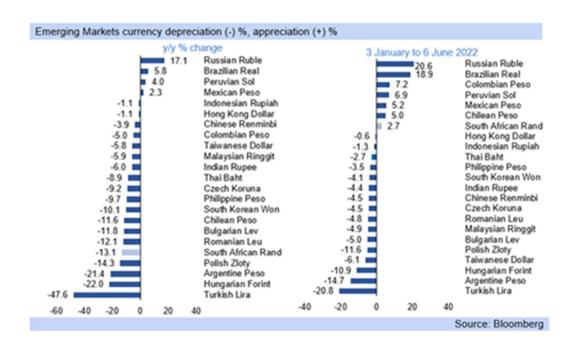


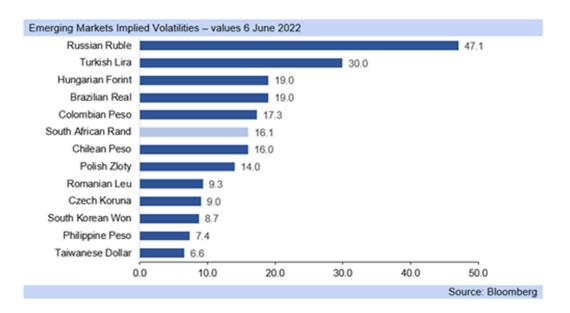


SA Economics

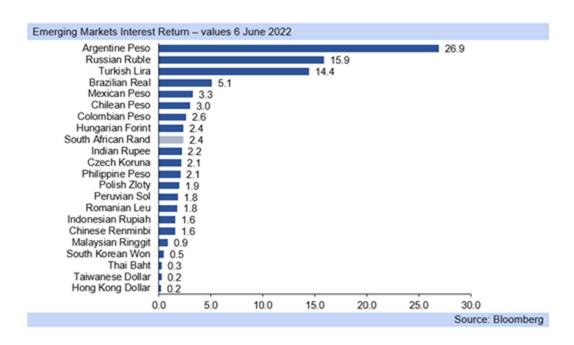
Monday 6 June 2022

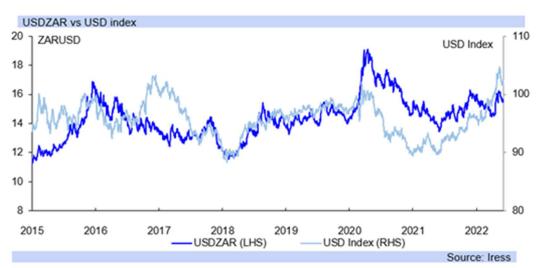
Rand note: the rand strengthens as key incoming data on the global economy allays immediate concerns







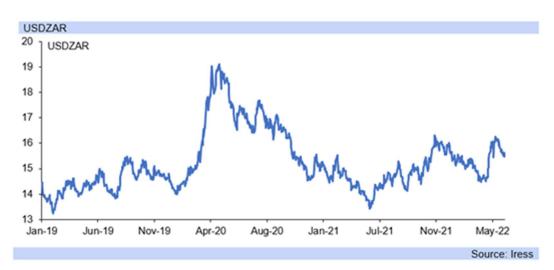


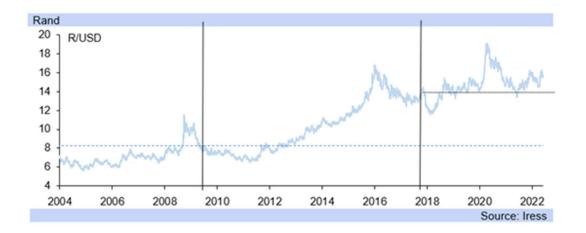


- The rand has strengthened in June, after May's sharp run weaker, with the domestic currency at R15.31/USD today, from an average of R15.89/USD over May, and a high of R16.37/USD. Global financial markets subsequently saw risk aversion lesson from mid-May onwards.
- USD strength has subsided somewhat, but the rand has also gained against the Euro, at R16.41/EUR today, from an average of R16.80/EUR over May, and a high of R17.18/EUR in that month. The euro reached 1.08 in June against the US dollar, from its 1.06 May average.
- The rand has also gained against the other crosses too, and is now at R19.21/GBP, from May's average of R19.79/GBP and high of R20.12/GBP. Markets have calmed after episodes of marked risk-off that were driven by fears of a very rapid US rate hike cycle.

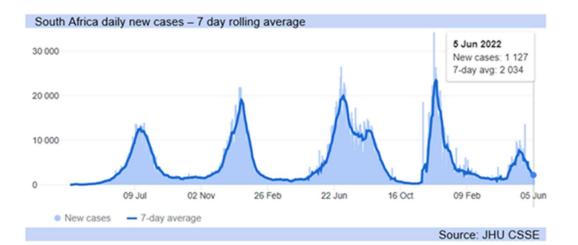
- Market expectations for US rate hikes have cooled, with a 50bp hike expected on the 15th of this month, and another next month on the 27th for the Fed funds target rate, although after that markets still expect another 100bp by year end.
- Markets cheered recently as well on the inflation front as OPEC+ agreed to increase
 production significantly over the next two months, potentially to the point which overcomes
 the shortages in the energy market caused by the sanctions against Russia.
- Saudi Arabia has led the agreement, which is a move away from its controlled supply policy of the past few years. The eurozone has already seen producer price inflation at a record high in April of 37.2% y/y (March 36.8% y/y), driven by food and beverage prices.
- In the US, higher than consensus jobs numbers on Friday (at 390 000 versus expectations of 318 000) saw some recession fears recede, while the unemployment rate remained at 3.6% (consensus) providing the outcome that gave markets some reassurance.
- The Bureau of Labor Statistics reported 80 000 jobs were created in the US's hospitality and leisure sectors, while professional and business sectors added 75 000 and transportation and warehousing 47 000, while retailers shed a reported 61 000.
- With the jobs numbers fairly broad based, evidencing continued strength of the US economy, while US inflation excluding food and energy is expected to dip this week from 6.2% y/y to 5.9% y/y for May, markets are seeing the combined outcomes as positive.

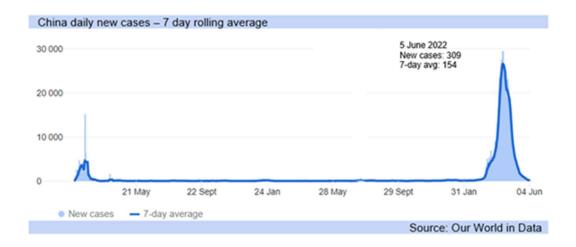
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Expected Case: Exchange Rate forecasts													
	2022					2023				2024			
	Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.22	Q1.24	Q2.24	Q3.24	Q4.24	
USD/ZAR	15.21	15.60	15.80	15.40	15.21	15.60	15.80	15.40	15.21	15.60	15.80	15.40	
GBP/ZAR	20.40	19.64	19.99	19.87	20.40	19.64	19.99	19.87	20.40	19.64	19.99	19.87	
EUR/ZAR	17.07	16.57	16.91	16.79	17.07	16.57	16.91	16.79	17.07	16.57	16.91	16.79	
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	15.84	
AUDZAR	11.02	11.18	11.61	11.63	11.02	11.18	11.61	11.63	11.02	11.18	11.61	11.63	
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	





- Energy costs have also been bolstered by seasonal maintenance of refineries, and OPEC+ noted at its recent meeting that refinery capacity is now expected to increase, while also highlighting the importance of a stable, balanced oil market.
- Markets has been worrying over the last six weeks that the FOMC could misfire in its monetary policy, failing either to curb inflation, or prevent recession, or both, but the latest data from the US is seen to provide some reassurance against this.
- The OPEC+ supply easing is not expected to solve either the energy or the inflation crises, while the production increase is being brought forward from September into July and August, and there is no indication of further supply increase from September.
- However, markets have seized on the various recent small positives, providing a respite from the risk-off environment which has been prevailing over most of Q2.22 to date, but this does not mean that markets' risk aversion will not rise again this quarter, or next.
- The ECB has highlighted that price pressures are becoming broad based, and warned that inflation is too high, with an end to its negative real interest and monetary stimulus (via its bond-buying) seen sooner rather than later.
- ECB Governor, Christine Lagarde, has said the ECB will raise interest rates in July, with monetary stimulus from QE ending in Q3.22, and the potential of a 50bp hike from the ECB next month. The ECB's June meeting is expected to give further insights.
- In South Africa, PPI inflation is in double digits, and CPI inflation at the upper limit of the target range, at 5.9% y/y, with the rand benefitting from the lower SA rates of inflation than those in the US from a PPP (Purchasing Power Parity) value.
- The rand's PPP value against the US dollar is closer to R10.00/USD than R15.00/USD, with the domestic currency today running stronger towards R15.00/USD. However, R15.00/USD is a key resistance level which will likely prove hard to sustainably breach.
- The domestic currency has also gained on China's reopening as its COVID-19 cases decline, further assisting in causing market fears of recession to recede, with the world's second largest economy freeing up restrictions on economic activity.

Extreme USD/Rand (average) 15.21 14.00 13.80 13.70 13.60 13.40 13.00 13.01 13.01 Impact of Covid-19 very rapidly resolved - economic growth of 3-5%, then 5-7% for SA. Good governance, growth-creating reforms (structural constraints overcome), strengthening of property rights - individuals obtaint title deeds in EWC – no other EW or nationalisation. High business confidence and fived involved weather conditions. Strong global growth, commodity boom. Stabilisation of credit ratings, then upgrades weather conditions. Strong global growth, commodity boom. Stabilisation of credit ratings, then upgrades. USD/Rand (average) 15.21 14.50 15.00 14.90 14.90 14.70 14.60 14.50 Repo rate (end rate) 425 4.00 4.00 4.00 4.00 4.00 4.00 4.00 4.25 4.25 Quick rebound from Covid-19 pandemic, rising confidence and investment levels - structural problems eroded. No further credit rating downgrades, become positive on fiscal consolidation (debt projections fail substantially). Global risk-on, global demand quickly returns to trend growth. Very limited impact of expropriation without compensation) to abandoned, labour tenants' and government land (individuals are new owners and receive title deeds) does not have a negative effect on economy - no nationalisation. Low domestic inflation on favourable weather conditions, rand strength reduction in state-controlled price inflation on increased private privatisation. Page Repo rate (end rate) Q1.22 Q2.22 Q3.22 Q4.22 Q1.23 Q2.23 Q3.23 Q4.23 G3.23 Q										
Extreme Up case Repor rate (end rate) Mpact of Covid-19 very rapidly resolved - economic growth of 3-5%, then 5-7% for SA. Good governance, growth-creating reforms (structural constraints overcome), strengthening of property rights - individuals obtain title deeds in EWC - no ther EW or nationalisation. High business confidence and fixed investment growth, substantial FDI, strong fiscal consolidation (state debt falls back to low ratios of 2000s). Very subdued domestic inflation on extreme rand strength, rapid capacity expansion and very favourable weather conditions. Strong global growth, commodity boom. Stabilisation of credit ratings, then upgrades. Up case USD/Rand (average) 15.21 14.50 15.00 14.90 14.90 14.70 14.60 14.50 Reporate (end rate) 4.25 4.00 4.00 4.00 4.00 4.00 4.00 4.02 4.25 4.25 Quick rebound from Covid-19 pandemic, rising confidence and investment levels - structural problems eroded. No further credit rating downgrades, become positive on fiscal consolidation (debt projections fall substantially). Global risk-on, global demand quickly returns to trend growth. Very limited impact of expropriation without compensation) to abandoned, labour tenants and government land (individuals are new owners and receive title deeds) does not have a negative effect on economy - no nationalisation. Low domestic inflation on increased private privatisation. Base USD/Rand (average) 15.21 15.60 15.80 15.40 15.20 15.60 16.00 15.50 case Repo rate (end rate) 4.25 4.75 5.00 5.00 5.25 5.50 5.75 5.75 5.75 5.75 5.75 5.75 6.26 6.50 7.00 7.50 7.55 5.75 5.75 5.75 6.26 6.50 7.00 7.50 7.55 5.75 6.26 6.50 7.00 7.50 7.55 5.75 6.26 6.50 7.00 7.50 7.55 7.55 6.26 6.50 7.00 7.50 7.55 7.55 6.26 6.50 7.00 7.50 7.55 7.55 6.26 6.50 7.00 7.50 7.55 7.55 6.26 6.50 7.00 7.50 7.55 7.55 6.26 6.50 7.00 7.50 7.55 7.55 6.26 6.50 7.00 7.50 7.55 7.55 6.26 6.50 7.00 7.50 7.55 7.55 6.26 6.50 7.00 7.50 7.55 7.55 6.26 6.50 7.00 7.50 7.55 7.55 6.26 6.50 7.00 7.50 7.55 7.55 6.26 6.50 7.00 7.50 7.55 7.55 6.26 6.50 7.00 7.50 7.55 7.55 6.26 6.50 7.00 7.	Economic	Scenarios: note up case rises								
Up case Reportate (end rate)			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 Reporate (end rate) 4.25 4.00 4.00 4.00 4.00 4.00 4.00 4.00 4.0	Up case	Repo rate (end rate) Impact of Covid-19 very rapidly growth-creating reforms (struction obtain title deeds in EWC – no growth, substantial FDI, strong subdued domestic inflation of	4.25 y resolved ctural cons other EW og fiscal con n extreme	4.00 - econom straints ov or nationa onsolidations or rand str	4.00 ic growth overcome), alisation. Hoon (state overgth, rap	3.75 of 3–5%, to strengthe ligh busine debt falls pid capac	3.75 hen 5-7% ning of pr ess confid back to lo ity expans	3.75 for SA. G operty rig ence and ow ratios sion and	3.50 good gove ghts - ind fixed inv of 2000 very fav	3.50 rmance, lividuals estment s). Very rourable
Base USD/Rand (average) 15.21 15.60 15.80 15.40 15.20 15.60 16.00 15.50 case Repo rate (end rate) 4.25 4.75 5.00 5.00 5.25 5.50 5.75 5.75 5.75 5.00 Recovery from the sharp global economic slowdown by 2024 in real terms—sufficient global and domestic monetary and other policy supports to growth and financial markets occur and risk sentiment neutral to positive. Expropriation of private sector property is limited and does not have a negative impact on the economy or on market sentiment. SA remains in the BB category rating bracket fiscal consolidation (debito GDP stabilisation) occurs. Civil and political unrest wanes. Inflation impacted by normal course of weather patterns via food price inflation and rand, with modest transition to renewable energy and slow move away from fossil fuel usage, measures to alleviate impact of climate change on economy are modestly implemented. Q1.22 Q2.22 Q3.22 Q4.22 Q1.23 Q2.23 Q3.23 Q4.23 Q4.23 Q1.26 Q4.22 Q1.27 Q2.29 Q3.29 Q4.29 Q1.29 Q2.29 Q3.29 Q4.29 Q3.29 Q3.29 Q3.29 Q4.29 Q3.29 Q3.29 Q4.29 Q3.29 Q3.29 Q4.29 Q3.29 Q3.29 Q3.29 Q3.29 Q4.29 Q3.29 Q		Repo rate (end rate) Quick rebound from Covid-19 eroded. No further credit rating substantially). Global risk-on, expropriation without compens new owners and receive title d domestic inflation on favoura	15.21 4.25 pandemio g downgra global de sation) to a eeds) doe ible weath	14.50 4.00 c, rising odes, become emand quabandone is not have er condit	15.00 4.00 confidence ome positivalicity retu id, labour to a negativ	14.90 4.00 and inve ye on fisca rns to tre tenants' ai ye effect o	14.90 4.00 stment lead consolid and growth and govern an econom	14.70 4.00 vels - str ation (de h. Very I ment lan y - no nal	14.60 4.25 uctural pobt project limited in d (individationalisati	14.50 4.25 roblems fions fall spact of uals are on. Low
Lite USD/Rand (average) 15.21 16.00 16.65 16.90 17.00 17.50 17.60 17.50 Reporate (end rate) 4.25 5.00 5.25 5.50 5.75 6.00 6.25 6.50 The international environment (incl. risk sentiment) is that of the base case. South Africa fails to see its debt projections stabilise and falls into single B credit ratings from all three agencies for local and foreign currency. Recession occurs. Very limited expropriation of private commercial sector property without compensation, with some negative impact on the economy. Business confidence depressed, marked rand weakness and higher inflation (adverse weather), significant load shedding and weak investment growth. Substantial fiscal consolidation ultimately occurs, preventing ratings falling into the C grades. Q1.22 Q2.22 Q3.22 Q4.22 Q1.23 Q2.23 Q3.23 Q4.23 Severe USD/Rand (average) 15.21 16.80 17.50 18.00 18.50 18.70 19.20 19.55 down Reporate (end rate) 4.25 5.25 5.75 6.25 6.50 7.00 7.50 7.75 case Lengthy global recession, global financial crisis – insufficient monetary and other policy supports to growth domestically and internationally. Depression in SA, severe rand weakness, very high inflation (verty adverse weather). A somewhat wider level of nationalisation of private sector commercial property. SA rated single B from all three key agencies, with further rating downgrades eventually into CCC grade and	case	Repo rate (end rate) Recovery from the sharp globs monetary and other policy su positive. Expropriation of priv economy or on market sentim to GDP stabilisation) occurs. weather patterns via food pric move away from fossil fuel of	15.21 4.25 al economi pports to g rate sector ent. SA re Civil and ce inflation	15.60 4.75 ic slowdor growth an r property mains in t political and rand	15.80 5.00 wn by 202 of financia is limited the BB cat unrest wa d, with mo	15.40 5.00 4 in real to I markets and does legory rationes. Infla dest trans	15.20 5.25 erms— suff occur and not have ng bracke tion impa- sition to re	15.60 5.50 ficient glo d risk ser a negati t fiscal co cted by inewable	16.00 5.75 obal and contiment noive impact onsolidation	15.50 5.75 domestic eutral to at on the ourse of and slow
Severe down Reporate (end rate) 15.21 16.80 17.50 18.00 18.50 18.70 19.20 19.55 Reporate (end rate) 4.25 5.25 5.75 6.25 6.50 7.00 7.50 7.75 Lengthy global recession, global financial crisis – insufficient monetary and other policy supports to growth domestically and internationally. Depression in SA, severe rand weakness, very high inflation (very adverse weather). A somewhat wider level of nationalisation of private sector commercial property. SA rated single B from all three key agencies, with further rating downgrades eventually into CCC grade and	(domestic) Down case	Repo rate (end rate) The international environmen debt projections stabilise and currency. Recession occurs. compensation, with some neg weakness and higher inflation	15.21 4.25 t (incl. risk falls into s Very limit ative impa (adverse	16.00 5.00 c sentimer ingle B cr led expro ict on the c weather),	16.65 5.25 nt) is that of redit rating priation of economy. significan	16.90 5.50 of the bas is from all f private of Business it load she	17.00 5.75 se case. S three age commercia confidence dding and	17.50 6.00 outh Afri ncies for al sector e depress I weak in	17.60 6.25 ca fails to local and property sed, mark vestment	17.50 6.50 see its foreign without sed rand
into a debt trap), eventually include widespread civil unrest, services strike action and strike action. Note: Event risk begins Q222. Source: Invest	down case	Repo rate (end rate) Lengthy global recession, glot domestically and international adverse weather). A somewh rated single B from all three k the risk of moving towards def	15.21 4.25 bal financia ally. Depre lat wider le ey agencie ault. Gove	16.80 5.25 al crisis – i ession in evel of na es, with fu rnment bo	17.50 5.75 insufficient SA, seve itionalisation or rating or rows from ivil unrest,	18.00 6.25 I monetary re rand v on of priva g downgra n increasir services	18.50 6.50 y and other weakness, ate sector ades even ngly wider strike acti	18.70 7.00 r policy so very hig commer tually into sources on and st	19.20 7.50 upports to gh inflatio cial propo o CCC gra as it sinks trike actio	19.55 7.75 o growth on (very erty, SA ade and deeper n.

Lite Down	Lite Down Case: Exchange Rate forecasts											
2022					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: av	rerages,	Source:	Investe	c, Iress

Up Case: E	xchange	Rate for	ecasts									
		20	22			20	23			20	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	14.50	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, Ires

Extreme Up Case: Exchange Rate forecasts												
	2022				20	23		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	14.00	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

Severe Do	wn Case:	Exchang	e Rate fo	recasts									
2022						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	16.80	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. Source	e: Investe	c. Iress	

