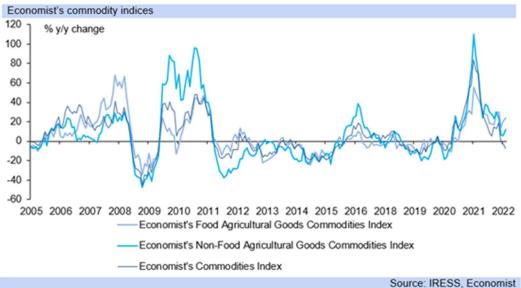
- While the US monetary policy committee has been very positive about the strength of the US economy, it is increasingly believed that a marked slowdown, and weakness in the labour market is needed to bring inflation sustainably back to the FOMC's goal of around 2.0%.
- The Fed has yet to show notable concerns on the strength of the labour market and US
  economy, but markets are a lot less sanguine, which has driven risk aversion sentiment
  and so the weakness in risk assets, particularly those of EMs' and their currencies.
- Signs of an extensive slowing in the US economy are likely in H2.22, which should limit US interest rate hikes, while the global economy is also expected to slow, causing interest rate hike expectations to likely be scaled back in other key advanced economies too.
- While initially positive for the rand, which would likely see further weakness if the US
  continued to deliver large interest rate hikes this year and next, the domestic currency will
  also remain volatile, and at risk of particular weakness on global recession.

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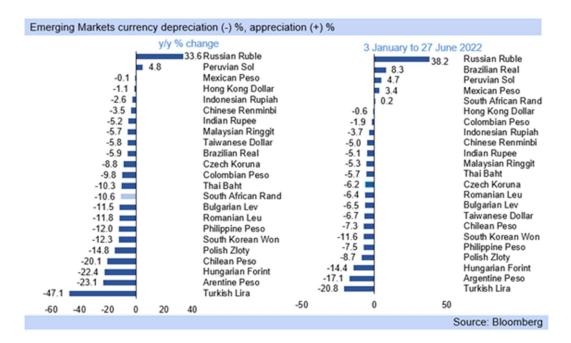










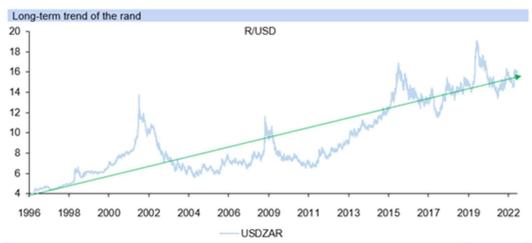


- With the Russian/Ukraine war showing no signs of drawing to a close, and instead sanctions intensifying further against Russia from the West, high inflation, and weaker global growth is still the most likely characterisation for this year.
- The G7 group of key economies, US, UK, Canada, France, Germany, Japan, Italy (and so the EU in general), have agreed to "align and expand targeted sanctions to further restrict Russia's access to key industrial inputs, services and technologies".
- Food supply remains a concern globally. The G7 has now agreed that Russians deemed responsible for war crimes against the Ukraine, and those increasing "global food insecurity" by "stealing and exporting Ukrainian grain" would be targeted individually with sanctions.

- Nato has said it expects that Russia could pause its offensive in H2.22 to redeploy troops and refresh supplies and forces, but continue its onslaught into next year and beyond. The G7 is also discussing a cap on the oil price for Russia and sanctions on gold exports.
- With a lengthy war in the Ukraine of many years expected by Nato, the US will find it hard
  to collapse its inflation on the impact on food and fuel prices, and will likely either need to
  live with higher inflation or a substantially weaker jobs market which may necessitate
  recession.
- However, the FOMC is unlikely to wittingly drive the US into a severe recession, even a substantial slowdown in growth is likely to cool its appetite for severe interest rate hikes, although a technical recession of couple of quarters contraction may be unavoidable.
- Increasing the burden of sanctions on Russia increases the strain on economic activity
  globally, but the G7 are likely to continue to heavily support Russia this year and next,
  while Russia itself is now not expected to back out of its invasion of the Ukraine any time
  soon.
- The rand appears to have consolidated around R15.90/USD today, and could see further near term strength, but longer-term the domestic currency is at risk of material weakness as the global economy slows, if not falling into outright recession, which will exacerbate risk-off.
- In SA, high inflation aids the run-down of nominal debt, if accompanied by robust nominal inflation led GDP, with lower fiscal debt and deficits, both actual and projected, positive for the domestic currency. However, well above inflation wage demands seek to eat up the gains.

Severe Do	wn Case:			precasts										
		20	22			2023 2024					24			
	Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.22	Q1.24	Q2.24	Q3.24	Q4.24		
USD/ZAR	15.21	16.80	17.50	18.00	18.50	18.70	19.20	19.55	19.70	19.90	20.20	20.40		
GBP/ZAR	20.40	21.15	22.14	23.22	24.33	25.15	26.11	26.69	27.58	28.46	29.29	29.78		
EUR/ZAR	17.07	17.85	18.73	19.62	20.54	21.13	21.89	22.38	23.25	23.88	24.85	25.50		
ZAR/JPY	7.65	7.59	7.17	6.89	6.59	6.44	6.25	6.14	5.99	5.78	5.45	5.25		
CHFZAR	16.47	17.30	18.00	18.51	19.10	19.39	19.90	20.35	21.18	21.87	22.20	22.42		
AUDZAR	11.02	12.04	12.86	13.59	14.25	14.77	15.36	15.64	15.37	15.52	15.76	15.91		
GBP/USD	1.34	1.26	1.27	1.29	1.32	1.35	1.36	1.37	1.40	1.43	1.45	1.46		
EUR/USD	1.12	1.06	1.07	1.09	1.11	1.13	1.14	1.15	1.18	1.20	1.23	1.25		
USD/JPY	116	127	126	124	122	121	120	120	118	115	110	107		
								Note	average	s, Sourc	e: Investe	ec, Ires		

Lite Down	Case: Ex	change R	Rate forec	asts								
		20	22			2023 2024						
	Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.22	Q1.24	Q2.24	Q3.24	Q4.24
USD/ZAR	15.21	16.00	16.65	16.90	17.00	17.50	17.60	17.50	17.20	17.00	16.80	17.00
GBP/ZAR	20.40	20.14	21.06	21.80	22.36	23.54	23.94	23.89	24.08	24.31	24.36	24.82
EUR/ZAR	17.07	17.00	17.82	18.42	18.87	19.78	20.06	20.04	20.30	20.40	20.66	21.25
ZAR/JPY	7.65	7.97	7.54	7.34	7.18	6.89	6.82	6.86	6.86	6.76	6.55	6.29
CHFZAR	16.47	16.48	17.13	17.38	17.55	18.14	18.24	18.22	18.49	18.68	18.46	18.68
AUDZAR	11.02	11.47	12.24	12.76	13.09	13.83	14.08	14.00	13.42	13.26	13.10	13.26
GBP/USD	1.34	1.26	1.27	1.29	1.32	1.35	1.36	1.37	1.40	1.43	1.45	1.46
EUR/USD	1.12	1.06	1.07	1.09	1.11	1.13	1.14	1.15	1.18	1.20	1.23	1.25
USD/JPY	116	127	126	124	122	121	120	120	118	115	110	107
								Note: an	verages,	Source:	Investe	c, Iress



Source: Iress

Extreme Up	Case: E	xchange	Rate for	ecasts										
		20	22		2023 2024						24			
	Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.22	Q1.24	Q2.24	Q3.24	Q4.24		
USD/ZAR	15.21	14.00	13.80	13.70	13.60	13.40	13.30	13.10	12.90	12.80	12.60	12.30		
GBP/ZAR	20.40	17.62	17.46	17.67	17.88	18.02	18.09	17.88	18.06	18.30	18.27	17.96		
EUR/ZAR	17.07	14.87	14.77	14.93	15.10	15.14	15.16	15.00	15.22	15.36	15.50	15.38		
ZAR/JPY	7.65	9.10	9.09	9.05	8.97	8.99	9.02	9.16	9.15	8.98	8.73	8.70		
CHFZAR	16.47	14.42	14.20	14.09	14.04	13.89	13.78	13.64	13.87	14.07	13.85	13.52		
AUDZAR	11.02	10.03	10.14	10.34	10.47	10.59	10.64	10.48	10.06	9.98	9.83	9.59		
GBP/USD	1.34	1.26	1.27	1.29	1.32	1.35	1.36	1.37	1.40	1.43	1.45	1.46		
EUR/USD	1.12	1.06	1.07	1.09	1.11	1.13	1.14	1.15	1.18	1.20	1.23	1.25		
USD/JPY	116	127	126	124	122	121	120	120	118	115	110	107		
								Note	average	s, Sourc	e: Investe	ec, Iress		

Up Case: E	xchange	Rate for	ecasts											
		20	22		2023					2024				
	Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.22	Q1.24	Q2.24	Q3.24	Q4.24		
USD/ZAR	15.21	14.50	15.00	14.90	14.90	14.70	14.60	14.50	14.50	14.40	14.40	14.30		
GBP/ZAR	20.40	18.25	18.98	19.22	19.59	19.77	19.86	19.79	20.30	20.59	20.88	20.88		
EUR/ZAR	17.07	15.40	16.05	16.24	16.54	16.61	16.64	16.60	17.11	17.28	17.71	17.88		
ZAR/JPY	7.65	8.79	8.37	8.32	8.19	8.20	8.22	8.28	8.14	7.99	7.64	7.48		
CHFZAR	16.47	14.93	15.43	15.32	15.38	15.24	15.13	15.09	15.59	15.82	15.82	15.71		
AUDZAR	11.02	10.39	11.03	11.25	11.47	11.61	11.68	11.60	11.31	11.23	11.23	11.15		
GBP/USD	1.34	1.26	1.27	1.29	1.32	1.35	1.36	1.37	1.40	1.43	1.45	1.46		
EUR/USD	1.12	1.06	1.07	1.09	1.11	1.13	1.14	1.15	1.18	1.20	1.23	1.25		
USD/JPY	116	127	126	124	122	121	120	120	118	115	110	107		
								Note	average	s, Source	e: Investe	ec, Iress		