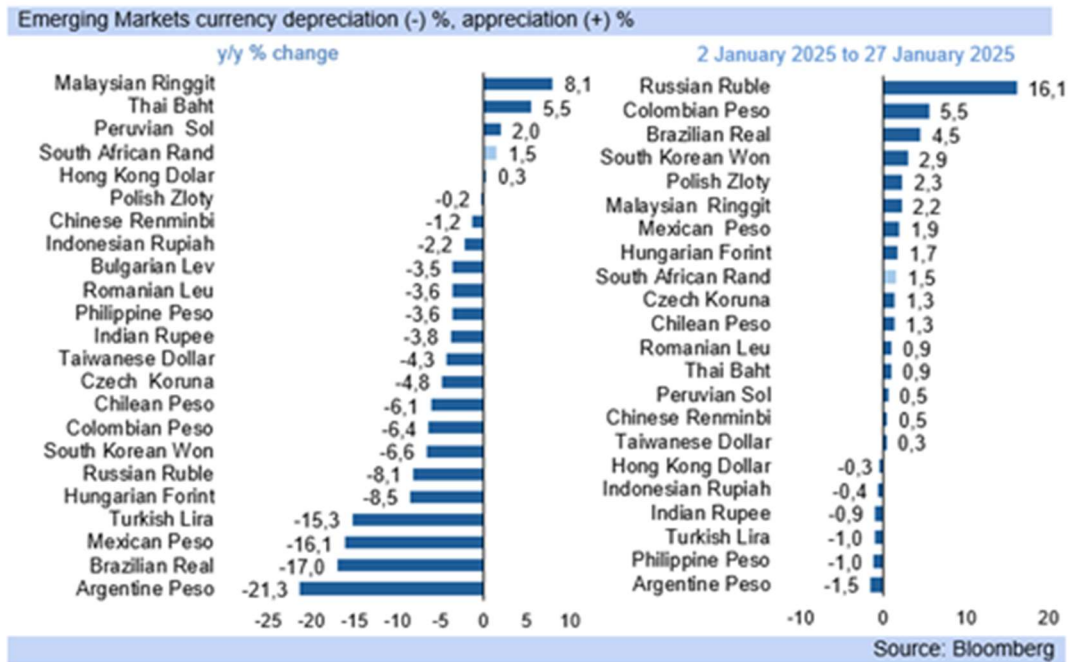


SA Economics

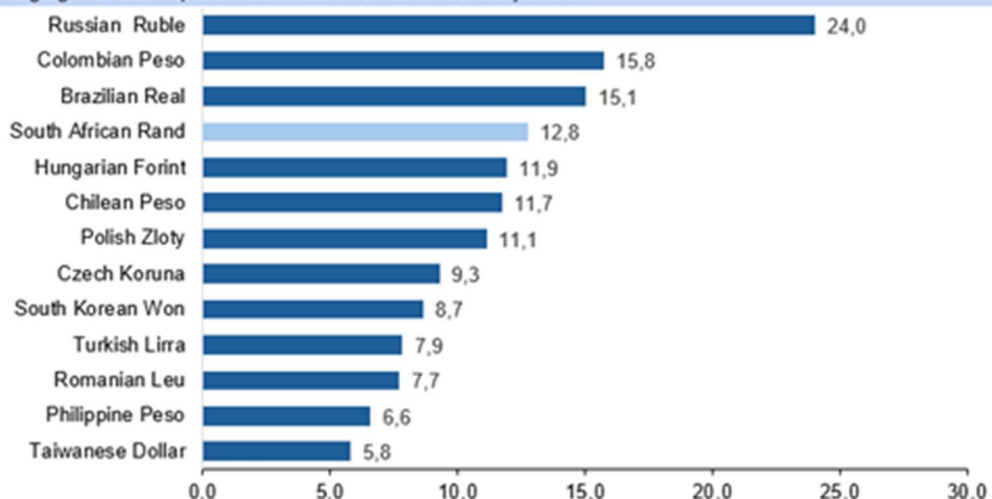


Rand note: continues to gain on US dollar weakness as second US rate cut probability grows

Monday 27 January 2025

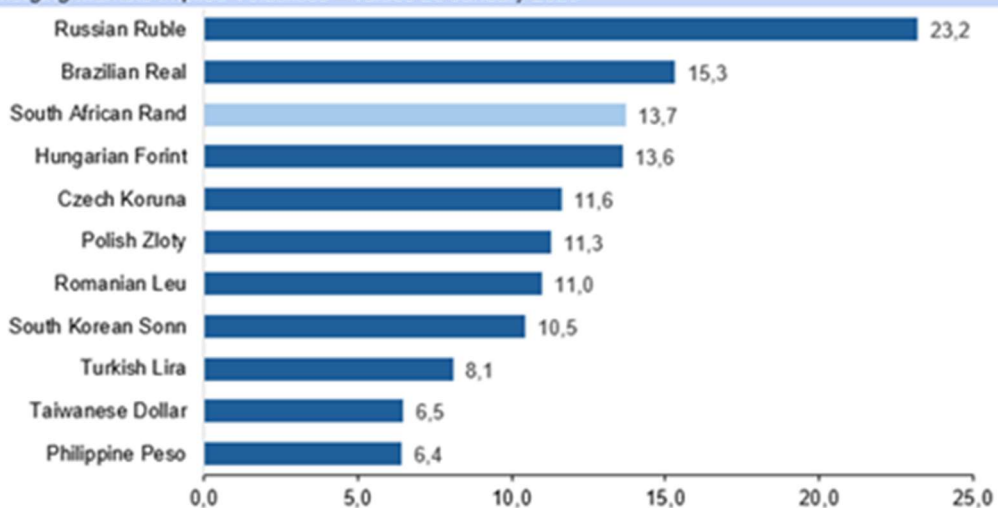


Emerging Markets Implied Volatilities – values 27 January 2025



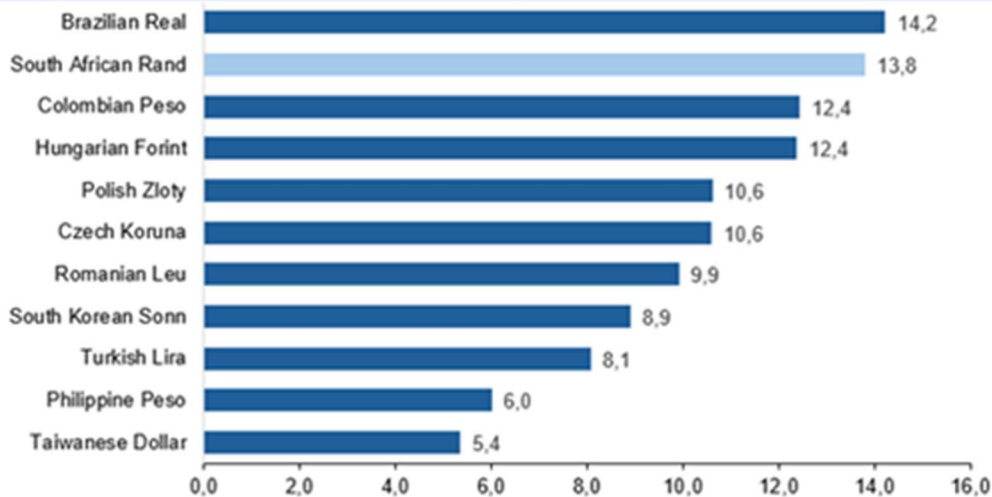
Source: Bloomberg

Emerging Markets Implied Volatilities – values 20 January 2025



Source: Bloomberg

Emerging Markets Implied Volatilities – values 13 January 2025



Source: Bloomberg

Expected Case: Exchange Rate forecasts

	2025				2026				2027			
	Q1.25	Q2.25	Q3.25	Q4.25	Q1.26	Q2.26	Q3.26	Q4.26	Q1.27	Q2.27	Q3.27	Q4.27
USD/ZAR	18.40	18.10	18.00	17.90	17.70	17.80	17.90	17.80	17.70	17.80	17.90	17.70
GBP/ZAR	23.00	22.44	22.50	22.73	22.83	23.14	23.27	23.14	23.01	23.14	23.27	23.01
EUR/ZAR	18.95	18.10	18.18	18.26	18.59	19.05	19.51	19.76	20.00	20.65	20.76	20.53
ZAR/JPY	8.42	8.73	8.89	8.83	8.76	8.60	8.38	8.15	8.08	7.87	7.65	7.63
CHF/ZAR	20.67	20.11	20.00	20.34	19.89	19.78	19.67	19.56	19.45	19.56	19.67	19.45
AUD/ZAR	11.78	11.22	11.34	11.46	11.68	12.10	12.35	12.28	12.21	12.28	12.35	12.21
GBP/USD	1.25	1.24	1.25	1.27	1.29	1.30	1.30	1.30	1.30	1.30	1.30	1.30
EUR/USD	1.03	1.00	1.01	1.02	1.05	1.07	1.09	1.11	1.13	1.16	1.16	1.16
USD/JPY	155	158	160	158	155	153	150	145	143	140	137	135

Note: averages. Source: Investec, Iress

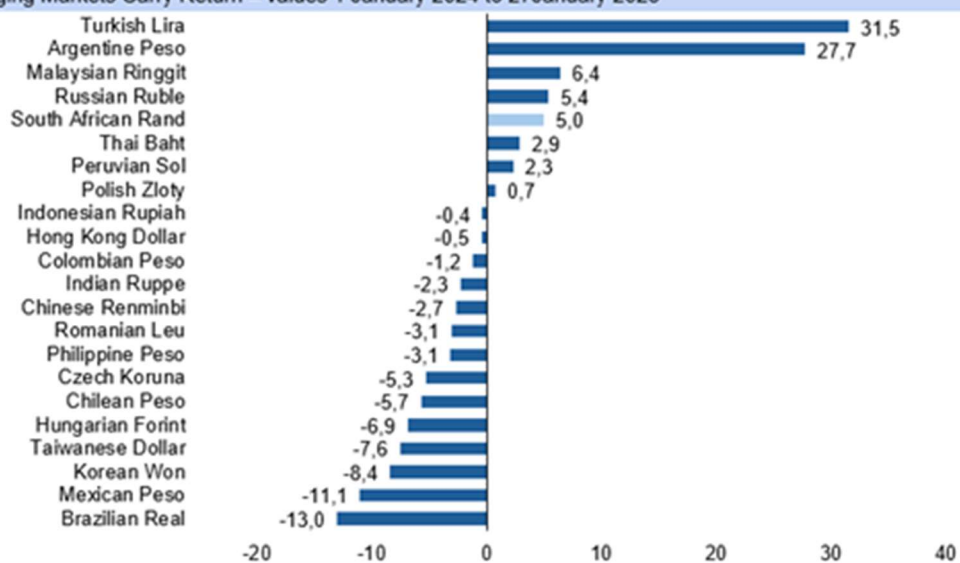
- The rand dropped to R18.30/USD last week, after reaching R19.23/USD early in January and experiencing a strengthening momentum since. The US dollar has seen some pullback, from 1.02 to the euro, to 1.05 most recently.
- With the Trump administration now pushing through a number of changes, and particular focus on the removal of illegal immigrants, tariff threats have largely been directed in this area, and universal, harsh tariffs previously feared have not occurred.
- The rand has consequently subsided, strengthening against both the US dollar, as US dollar strength has waned, and also seeing some gains on its own against the euro and the GBP, as risk-off in global financial markets has reduced.
- The rand is expected to remain volatile, but overall see further strength this year as markets factor out some fears of substantially higher US inflation rates,

and indeed now have now factored in two definite US interest rate cuts this year.

- The most recent inflation figures, for December, in the US have come out at 3.2% excluding food and energy, down from 3.3% y/y in November, and lower than the expectation of 3.3% y/y as well.
- The change in the core PCE price index, the preferred measure of inflation for the FOMC, is due to be published for December at the end of this month, which was at 2.8% y/y in November, and is expected at a similar rate.
- Much will depend on tariff increases applied by the US. Most recently an onslaught of tariffs (25% on all imports rising to 50%), along with banking and financial sanctions was threatened at Colombia if it did not accept the return of deportees.
- In addition, travel bans on Colombian officials and their associates, as well as revoking their visas was part of the US threat towards Colombia, with the US and Colombia then reaching agreement on Sunday for full deportations from the US.
- The US's drive to return illegal immigrants to countries of origin has been supported by threats of very harsh tariff and other economic penalties to other countries as well, while protectionism for US manufacturers is still reportedly under discussion.

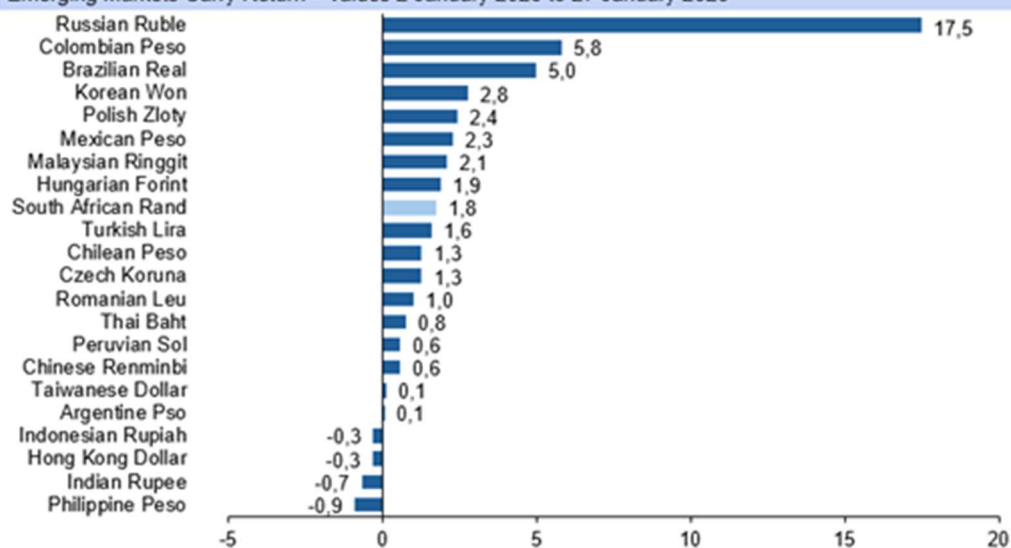
Please scroll down to the second section below

Emerging Markets Carry Return – values 1 January 2024 to 27 January 2025



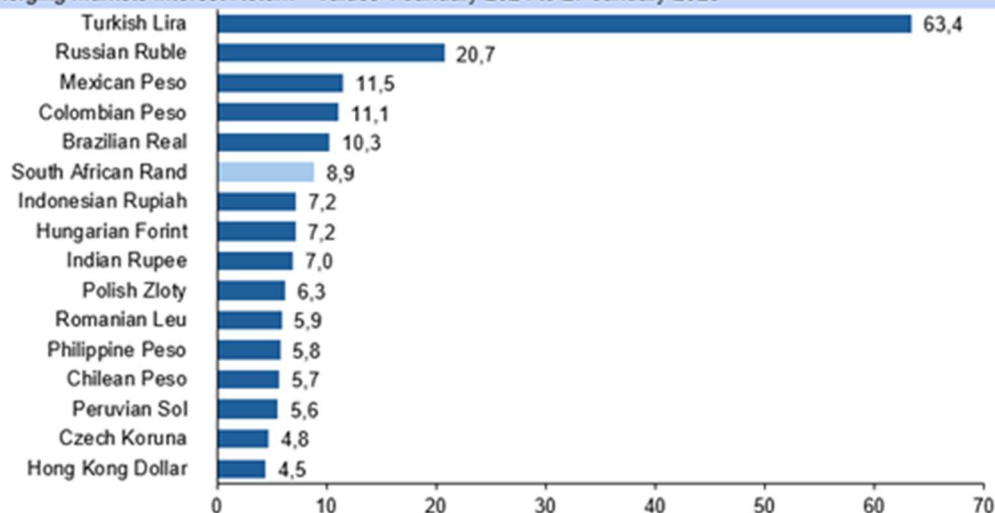
Source: Bloomberg

Emerging Markets Carry Return – values 2 January 2025 to 27 January 2025



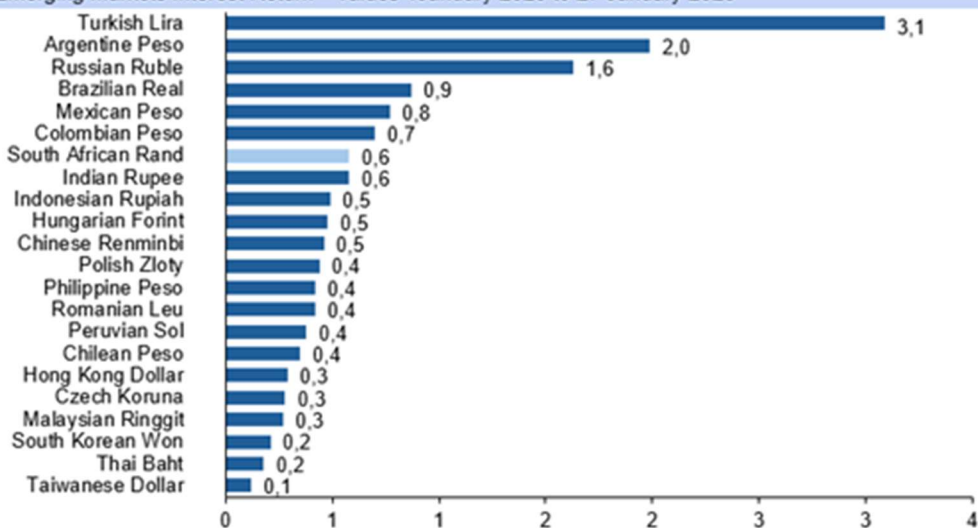
Source: Bloomberg

Emerging Markets Interest Return – values 1 January 2024 to 27 January 2025



Source: Bloomberg

Emerging Markets Interest Return – values 1 January 2025 to 27 January 2025



Source: Bloomberg

Long-term trend of the rand



Source: Iress

- With the US Colombia's largest trading partner, the threat of tariff increases, and the other penalties has been paused, not dropped, as Colombia has reportedly accepted all the US's terms, despite initially threatening retaliatory protectionism.
- The prior Trump presidency, of 2017 to 2021 escalated trade wars, particularly between the US and China, as retaliatory tariffs proliferated, although since Covid-19 lockdowns the Chinese economy has seen a marked slowing in growth.
- The US Secretary of State noted "(i)t is the responsibility of each nation to take back their citizens who are illegally present in the United States in a serious and expeditious manner."
- "President Trump has made it clear that under his administration, America will no longer be lied to nor taken advantage of. ... we are unwavering in our commitment to end illegal immigration and bolster America's border security."
- US Homeland Security adds "(i)mmediately after being sworn in President Trump took executive action to stop the invasion at the southern border and to empower law enforcement agents to deport criminal aliens".
- The rand has weakened slightly to R18.55/USD, but tends to see volatility over the day, and has been tending to reach new consecutive lows over the second half of January, in the thinner trading hours of early mornings/late evenings.
- The rand is expected to average R18.40/USD this quarter, with US protectionism worries seen to be fading from initial concerns that the US administration would impose universal tariffs of 10 to 20% or more, and greater tariffs on China.
- The Fed funds implied futures have now factored in two US interest rate cuts with 100% probability by the end of this year, one at the 18th June FOMC meeting and the other at the 10th December FOMC meeting.
- However, interest rate expectations are likely to shift further over the course of the year, and the longer the US holds off imposing tariffs, the greater the likelihood will be for a third US interest rate cut this year, and so further rand strength.

Economic Scenarios:		Q1.24	Q2.24	Q3.24	Q4.24	Q1.25	Q2.25	Q3.25	Q4.25
Extreme Up case 2%	USD/Rand (average)	18.87	18.60	18.00	17.92	17.00	16.00	15.30	14.50
	Repo rate (end rate)	8.25	8.25	8.00	7.75	7.00	6.75	6.50	6.25
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.									
Up case 12%	USD/Rand (average)	18.87	18.60	18.00	17.92	17.30	16.60	16.30	15.90
	Repo rate (end rate)	8.25	8.25	8.00	7.75	7.25	7.00	6.75	6.50
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.									
Base case 50%	USD/Rand (average)	18.87	18.60	18.00	17.92	18.40	18.10	18.00	17.90
	Repo rate (end rate)	8.25	8.25	8.00	7.75	7.50	7.50	7.25	7.00
Economic growth modest but lifts towards 3.0% 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.									
Lite (domestic) Down case 35%	USD/Rand (average)	18.87	18.60	18.00	17.92	19.00	19.50	19.30	19.00
	Repo rate (end rate)	8.25	8.25	8.00	7.75	8.50	8.75	9.50	9.50
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.									
Severe down case 1%	USD/Rand (average)	18.87	18.60	18.00	17.92	20.00	20.50	20.70	20.70
	Repo rate (end rate)	8.25	8.25	8.00	7.75	9.00	9.75	11.00	11.50
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.									

Note: Event risk begins Q1 25. Source: Investec

Lite Down Case: Exchange Rate forecasts												
	2025				2026				2027			
	Q1.25	Q2.25	Q3.25	Q4.25	Q1.26	Q2.26	Q3.26	Q4.26	Q1.27	Q2.27	Q3.27	Q4.27
USD/ZAR	19.00	19.50	19.30	19.00	19.10	18.80	18.70	18.40	18.50	18.50	18.30	18.40
GBP/ZAR	23.75	24.18	24.13	24.13	24.64	24.44	24.31	23.92	24.05	24.05	23.79	23.92
EUR/ZAR	19.57	19.50	19.49	19.38	20.06	20.12	20.38	20.42	20.91	21.46	21.23	21.34
ZAR/JPY	8.16	8.10	8.29	8.32	8.12	8.14	8.02	7.88	7.73	7.57	7.49	7.34
CHF/ZAR	21.35	21.67	21.44	21.59	21.46	20.89	20.55	20.22	20.33	20.33	20.11	20.22
AUD/ZAR	12.16	12.09	12.16	12.16	12.61	12.78	12.90	12.70	12.77	12.77	12.63	12.70
GBP/USD	1.25	1.24	1.25	1.27	1.29	1.30	1.30	1.30	1.30	1.30	1.30	1.30
EUR/USD	1.03	1.00	1.01	1.02	1.05	1.07	1.09	1.11	1.13	1.16	1.16	1.16
USD/JPY	155	158	160	158	155	153	150	145	143	140	137	135

Note: averages, Source: Investec, Iress

Severe Down Case: Exchange Rate forecasts												
	2025				2026				2027			
	Q1.25	Q2.25	Q3.25	Q4.25	Q1.26	Q2.26	Q3.26	Q4.26	Q1.27	Q2.27	Q3.27	Q4.27
USD/ZAR	20.00	20.50	20.70	20.70	20.60	20.40	20.40	20.30	20.40	20.20	20.30	20.40
GBP/ZAR	25.00	25.42	25.88	26.29	26.57	26.52	26.52	26.39	26.52	26.26	26.39	26.52
EUR/ZAR	20.60	20.50	20.91	21.11	21.63	21.83	22.24	22.53	23.05	23.43	23.55	23.66
ZAR/JPY	7.75	7.71	7.73	7.63	7.52	7.50	7.35	7.14	7.01	6.93	6.75	6.62
CHFZAR	22.47	22.78	23.00	23.52	23.15	22.67	22.42	22.31	22.42	22.20	22.31	22.42
AUDZAR	12.80	12.71	13.04	13.25	13.60	13.87	14.08	14.01	14.08	13.94	14.01	14.08
GBP/USD	1.25	1.24	1.25	1.27	1.29	1.30	1.30	1.30	1.30	1.30	1.30	1.30
EUR/USD	1.03	1.00	1.01	1.02	1.05	1.07	1.09	1.11	1.13	1.16	1.16	1.16
USD/JPY	155	158	160	158	155	153	150	145	143	140	137	135

Note: averages, Source: Investec, Iress

Up Case: Exchange Rate forecasts												
	2025				2026				2027			
	Q1.25	Q2.25	Q3.25	Q4.25	Q1.26	Q2.26	Q3.26	Q4.26	Q1.27	Q2.27	Q3.27	Q4.27
USD/ZAR	17.30	16.60	16.30	15.90	15.70	15.50	15.30	15.10	14.90	14.75	14.55	14.65
GBP/ZAR	21.63	20.58	20.38	20.19	20.25	20.15	19.89	19.63	19.37	19.18	18.92	19.05
EUR/ZAR	17.82	16.60	16.46	16.22	16.49	16.59	16.68	16.76	16.84	17.11	16.88	16.99
ZAR/JPY	8.96	9.52	9.82	9.94	9.87	9.87	9.80	9.60	9.60	9.49	9.42	9.22
CHFZAR	19.44	18.44	18.11	18.07	17.64	17.22	16.81	16.59	16.37	16.21	15.99	16.10
AUDZAR	11.07	10.29	10.27	10.18	10.36	10.54	10.56	10.42	10.28	10.18	10.04	10.11
GBP/USD	1.25	1.24	1.25	1.27	1.29	1.30	1.30	1.30	1.30	1.30	1.30	1.30
EUR/USD	1.03	1.00	1.01	1.02	1.05	1.07	1.09	1.11	1.13	1.16	1.16	1.16
USD/JPY	155	158	160	158	155	153	150	145	143	140	137	135

Note averages, Source: Investec, Iress

Extreme Up Case: Exchange Rate forecasts												
	2025				2026				2027			
	Q1.25	Q2.25	Q3.25	Q4.25	Q1.26	Q2.26	Q3.26	Q4.26	Q1.27	Q2.27	Q3.27	Q4.27
USD/ZAR	17.00	16.00	15.30	14.50	14.40	14.10	13.80	13.90	13.70	13.60	13.50	13.20
GBP/ZAR	21.25	19.84	19.13	18.42	18.58	18.33	17.94	18.07	17.81	17.68	17.55	17.16
EUR/ZAR	17.51	16.00	15.45	14.79	15.12	15.09	15.04	15.43	15.48	15.78	15.66	15.31
ZAR/JPY	9.12	9.88	10.46	10.90	10.76	10.85	10.87	10.43	10.44	10.29	10.15	10.23
CHFZAR	19.10	17.78	17.00	16.48	16.18	15.67	15.16	15.27	15.05	14.95	14.84	14.51
AUDZAR	10.88	9.92	9.64	9.28	9.50	9.59	9.52	9.59	9.45	9.38	9.32	9.11
GBP/USD	1.25	1.24	1.25	1.27	1.29	1.30	1.30	1.30	1.30	1.30	1.30	1.30
EUR/USD	1.03	1.00	1.01	1.02	1.05	1.07	1.09	1.11	1.13	1.16	1.16	1.16
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