



Rand note: treads water in quiet period, with US inflation data upcoming this week

Monday 9 January 2023



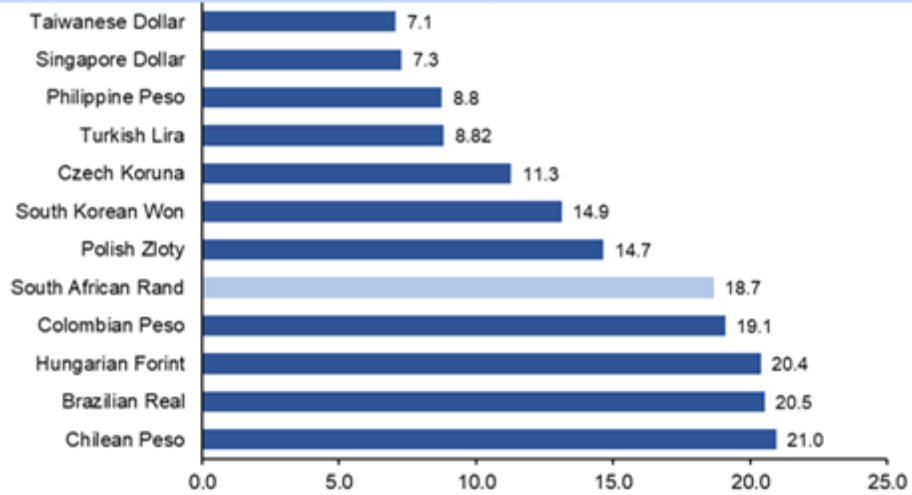
Source: Bloomberg

Drivers of ISM Manufacturing PMI



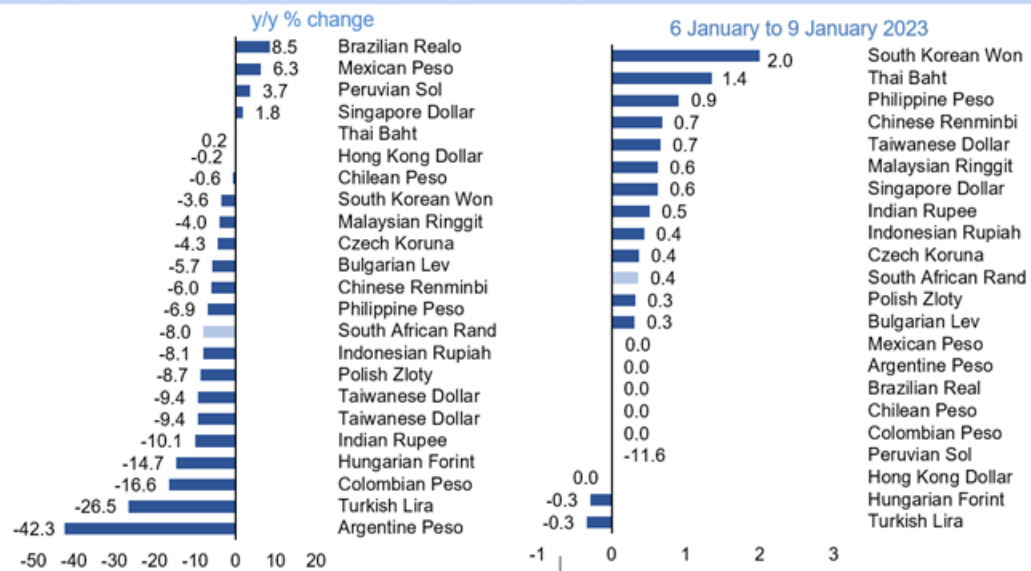
Source: Bloomberg

Emerging Markets Implied Volatilities – values 9 January 2023



Source: 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
CHF/ZAR	17.79	17.32	17.06	17.27	17.06	17.69	18.46	18.24	18.13	18.13	18.46	18.24
AUD/ZAR	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

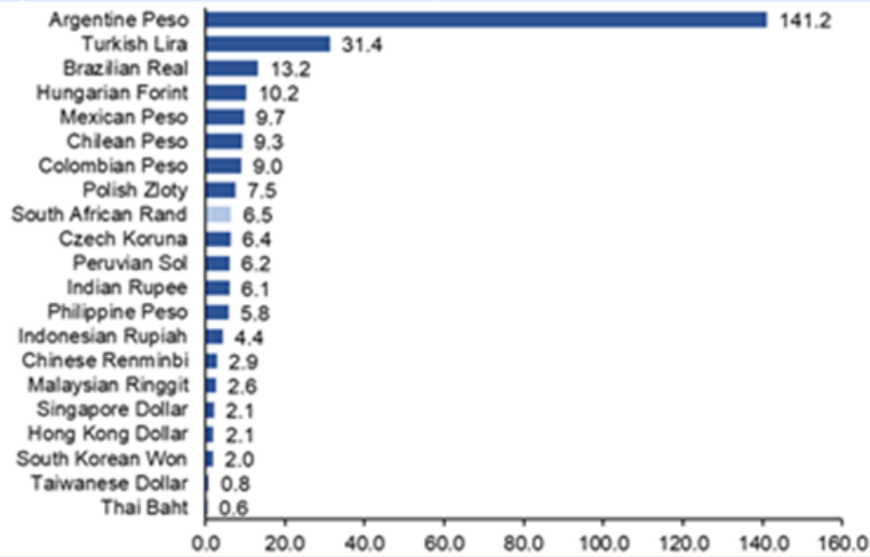
- The rand is trading water, nearer R17.00/USD today versus Friday's R17.49/USD, as market risk aversion pulls back somewhat from the end of last week's US labour market figures, in a typically quiet period at the start of the year.
- The rand modest strength today comes after Friday's R17.49/USD, when the US dollar strengthened on data showing good labour market conditions, and causing some expectations of US rate hikes potentially falling away more quickly, to abate.
- However, the rand is still weaker today, at R17.02/USD, than the middle of last week when it reached R16.78/USD. Last week also saw the release of the US PMI readings, and, with readings below 50, indicative of weakening economic activity.

- The US manufacturing PMI showed activity falling over Q4.22, now at lows last experienced in 2020, and evidence of the effects of the US interest rate hike cycle, along with the weak services PMI, and overall composite PMI, readings.
- Additionally, the US's ISM manufacturing reading in negative territory saw new orders, production and supplier deliveries reflecting contracting activity, with the FOMC showing some concern over the US economy at its last meeting.
- A number of US data readings came out weaker than expected last month, adding to hopes that the US would stick to a slowing rate hike trajectory, which would weaken the dollar, although volatility is likely in the data, and so for the rand.
- China's reopening has room to lift sentiment however, which may result in a better than expected GDP outcome for the country in Q1.23, although markets retain some skepticism, with substantial COVID-19 outbreaks and state reactions seen as risks.
- Europe has coped better with winter heating and other fuel demand than feared so far, which has added to some improved sentiment, while a particularly warm January is now underway, easing the gas crisis.
- Holding back the rand domestically, little improvement is expected this year in terms of state infrastructure, particularly on the rail, port, electricity and water supply front, all of which are severely impeding economic growth and so job creation.

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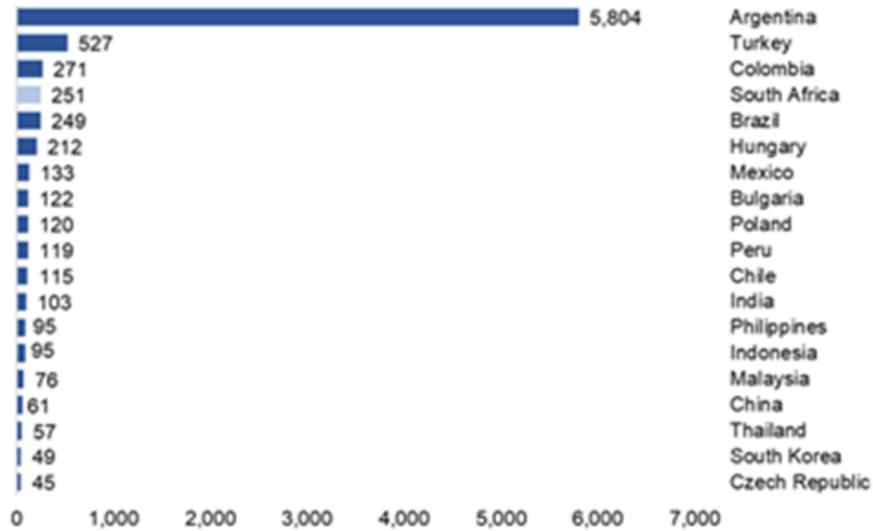


Emerging Markets Interest Return – values 9 January 2023

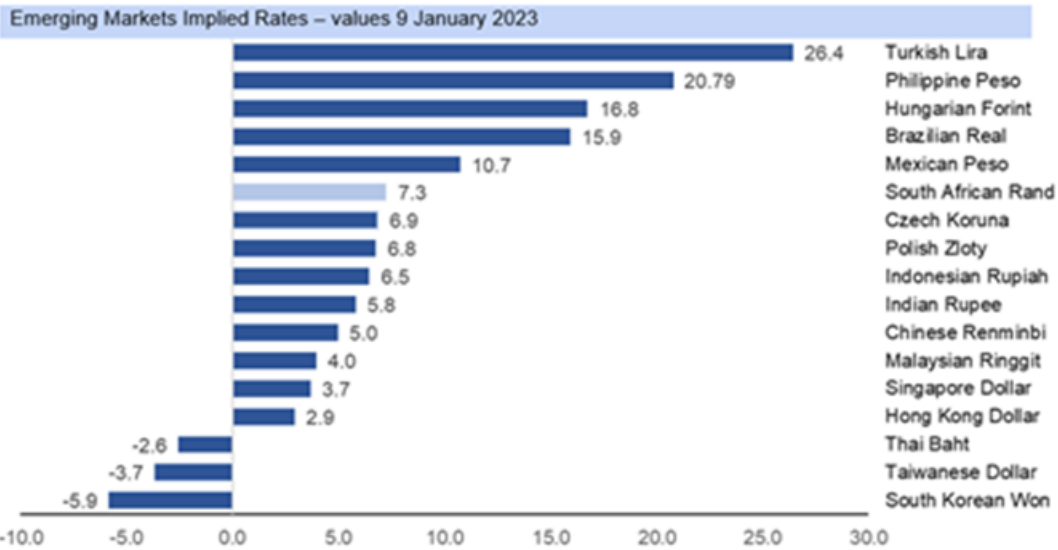


Source: Bloomberg

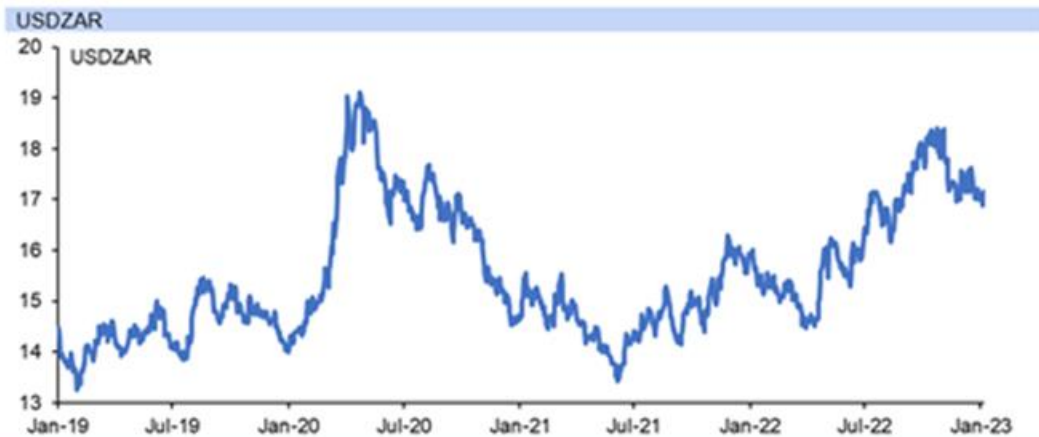
Emerging Markets CDS (risk) Spreads – values 9 January 2023



Source: Bloomberg



Source: Bloomberg



Source: Iress

- A ruling in the courts is expected on Karpower in early 2023 (end March) on environmental approval to bring Karpowerships into SA's ports, with the gas fuelled energy production able to provide a life line for the economy.
- The Minister of the Department of Forestry, Fishing and the Environment, Barbara Creecy, is reported to have said last year the application for Karpowerships to operate in SA contained "material and fatal" omissions.
- But that it could "remit the matter ... so that the various gaps in information and procedural defects in relation to the public participation process that led to the rejection of the environmental authorisation application may be addressed."

- The Department is expected to respond by the end of Q1.23 as Karpower refiles its application this quarter, with a number of additional, studies required, including a reported acoustic study, with the process not expected to be quick.
- South Africa's weak economic environment, with insufficient economic growth and job demand in the face of very high unemployment, is further damaged by the inability of the state monopolies, Eskom and Transnet, to meet demand for their services.
- The ANC 8th January policy statement released yesterday after its conference highlighted the need to repair infrastructure, improve SOE's, reindustrialise and improve education, among other objectives.
- However, the policy statement was met with little market reaction as implementation is expected to continue to lag on growth enhancing reforms (such rail, ports electricity, water etc.), and be insufficient.
- On the positive front, evidence is beginning to emerge that inflation is falling faster than anticipated, with the Eurozone seeing a drop to 9.2% y/y from the prior month's 10.1% y/y for its CPI inflation, and this week US CPI inflation is out on Thursday.
- A drop to 6.5% y/y from 7.1% y/y is expected, down from 9.1% y/y in June last year, as energy costs (and commodities prices in general) waned, although US services price pressure are still rising. A higher outcome would weaken the rand further.

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)	16.40	15.50	14.50	14.00	13.60	13.40	13.30	13.10
Up case	Repo rate (end rate)	6.50	6.25	6.00	5.75	5.50	5.25	4.75	4.75
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. No grey listing. Quick transition to renewable energy from fossil fuels.								
Up case	USD/Rand (average)	16.60	15.90	15.50	15.00	14.70	14.60	14.50	14.90
4%	Repo rate (end rate)	7.00	6.75	6.50	6.25	6.00	6.00	5.50	5.50
	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.								
Base case	USD/Rand (average)	16.90	16.45	16.20	16.40	16.20	16.45	16.80	16.60
48%	Repo rate (end rate)	7.50	7.50	7.00	7.00	6.50	6.50	6.50	6.50
	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)	18.30	18.50	18.00	18.20	17.90	18.10	18.20	18.30
(domestic) Down case	Repo rate (end rate)	7.50	8.00	8.50	9.00	9.00	9.00	9.00	9.00
36%	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.								
Severe down case	USD/Rand (average)	18.70	19.30	19.50	19.70	19.90	19.90	20.00	20.50
11%	Repo rate (end rate)	8.00	9.00	10.00	10.50	10.50	11.00	11.50	11.50
	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
CHF/ZAR	17.26	16.32	15.26	14.74	14.32	14.41	14.62	14.40	14.40	14.18	14.07	13.96
AUD/ZAR	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

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Regards

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