



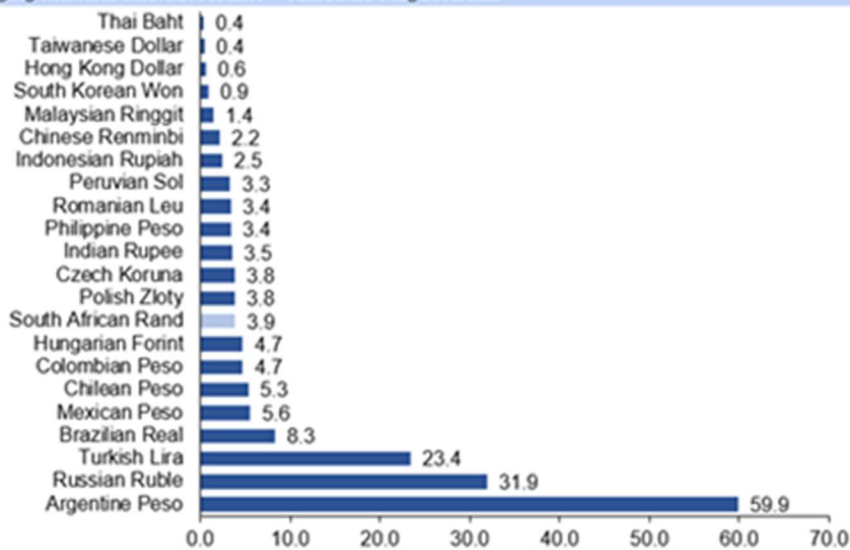
# SA Economics

Monday 29 August 2022

Rand note: the US has signalled some potential flexibility in its monetary policy after a harder approach in late Q2.22

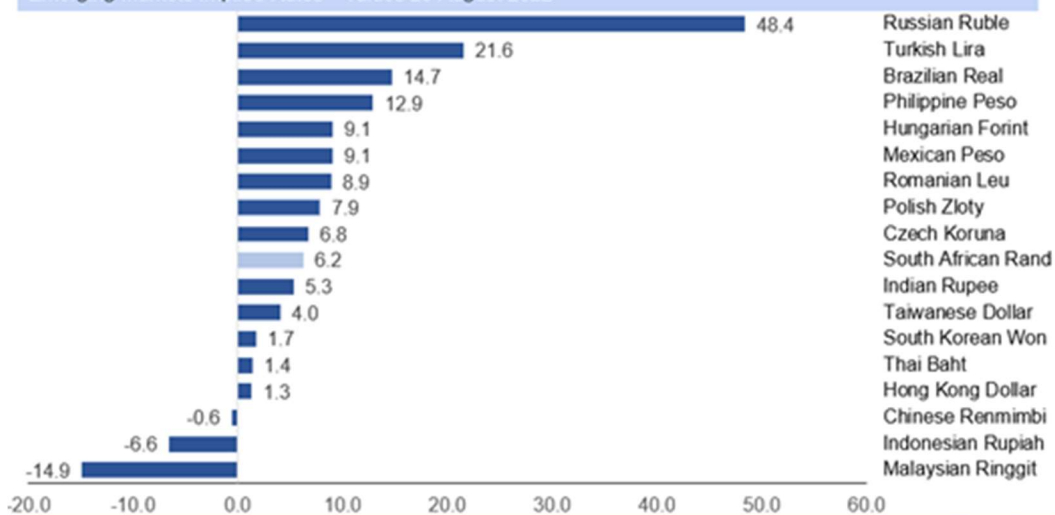


Emerging Markets Interest Return – values 29 August 2022



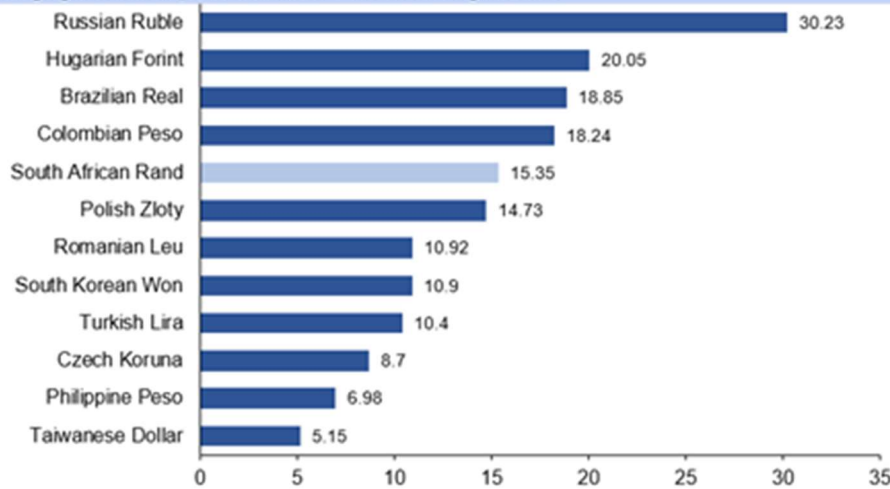
Source: Bloomberg

Emerging Markets Implied Rates – values 29 August 2022



Source: Bloomberg

### Emerging Markets Implied Volatilities – values 29 August 2022



Source: Bloomberg

### Expected Case: Exchange Rate forecasts

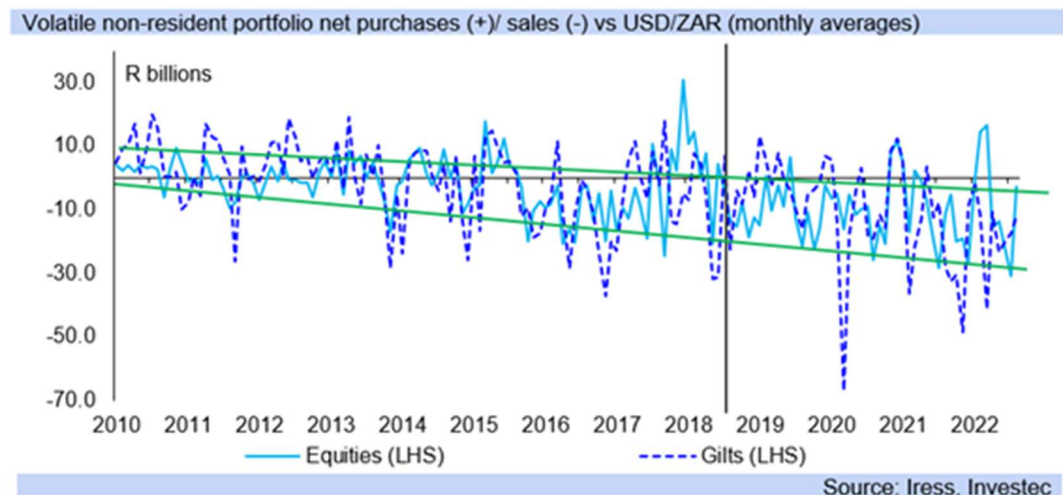
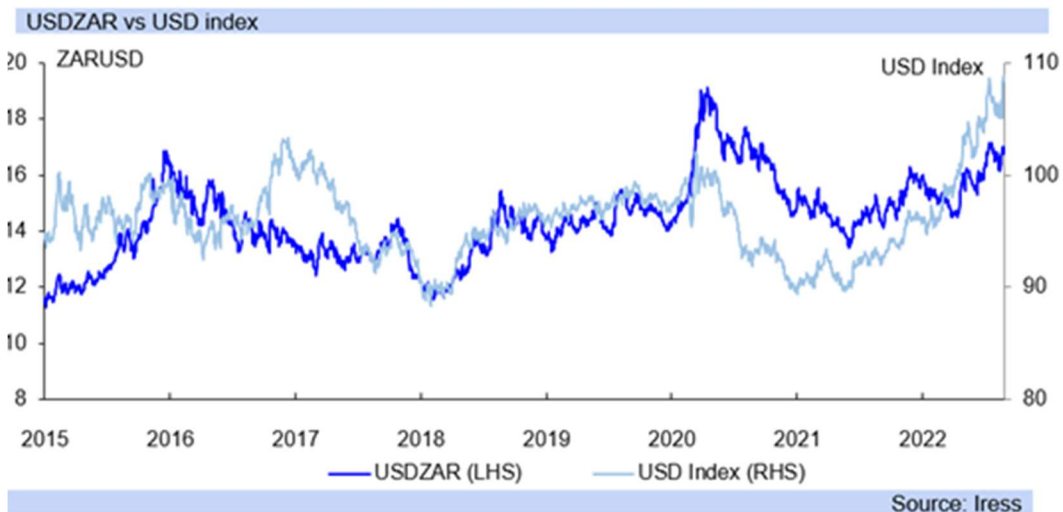
	2022				2023				2024			
	Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24
USD/ZAR	15.21	15.59	16.60	15.80	15.60	16.00	16.40	15.90	15.70	16.20	16.70	16.20
GBP/ZAR	20.40	19.59	19.87	18.80	18.64	19.28	20.09	19.88	20.10	21.08	22.55	22.38
EUR/ZAR	17.07	16.60	16.88	16.35	16.46	16.98	17.55	17.33	18.08	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	6.76
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	11.08	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 has continued to digest Fed Chair, Jerome Powell's speech at the Jackson Hole conference on Friday, which saw the focus remain on bringing US inflation back to target, and the rand move similarly to its reaction last week on the release of the FOMC minutes.
- Indeed, the domestic currency, which reacts negatively to events that are seen to increase risk aversion in global financial markets, saw slightly less depreciation in response to Powell's Jackson Hole speech, than last week's release of July's FOMC meeting's minutes.
- Some evidence of slowing economic activity in the US did not sway the Fed Chair's view that the FOMC "overarching focus right now is to bring inflation back down to our 2 percent goal" and "(r)educing inflation is likely to require a sustained period of below-trend growth."
- "Restoring price stability will take some time and requires using ... tools forcefully to bring demand and supply into better balance. While higher interest rates, slower growth, and softer labor market conditions will bring down inflation, they will also bring some pain to households and businesses."
- The US dollar strengthened, driving the rand to R17.00/USD today, from R16.70/USD on Friday before the Fed's comments, but is at its Friday close against the euro at R16.81 and against the British pound at R19.71, slightly stronger than Fridays' close of R19.82.

- Jerome Powell added that “in my view our economy continues to show strong underlying momentum. The labor market is particularly strong, but it is clearly out of balance, with demand for workers substantially exceeding the supply of available workers.”
- Markets drew some confidence from these positive remarks, which were taken to signify that the US economy was not close to recession, and that the Fed was keeping close watch, although higher interest rates were still likely and taming inflation remained key.
- The Fed worried that “high inflation has continued to spread through the economy. While the lower inflation readings for July are welcome, a single month's improvement falls far short of what the Committee will need to see before we are confident that inflation is moving down.”
- Powell did not give a clear view on whether the next FOMC meeting would see a 50bp or 75bp rate hike, and markets have left the door open for either, factoring in a 68bp lift, slightly up on a few weeks ago, but not at the full 75bp, and likely to fluctuate.

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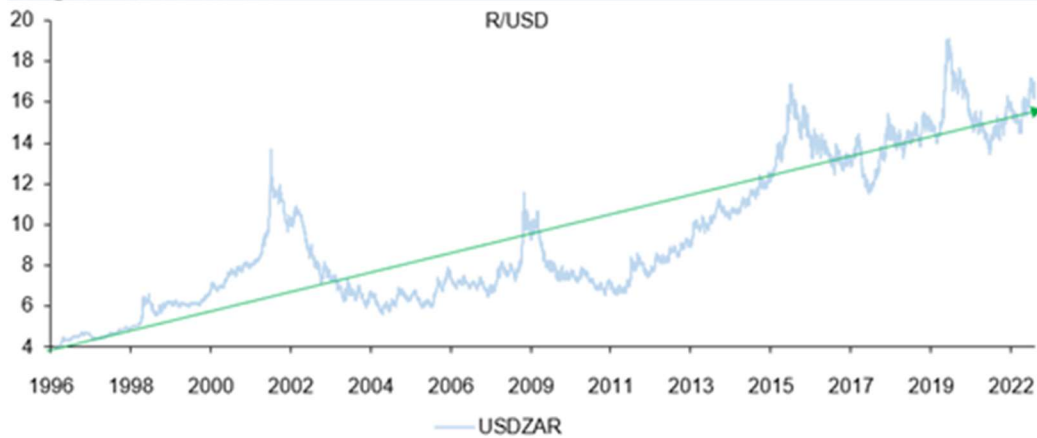


Emerging Markets currency depreciation (-) %, appreciation (+) %



Source: Bloomberg

Long-term trend of the rand



Source: Iress



- The tone was not the most hawkish markets have seen from the FOMC this year, with the Fed not stuck on a 75bp hike, highlighting that “(o)ur decision at the September meeting will depend on the totality of the incoming data and the evolving outlook.”
- This is in contrast to “July’s increase in the target range was the second 75 basis point increase in as many meetings, and I said then that another unusually large increase could be appropriate at our next meeting.”
- Market volatility will likely remain in the run-up to September’s FOMC meeting, as the comment “(a)t some point, as the stance of monetary policy tightens further, it likely will become appropriate to slow the pace of increases” seemed to lean back towards 75bp.
- Significant uncertainty increases risk-off in global financial markets, and so in SA markets/market indicators too. US interest rates are still expected to rise at the next two policy meetings with the FOMC then “maintaining a restrictive policy stance for some time.”
- On the trajectory next year Powell added that “most recent individual projections (from June) showed the median federal funds rate running slightly below 4 percent through the end of 2023. Participants will update their projections at the September meeting.”
- The implied Fed fund’s futures rate is at 3.60% by the end of 2023, with markets looking for slightly less than the FOMC communicated in June, and in general there is some slight emerging optimism in this regard, although it is still too early to be certain.
- Additionally, data which comes out showing substantially worse than expected indicators of economic activity in the US will roil markets, and the domestic currency is expected to still see some weakness and volatility over the remainder of this quarter.
- Q2.22 may see an outcome closer to R16.80/USD than R16.60/USD, in what has been a weak quarter for the rand, although Q2.22 saw more marked volatility, and specifically more weakness as the quarter progressed and global growth forecasts were revised down.
- While Jerome Powell’s Jackson Hole speech was careful not to give clear direction, the tone appears more flexible on monetary policy, and higher rate hikes (of 1.00% per meeting) seem unlikely, while lower ones (50bp) seem quite possible, which is positive.

**Economic Scenarios: note updated forecasts**

		Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.23	
<b>Extreme</b>	USD/Rand (average)	15.21	15.59	14.00	13.80	13.70	13.60	13.40	13.30	
<b>Up case</b>	Repo rate (end rate)	4.25	4.75	4.00	3.75	3.75	3.75	3.50	3.50	
<b>1%</b>	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.									
<b>Up case</b>		Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.23	
<b>1%</b>	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 fall substantially. Substantial transition to renewable energy away from fossil fuel usage, comprehensive measures to alleviate climate change impact on economy.									
<b>Base</b>		Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.23	
<b>case</b>	USD/Rand (average)	15.21	15.59	16.60	15.80	15.60	16.00	16.40	15.90	
<b>50%</b>	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.									
<b>Lite</b>		Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.23	
<b>(domestic)</b>	USD/Rand (average)	15.21	15.59	16.90	17.00	17.50	17.60	17.50	17.70	
<b>Down</b>	Repo rate (end rate)	4.25	4.75	5.75	6.75	6.75	7.25	7.75	8.25	
<b>case</b>	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, preventing ratings falling into the C grades.									
<b>39%</b>		Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.23	
<b>Severe</b>	USD/Rand (average)	15.21	15.59	17.50	18.00	18.30	18.50	18.60	19.00	
<b>down</b>	Repo rate (end rate)	4.25	4.75	6.00	7.00	7.50	8.00	8.50	9.00	
<b>case</b>	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.									
<b>9%</b>										

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

**Lite 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	116	130	138	138	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	26.08	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
CHFZAR	16.47	16.15	18.42	19.15	19.68	20.11	20.44	20.88	21.21	21.32	21.21	21.21
AUDZAR	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	116	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	8.78	8.70	8.66	8.26	7.87	7.93	7.59
CHFZAR	16.47	16.15	15.79	15.85	16.02	15.98	16.04	15.93	16.37	16.48	15.93	15.93
AUDZAR	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	116	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
CHFZAR	16.47	16.15	14.74	14.68	14.73	14.78	14.73	14.62	14.40	14.40	14.18	14.07
AUDZAR	11.02	11.14	9.70	9.66	9.80	10.20	10.25	10.04	10.22	10.22	10.06	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
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