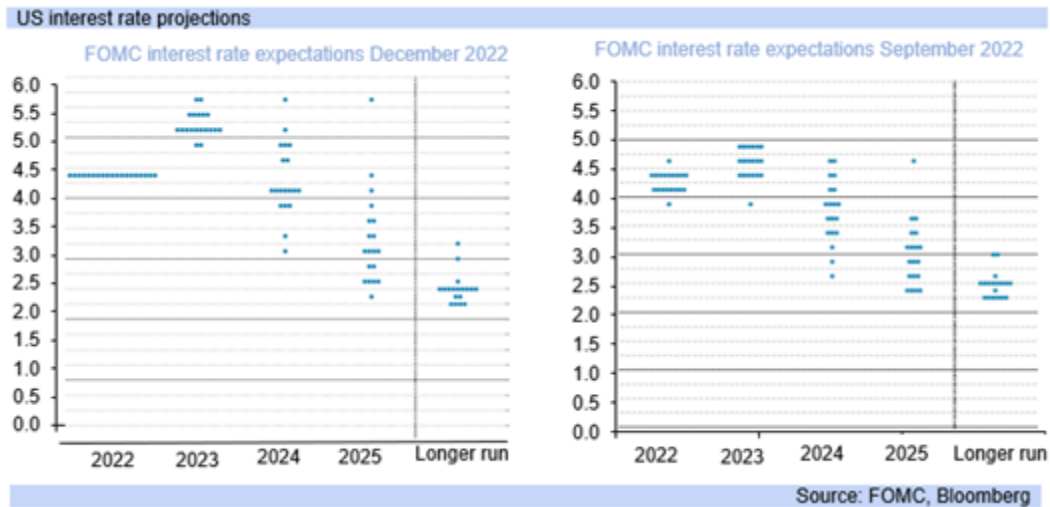




Rand note: the rand runs around R17.00/USD but risk-off still evident on global growth concerns

Thursday 5 January 2023



**MPC meeting dates for 2023**

26<sup>th</sup> January 2023  
 30<sup>th</sup> March 2023  
 25<sup>th</sup> May 2023  
 20<sup>th</sup> July 2023  
 21<sup>st</sup> September 2023  
 23<sup>rd</sup> November 2023

Source: SARB

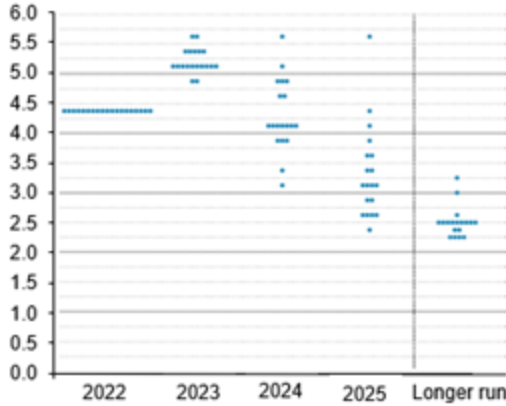
**FOMC meetings for 2023**

31<sup>st</sup> January–1<sup>st</sup> February 2023  
 21<sup>st</sup>–22<sup>nd</sup> March 2023  
 2<sup>nd</sup>–3<sup>rd</sup> May 2023  
 13<sup>th</sup>–14<sup>th</sup> June 2023  
 25<sup>th</sup>–26<sup>th</sup> July 2023  
 19<sup>th</sup>–20<sup>th</sup> September 2023  
 31<sup>st</sup> October–1<sup>st</sup> November 2023  
 12<sup>th</sup>–13<sup>th</sup> December 2023

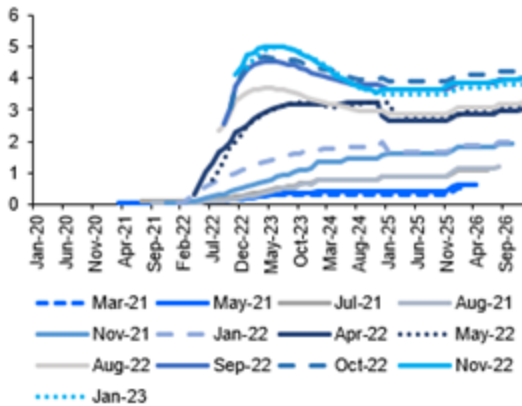
Source: The Federal Reserve Bank

**US interest rate projections**

FOMC interest rate expectations December 2022

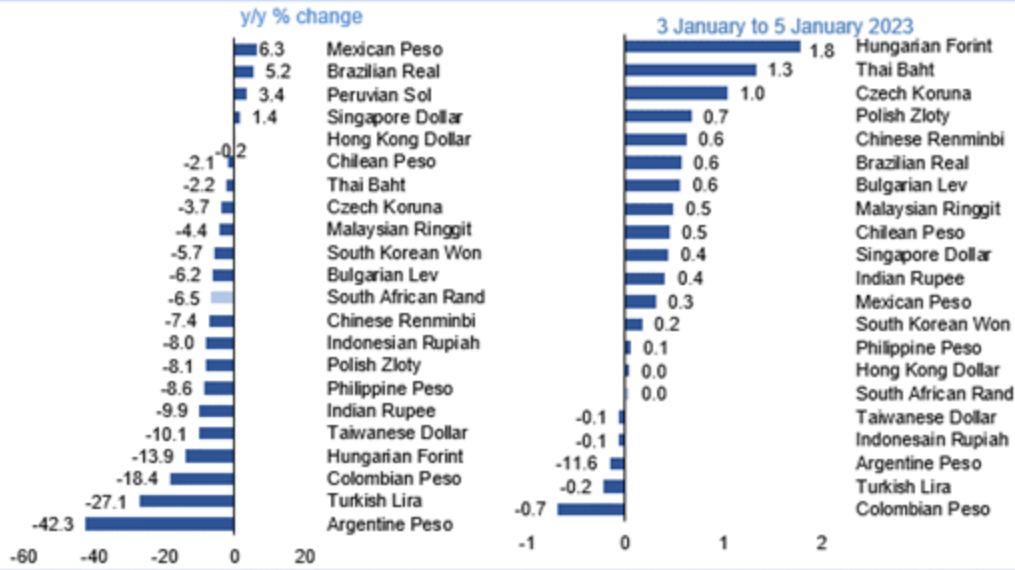


Market projection for Fed funds



Source: FOMC, Bloomberg

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



Source: Bloomberg

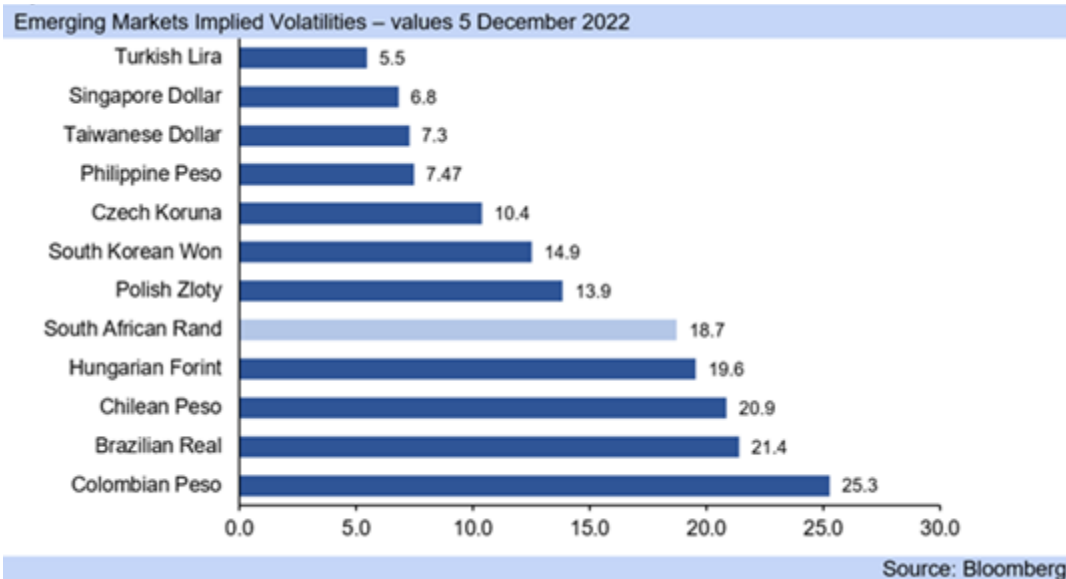
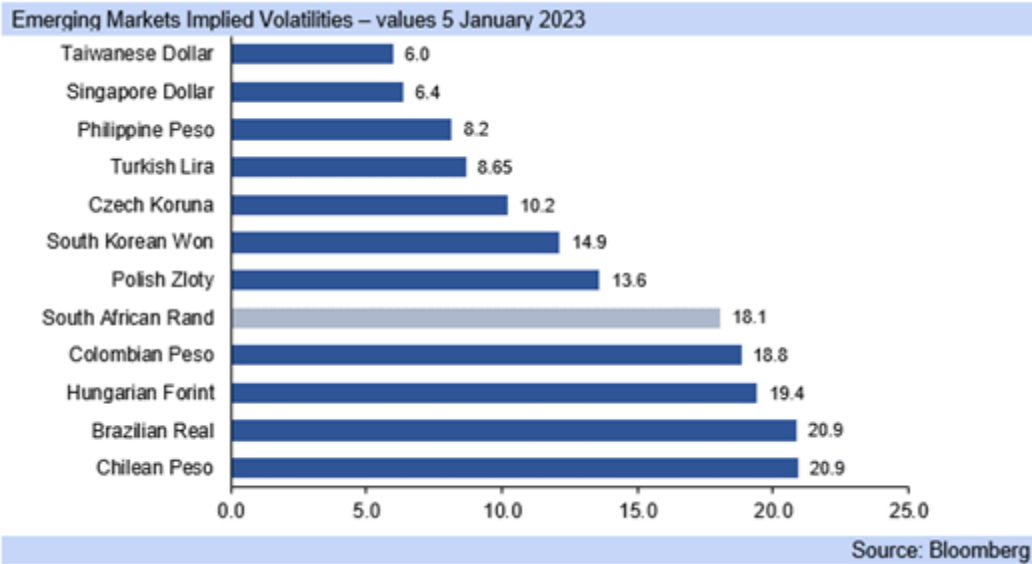
Expected Case: Exchange Rate forecasts												
	2023				2024				2025			
	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24	Q1.25	Q2.25	Q3.25	Q4.25
USD/ZAR	16.90	16.45	16.20	16.40	16.20	16.45	16.80	16.60	16.50	16.50	16.80	16.60
GBP/ZAR	20.37	20.24	20.25	20.50	20.58	21.39	22.18	22.91	23.10	23.27	24.03	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
CHFZAR	17.79	17.32	17.06	17.27	17.06	17.69	18.46	18.24	18.13	18.13	18.46	18.24
AUDZAR	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

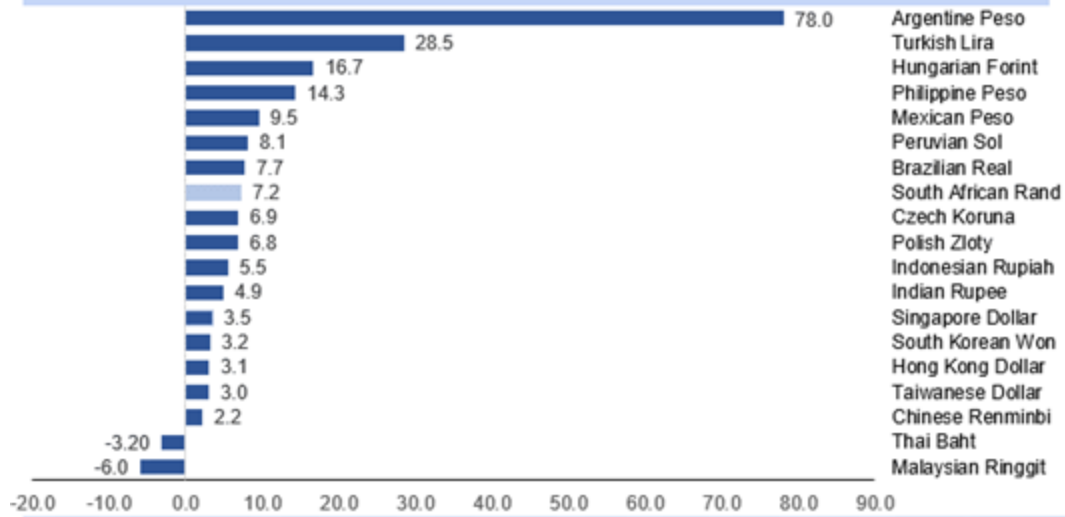
- The 50bp lift at 14<sup>th</sup> December's Federal Open Market Committee (FOMC) meeting, with the target range for the federal funds rate now 4.25% - 4.50%, was expected, but aided the rand in tracking back to R17.00/USD by the end of 2022 on USD weakness.
- The rand strengthened to R16.87/USD today, with the release of the FOMC minutes for the mid December 2022 meeting showing a unified decision to slow the pace of rate hikes in order to limit the impact on economic growth in the US.
- In particular, in "(i)light of the heightened uncertainty regarding the outlooks for both inflation and real economic activity, most participants emphasized the need to retain flexibility and optionality when moving policy to a more restrictive stance."
- Markets are beginning to factor in the chance that the FOMC reduces the quantum of its rate hike increases further, to 25bp potentially as early as the 1<sup>st</sup> February FOMC meeting, although market expectations are also divided, with the futures consequently pricing in a 34bp lift currently.
- The Fed funds futures further show less than a 25bp hike at the 22<sup>nd</sup> March and 3<sup>rd</sup> May FOMC meetings – the FOMC's next two meeting dates, and then stabilisation around mid-year, turning to cuts in US interest rates over H2.23.
- However, as the FOMC itself notes "the Committee would continue to make decisions meeting by meeting", while the updated dot-plot chart shows the Fed's target rate peaking at the 5.00% - 5.25% range, then dropping down to 4.00% - 4.25% next year.
- The dot-plot consequently shows a higher peaking for the target rate for this year than in its previous publication of 4.50% to 4.75%, which has prevented the rand from strengthening (the US dollar from weakening) more substantially than it has from mid-December so far.
- However, Fed Chair Powell highlighted on the dot-plot (FOMC members') interest rate views "(o)f course, these projections do not represent a Committee decision or plan, and no one knows with any certainty where the economy will be a year or more from now."

- With the global economy expected to weaken this year, and the IMF warning "(w)e expect one-third of the world economy to be in recession", markets are concerned as they show US rate cuts later in the year. Investor uncertainty is still high, and so the rand is weak.

Please scroll down to the second section below

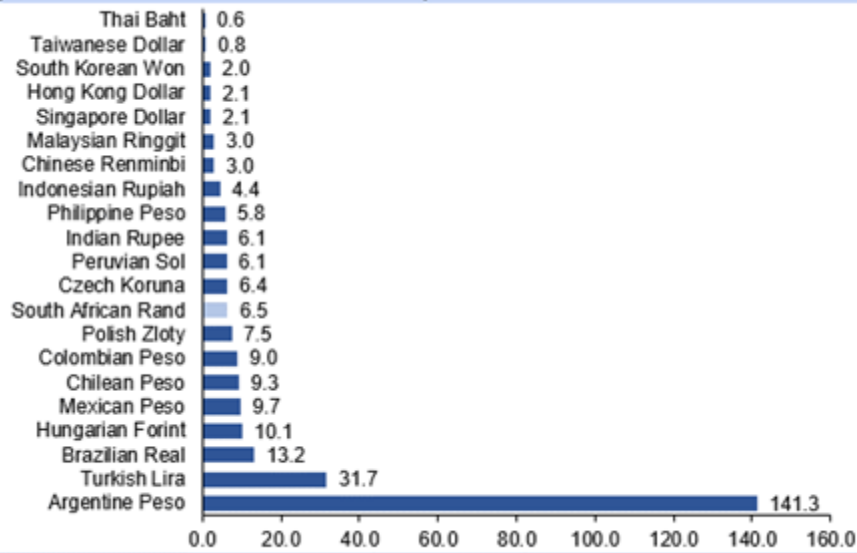


Emerging Markets Implied Rates – values 5 January 2023



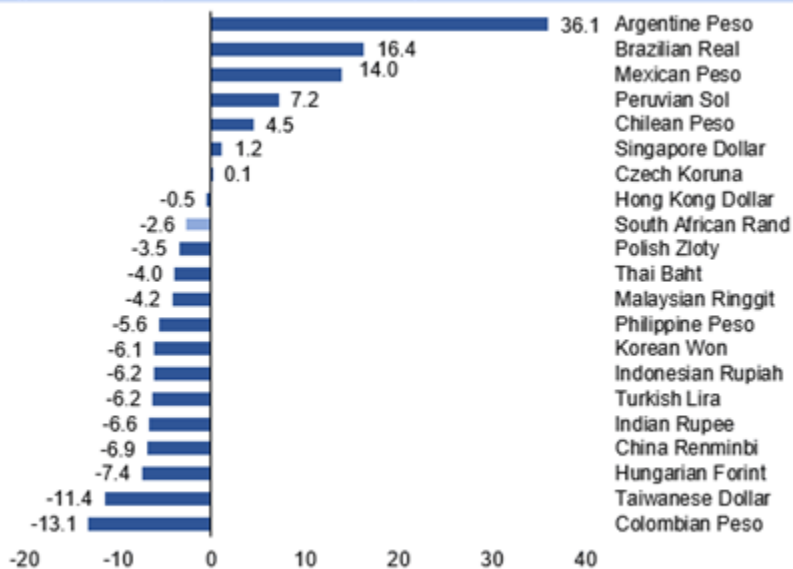
Source: Bloomberg

Emerging Markets Interest Return – values 5 January 2023



Source: Bloomberg

Emerging Markets Carry Return – values 5 January 2023



Source: Bloomberg

- The IMF adds "(h)alf of the European Union will be in recession", ... "the three big economies US, EU, China are slowing ... simultaneously." "(T)he US may avoid recession," if "resilience of the labor market ... holds, the US would help the world to get through a very difficult year".
- Fed Chair Powell highlights "(d)espite the slowdown in growth, the labor market remains extremely tight, with the unemployment rate near a 50-year low, job vacancies still very high, and wage growth elevated."
- "Job gains have been robust, with employment rising by an average of 272,000 jobs per month over the last three months. ... the labor market continues to be out of balance, with demand substantially exceeding the supply of available workers."
- "FOMC participants expect supply and demand conditions in the labor market to come into better balance over time, easing upward pressures on wages and prices." In addition, the unemployment rate for 2023 was raised at the December meeting versus September's projection.
- With the Fed's change in interest rate expectations, and focus "that ongoing increases will be appropriate in order to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2 percent over time", the Fed has not fully rolled back from its hawkish stance.
- The rand will consequently be unlikely to pierce R16.00/USD this month, but could track towards this level. Markets continue to worry over the Fed's monetary policy proving too restrictive, and so the need for policy reversal in H2.23 with rate cuts (as shown by the Fed funds futures).
- China's COVID-19 outbreak, and resultant harsh restrictions in Q4.22, are expected to have supply chain effects into 2023, while the end of 2022 and early 2023 saw

the dismantling of its zero-COVID policy, although the WHO believes China's COVID cases are now under counted.

- The risks for 2023 include the global economic slowdown proving more severe than expected, which would yield lower global interest rates and inflation rates than currently expected, but raise risk aversion levels, and so have a negative effect on the rand.
- The recent domestic political situation evolved as expected, and now a cabinet reshuffle is anticipated in Q1.23 to bolster the President's policy aims to repair SA's infrastructure. The Phala Phala saga is not over, but we expect that it will unfold in the courts without derailing Ramaphosa.

Economic Scenarios: note updated probabilities		Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24
<b>Extreme Up case</b>	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
<b>1%</b>	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.								
<b>Up case 4%</b>	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
<b>4%</b>	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.								
<b>Base case</b>	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
<b>48%</b>	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.								
<b>Lite (domestic) Down case</b>	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
<b>36%</b>	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.								
<b>Severe down case</b>	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
<b>11%</b>	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



Regards

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