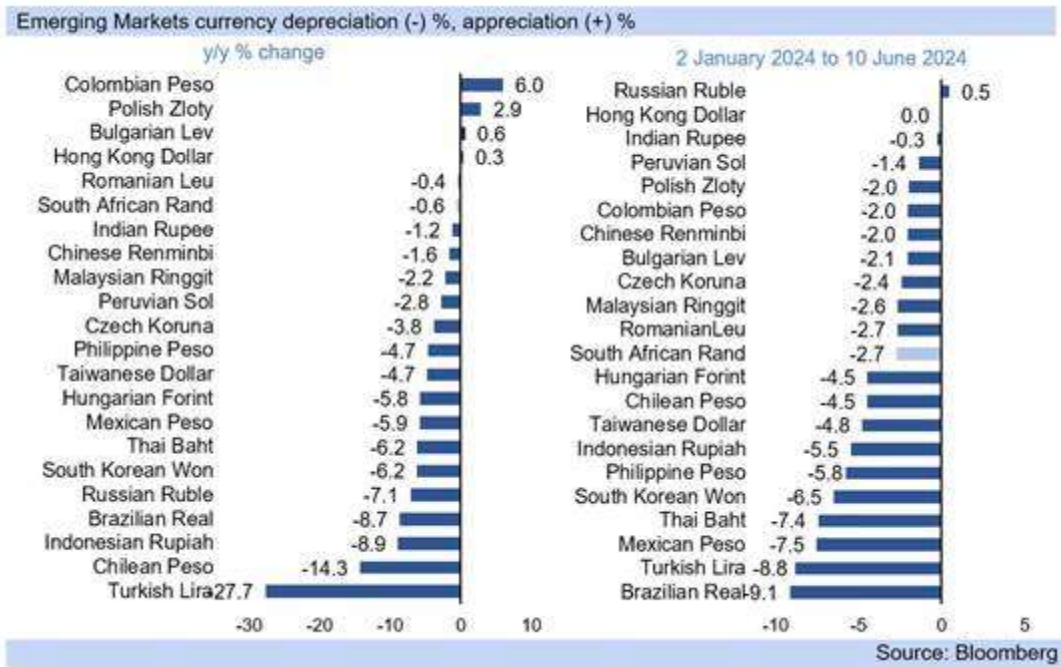


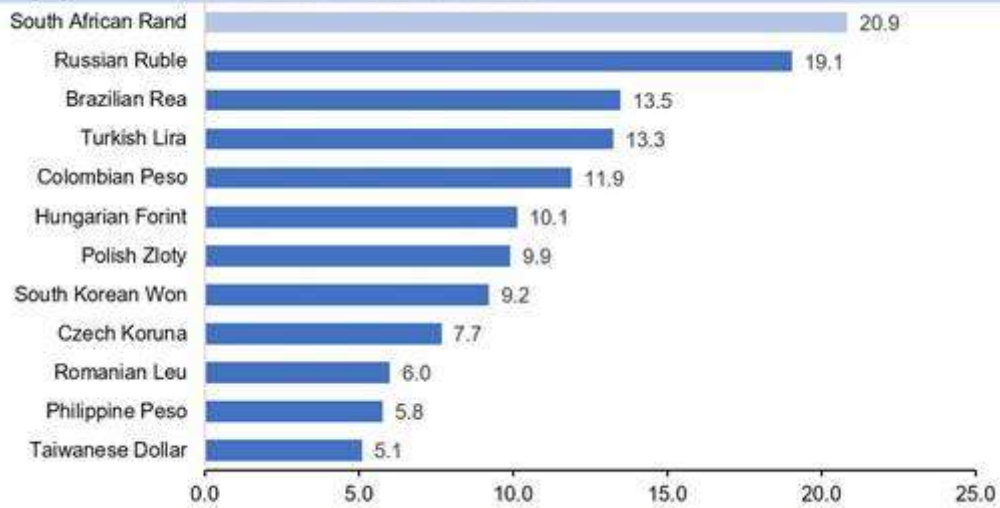


Rand note: the rand has weakened since the election as political risk is seen as heightened

Monday 10 June 2024

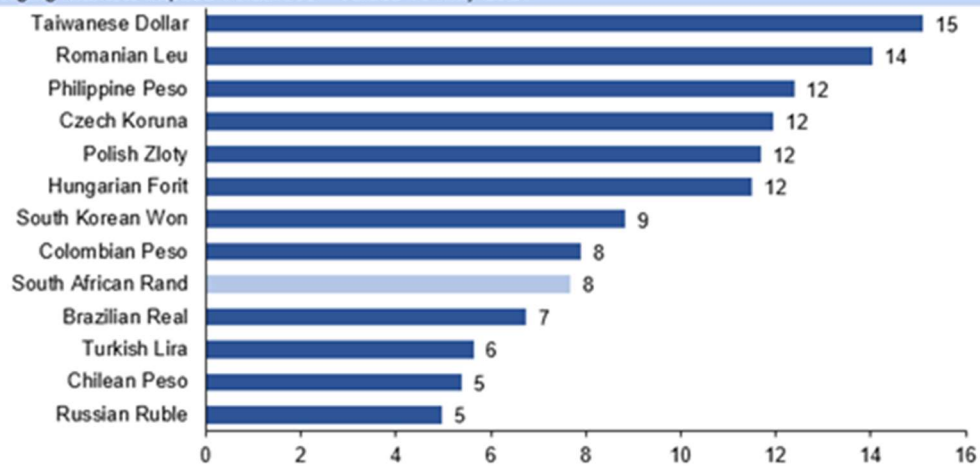


Emerging Markets Implied Volatilities – values 10 June 2024



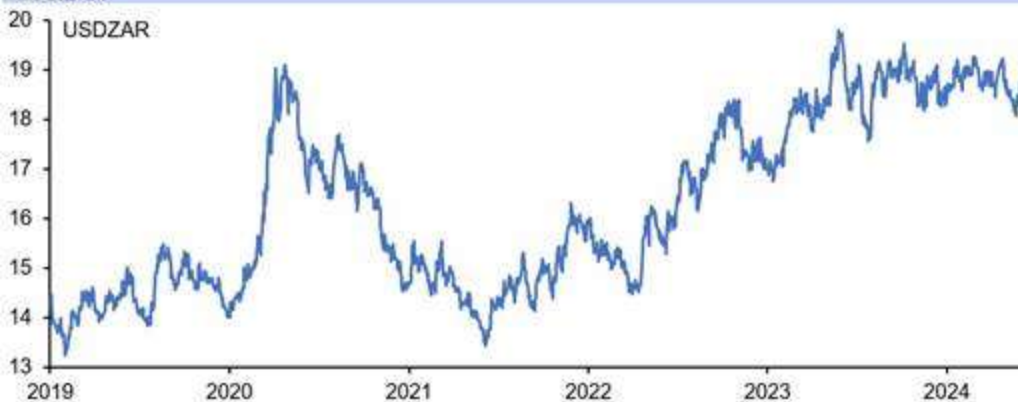
Source: Bloomberg

Emerging Markets Implied Volatilities – values 13 May 2024



Source: Bloomberg

USDZAR



Source: Iress

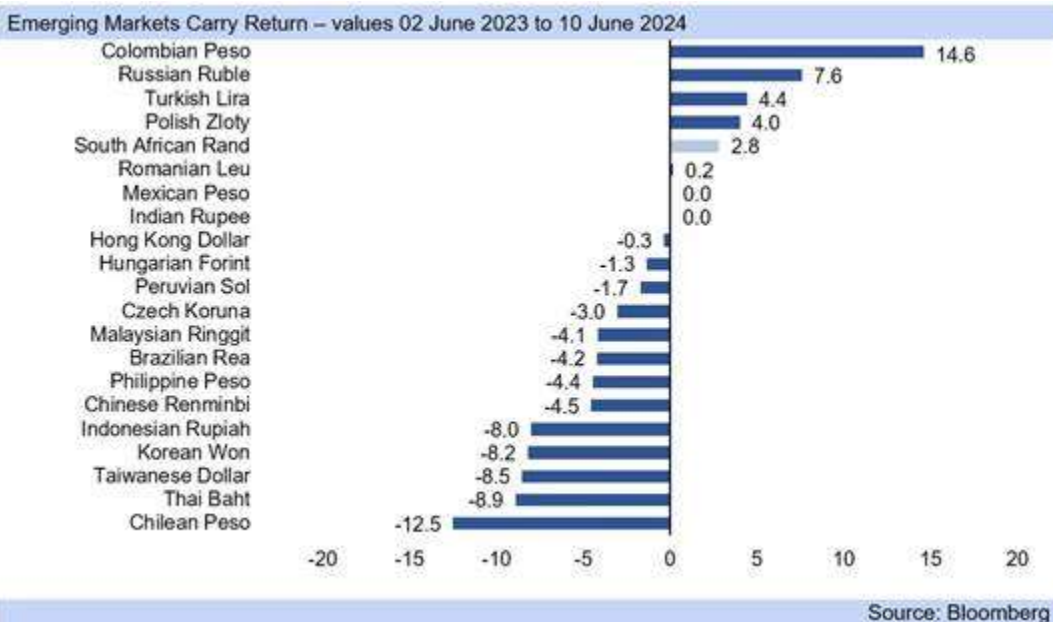
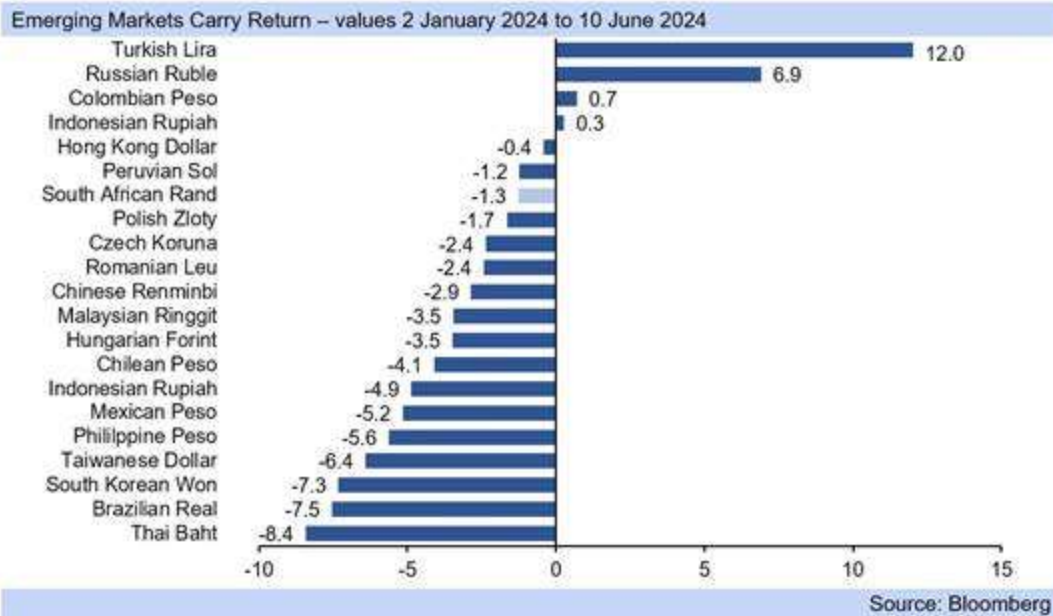
Expected Case: Exchange Rate forecasts												
	2024				2025				2026			
	Q1.24	Q2.24	Q3.24	Q4.24	Q1.25	Q2.25	Q3.25	Q4.25	Q1.26	Q2.26	Q3.26	Q4.26
USD/ZAR	18.87	18.70	18.40	18.20	18.00	18.30	18.40	18.20	18.10	18.60	18.70	18.50
GBP/ZAR	23.96	23.78	23.64	23.48	23.22	23.70	23.90	23.73	23.42	24.18	24.31	24.05
EUR/ZAR	20.57	20.33	20.15	20.02	19.80	20.13	20.33	20.30	20.82	21.58	21.69	21.46
ZAR/JPY	7.79	8.20	8.34	8.30	8.28	8.01	7.83	7.77	7.73	7.37	7.17	7.08
CHFZAR	21.69	20.63	20.35	20.12	19.80	20.13	20.23	20.00	19.89	20.44	20.55	20.33
AUDZAR	12.45	12.34	12.05	11.83	11.79	12.17	12.42	12.47	12.49	12.83	12.90	12.77
GBP/USD	1.27	1.27	1.29	1.29	1.29	1.30	1.30	1.30	1.29	1.30	1.30	1.30
EUR/USD	1.09	1.09	1.10	1.10	1.10	1.10	1.11	1.12	1.15	1.16	1.16	1.16
USD/JPY	147	153	154	151	149	147	144	142	140	137	134	131

Note: averages, Source: Investec, Iress

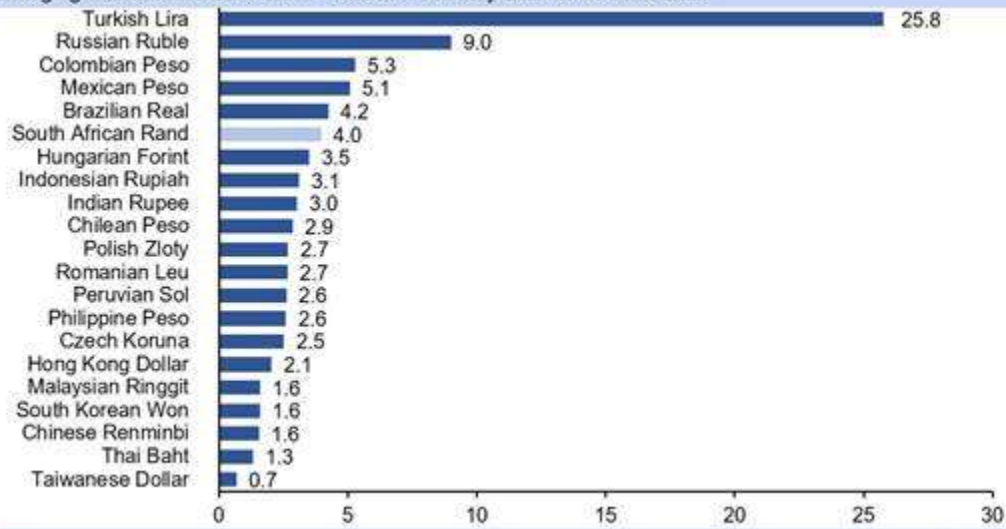
- Ten days after South Africa's national election, the rand has run up back to R19.00/USD, with the domestic currency reflecting investor risk perceptions as uncertainty prevails around which political parties will run SA in the GNU.
- The GNU, or Government of National Unity, was announced by President Ramaphosa last week as the vehicle which will be used to govern the country due to the ANC's loss of majority on its drop to 40.2% (below 50.1%) of voter support.
- The rand has seen some comparative, mild strength at the end of last week as the US saw stronger than anticipated non-farm payroll figures, allaying some fears of a weakening US economy, and pushing up the US GDP Q2.24 growth expectations.
- However, the US unemployment rate ticked-up to 4.0% y/y, from 3.9% y/y also for May, which was seen as indicating that the labour market was not over heating in the US, and the data, in combination, instead supportive of a soft landing.
- This week, the core CPI inflation rate for May is published (Wednesday), and is expected to drop to 3.5% y/y, from April's 3.6% y/y, as inflation continues its downwards, albeit one which has been slow and bumpy.
- However, the key event in the US this week will be the FOMC meeting on Wednesday, with no cut in the Fed's interest rate expected, but markets will focus on the accompanying statements to judge if a softening in tone has occurred,
- The Fed funds futures show that market expectations have weakened for a cut in the Fed funds rate in November, with 100% certainty (or more) for a cut only now factored in by markets at the December FOMC meeting this year.
- Expectations on the US interest rate cutting cycle have slowed down, with less than a 100% certainty in markets seen for a cut at the January meeting next year, as the US rate cut cycle is both delayed and weakened, adding to rand depreciation.

- SA's benchmark bond has seen some weakness too in its yield post-election as market concern over high borrowing and deficits if a move to the left occurs in government on a GNU, which has also added to rand weakness.

Please scroll down to the second section below

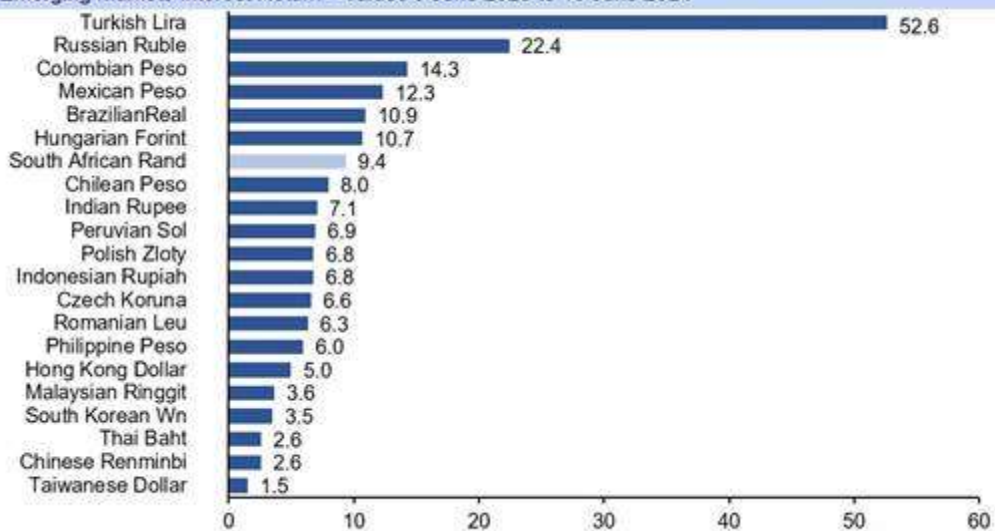


Emerging Markets Interest Return – values 1 January 2024 to 10 June 2024

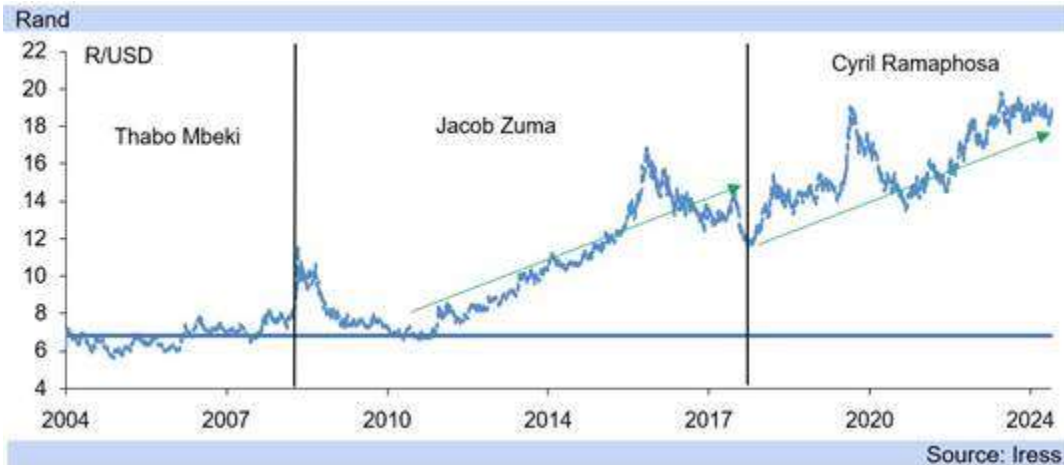


Source: Bloomberg

Emerging Markets Interest Return – values 9 June 2023 to 10 June 2024



Source: Bloomberg



- President Ramaphosa is reported as stating the need “for multiparty cooperation and multi-stakeholder collaboration if we are to overcome the severe challenges that confront our country” in a government of national unity.
- The President is further reported as highlighting that in joining the government of national unity “respect for the Constitution and the rule of law” in a written agreement” and that the process in forming the GNU needs to be transparent.
- “The purpose of the government of national unity must be first and foremost to tackle the pressing issues that South Africans want to be addressed”, with the intended GNU governance of SA announced last week Thursday.
- Various political parties, while able to join the GNU, have shown differing responses, with some initially stating that they would not join, while others are awaiting the details of the agreement.
- While the approach has been seen as sensible by and large, market concerns linger on the length of the process, and the commentary coming out from various parties has also had some market impact, adding to the elevation in political risk.
- The ANC, has held discussion with a number of other political parties, under its NEC and has established a working committee to flesh out the plans for the GNU, with key parties unable to find common ground so far.
- Markets are seeking stability, politically, in the governance of the country and in its policies, including the need for fiscal consolidation, independence of the Reserve Bank and the judiciary, as well as free markets and protection of property rights.
- While the election process itself has been declared free and fair, there has some complaints from smaller parties, with court action beginning, while the risk of severe civil unrest in KZN again is a concern.

- The rand will remain beholden to both global and domestic events, with parliament due to see its first sitting of the new dispensation just after the middle of the month, and President Ramaphosa expected to be voted in again as President.

Economic Scenarios:		Q1.24	Q2.24	Q3.24	Q4.24	Q1.25	Q2.25	Q3.25	Q4.25
Extreme Up case 1%	USD/Rand (average)	18.87	17.10	16.50	15.50	15.00	14.60	14.50	14.40
	Repo rate (end rate)	8.25	7.75	7.50	7.00	6.50	6.25	6.00	5.50
<p>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. Very short grey listing. 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, very comprehensive measures to alleviate climate change impact on economy. The Russian/Ukraine war ends quickly.</p>									
Up case 2%	USD/Rand (average)	18.87	17.50	17.20	17.00	16.90	16.80	16.70	16.50
	Repo rate (end rate)	8.25	8.00	7.75	7.50	7.00	6.75	6.50	6.00
<p>Economic growth lifts to around 4%, 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 on substantial fiscal consolidation, debt projections fall substantially. Grey listed for less than eighteen months. Substantial transition to renewable energy away from fossil fuel usage, comprehensive measures to alleviate climate change impact on economy. The Russian/Ukraine war ends.</p>									
Base case 45%	USD/Rand (average)	18.87	18.70	18.40	18.20	18.00	18.30	18.40	18.20
	Repo rate (end rate)	8.25	8.25	8.25	8.00	7.25	7.00	6.75	6.75
<p>Economic growth modest but lifts towards 2.0% y/y over five years on sufficient domestic policy support measures (but still limited somewhat by load shedding, freight constraints), 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 stabilises and strengthens somewhat, 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 war persists and does not exacerbate, nor do middle East Tensions. The grey listing is temporary.</p>									
Lite (domestic) Down case 43%	USD/Rand (average)	18.87	19.80	19.70	19.50	19.30	19.40	19.50	19.60
	Repo rate (end rate)	8.25	8.50	8.75	9.50	9.50	9.50	9.50	9.25
<p>The international environment (incl. risk sentiment) is that of the base case. South Africa fails to see government debt projections stabilise, falls into single B (local and foreign currency) credit ratings from all three agencies. Recession occurs. Business confidence depressed, substantial load shedding, marked freight constraints, 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 a slight negative impact on the economy. Substantial fiscal consolidation ultimately occurs, preventing ratings falling into the C grades. The greylisting is lengthy.</p>									
Severe down case 9%	USD/Rand (average)	18.87	20.50	21.40	21.50	21.70	21.70	21.90	22.00
	Repo rate (end rate)	8.25	9.00	9.75	11.00	11.50	11.50	11.00	10.75
<p>Lengthy global recession, global financial crisis - insufficient monetary and other support domestically and internationally. Very high inflation on very adverse weather conditions, severe rand weakness. SA rated single B from all three key agencies, downgraded 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. Failure to transition to renewable energy and measures to alleviate the impact of climate change on the economy. Limited expropriation of private property without compensation with a noticeable negative economic impact. SA is blacklisted. The Russian/Ukraine war widens into neighbouring (NATO) countries, Middle East tensions worsen.</p>									
<p>Note: Event risk begins Q2 24. Source: Investec</p>									

Lite Down Case: Exchange Rate forecasts												
	2024				2025				2026			
	Q1.24	Q2.24	Q3.24	Q4.24	Q1.25	Q2.25	Q3.25	Q4.25	Q1.26	Q2.26	Q3.26	Q4.26
USD/ZAR	18.87	19.80	19.70	19.50	19.30	19.40	19.50	19.60	19.50	19.60	19.60	19.70
GBP/ZAR	23.96	25.17	25.31	25.16	24.90	25.12	25.33	25.55	25.23	25.48	25.48	25.61
EUR/ZAR	20.57	21.53	21.57	21.45	21.23	21.34	21.55	21.86	22.43	22.74	22.74	22.85
ZAR/JPY	7.79	7.74	7.79	7.74	7.72	7.55	7.38	7.22	7.18	6.99	6.84	6.65
CHFZAR	21.69	21.84	21.79	21.56	21.23	21.34	21.44	21.54	21.43	21.54	21.54	21.65
AUDZAR	12.45	13.06	12.90	12.68	12.64	12.90	13.16	13.43	13.46	13.52	13.52	13.59
GBP/USD	1.27	1.27	1.29	1.29	1.29	1.30	1.30	1.30	1.29	1.30	1.30	1.30
EUR/USD	1.09	1.09	1.10	1.10	1.10	1.10	1.11	1.12	1.15	1.16	1.16	1.16
USD/JPY	147	153	154	151	149	147	144	142	140	137	134	131

Note: averages, Source: Investec, Iress

Severe Down Case: Exchange Rate forecasts												
	2024				2025				2026			
	Q1.24	Q2.24	Q3.24	Q4.24	Q1.25	Q2.25	Q3.25	Q4.25	Q1.26	Q2.26	Q3.26	Q4.26
USD/ZAR	18.87	20.50	21.40	21.50	21.70	21.70	21.90	22.00	22.10	22.20	22.20	22.10
GBP/ZAR	23.96	26.06	27.50	27.74	27.99	28.10	28.44	28.68	28.59	28.86	28.86	28.73
EUR/ZAR	20.57	22.29	23.43	23.65	23.87	23.87	24.20	24.54	25.42	25.75	25.75	25.64
ZAR/JPY	7.79	7.48	7.17	7.02	6.87	6.75	6.58	6.43	6.33	6.17	6.04	5.93
CHFZAR	21.69	22.61	23.67	23.77	23.87	23.87	24.08	24.18	24.29	24.40	24.40	24.29
AUDZAR	12.45	13.52	14.02	13.98	14.21	14.43	14.78	15.07	15.25	15.32	15.32	15.25
GBP/USD	1.27	1.27	1.29	1.29	1.29	1.30	1.30	1.30	1.29	1.30	1.30	1.30
EUR/USD	1.09	1.09	1.10	1.10	1.10	1.10	1.11	1.12	1.15	1.16	1.16	1.16
USD/JPY	147	153	154	151	149	147	144	142	140	137	134	131

Note: averages, Source: Investec, Iress

Up Case: Exchange Rate forecasts												
	2024				2025				2026			
	Q1.24	Q2.24	Q3.24	Q4.24	Q1.25	Q2.25	Q3.25	Q4.25	Q1.26	Q2.26	Q3.26	Q4.26
USD/ZAR	18.87	17.50	17.20	17.00	16.90	16.80	16.70	16.50	16.20	16.00	15.90	15.80
GBP/ZAR	23.96	22.25	22.10	21.93	21.80	21.76	21.69	21.51	20.96	20.80	20.67	20.54
EUR/ZAR	20.57	19.03	18.83	18.70	18.59	18.48	18.45	18.41	18.63	18.56	18.44	18.33
ZAR/JPY	7.79	8.76	8.92	8.88	8.82	8.72	8.62	8.58	8.64	8.56	8.43	8.29
CHFZAR	21.69	19.30	19.02	18.79	18.59	18.48	18.36	18.13	17.80	17.58	17.47	17.36
AUDZAR	12.45	11.54	11.27	11.05	11.07	11.17	11.27	11.30	11.18	11.04	10.97	10.90
GBP/USD	1.27	1.27	1.29	1.29	1.29	1.30	1.30	1.30	1.29	1.30	1.30	1.30
EUR/USD	1.09	1.09	1.10	1.10	1.10	1.10	1.11	1.12	1.15	1.16	1.16	1.16
USD/JPY	147	153	154	151	149	147	144	142	140	137	134	131

Note averages, Source: Investec, Iress

Extreme Up Case: Exchange Rate forecasts												
	2024				2025				2026			
	Q1.24	Q2.24	Q3.24	Q4.24	Q1.25	Q2.25	Q3.25	Q4.25	Q1.26	Q2.26	Q3.26	Q4.26
USD/ZAR	18.87	17.10	16.50	15.50	15.00	14.60	14.50	14.40	14.10	14.00	14.30	14.20
GBP/ZAR	23.96	21.74	21.20	20.00	19.35	18.91	18.83	18.77	18.24	18.20	18.59	18.46
EUR/ZAR	20.57	18.59	18.07	17.05	16.50	16.06	16.02	16.06	16.22	16.24	16.59	16.47
ZAR/JPY	7.79	8.96	9.30	9.74	9.93	10.03	9.93	9.83	9.93	9.79	9.37	9.23
CHFZAR	21.69	18.86	18.25	17.14	16.50	16.06	15.94	15.83	15.49	15.38	15.71	15.60
AUDZAR	12.45	11.28	10.81	10.08	9.83	9.71	9.79	9.86	9.73	9.66	9.87	9.80
GBP/USD	1.27	1.27	1.29	1.29	1.29	1.30	1.30	1.30	1.29	1.30	1.30	1.30
EUR/USD	1.09	1.09	1.10	1.10	1.10	1.10	1.11	1.12	1.15	1.16	1.16	1.16
USD/JPY	147	153	154	151	149	147	144	142	140	137	134	131

Note: averages, Source: Investec, Iress