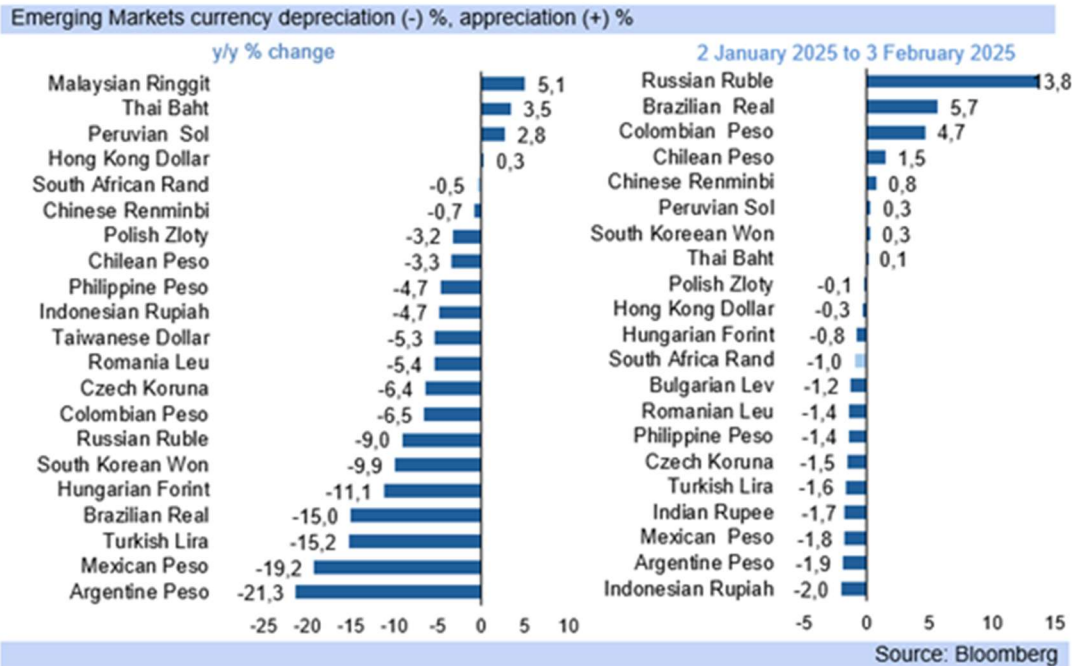


SA Economics

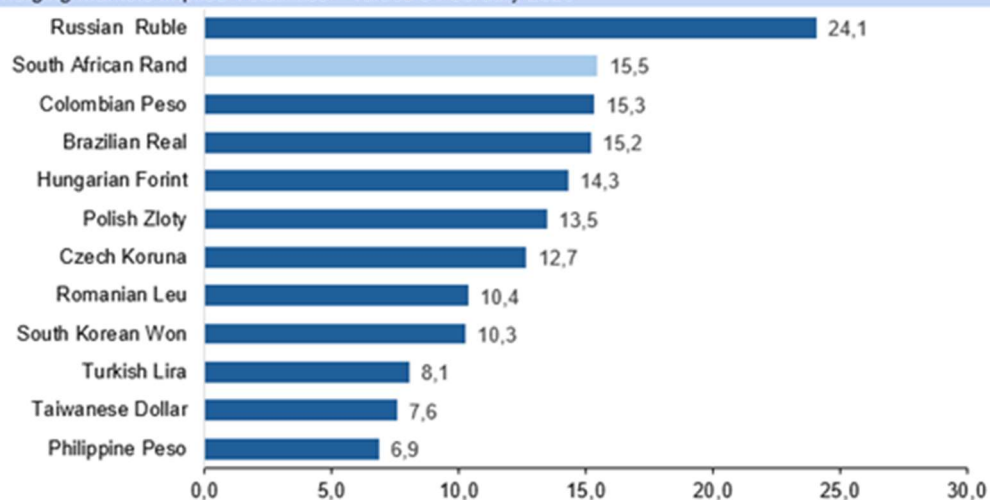


Rand note: the rand has weakened modestly on the US's targeted tariff announcement

Monday 3 February 2025

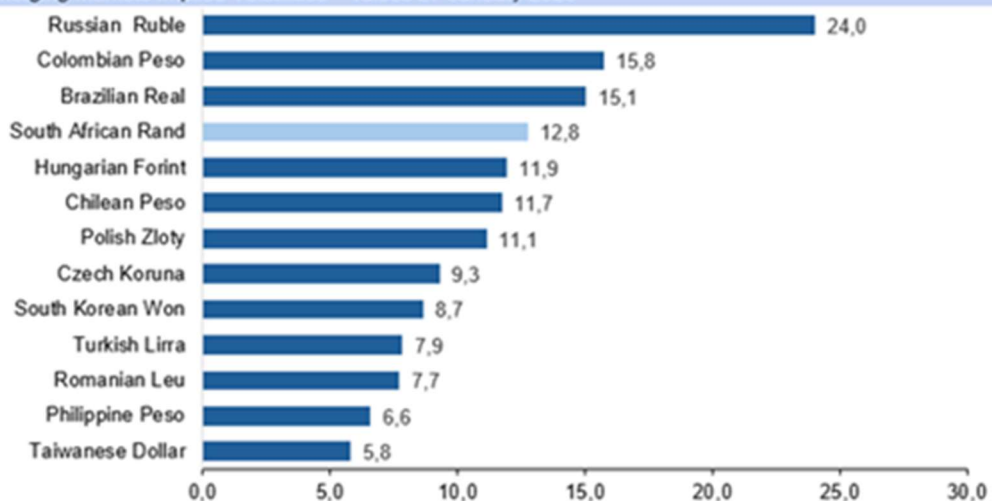


Emerging Markets Implied Volatilities – values 3 February 2025



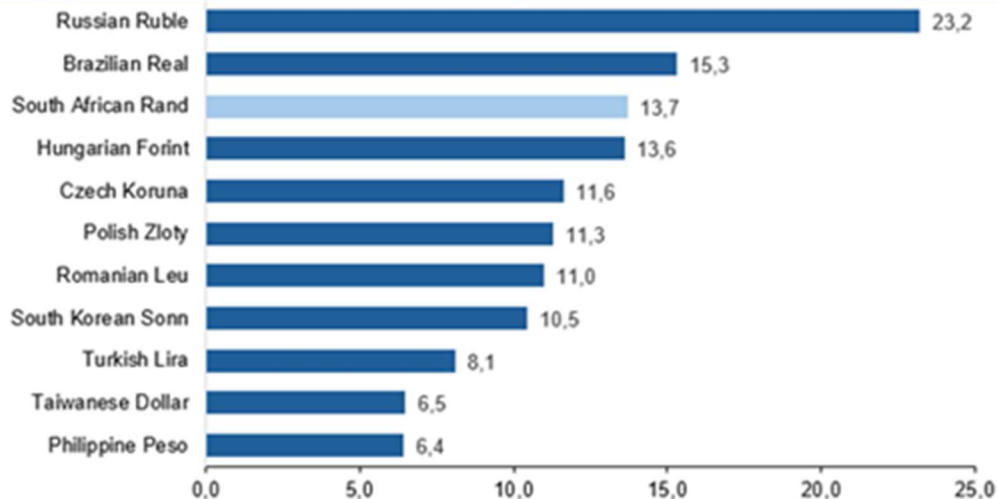
Source: Bloomberg

Emerging Markets Implied Volatilities – values 27 January 2025



Source: Bloomberg

Emerging Markets Implied Volatilities – values 20 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	18.70	18.90	18.80	18.70	18.50	18.60	18.70	18.60	18.50	18.60	18.70	18.50
GBP/ZAR	23.00	22.68	22.75	23.19	23.13	23.44	23.75	23.99	23.87	24.18	24.31	24.05
EUR/ZAR	19.07	18.90	18.99	19.07	19.24	19.53	20.01	20.27	20.72	21.20	21.69	21.46
ZAR/JPY	8.34	8.36	8.51	8.45	8.27	7.96	7.75	7.69	7.62	7.47	7.33	7.30
CHF/ZAR	20.78	21.00	20.89	21.25	21.26	21.38	21.74	21.88	21.26	20.90	20.55	20.33
AUD/ZAR	11.59	11.72	11.84	11.97	12.03	12.28	12.53	12.46	12.77	12.83	12.90	12.77
GBP/USD	1.23	1.20	1.21	1.24	1.25	1.26	1.27	1.29	1.29	1.30	1.30	1.30
EUR/USD	1.02	1.00	1.01	1.02	1.04	1.05	1.07	1.09	1.12	1.14	1.16	1.16
USD/JPY	156	158	160	158	153	148	145	143	141	139	137	135

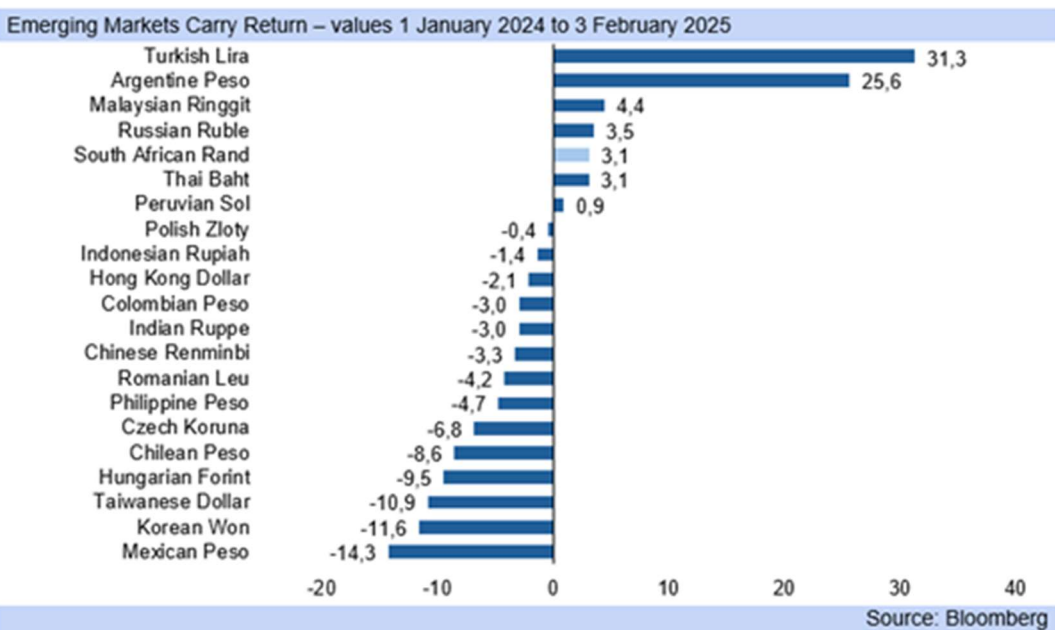
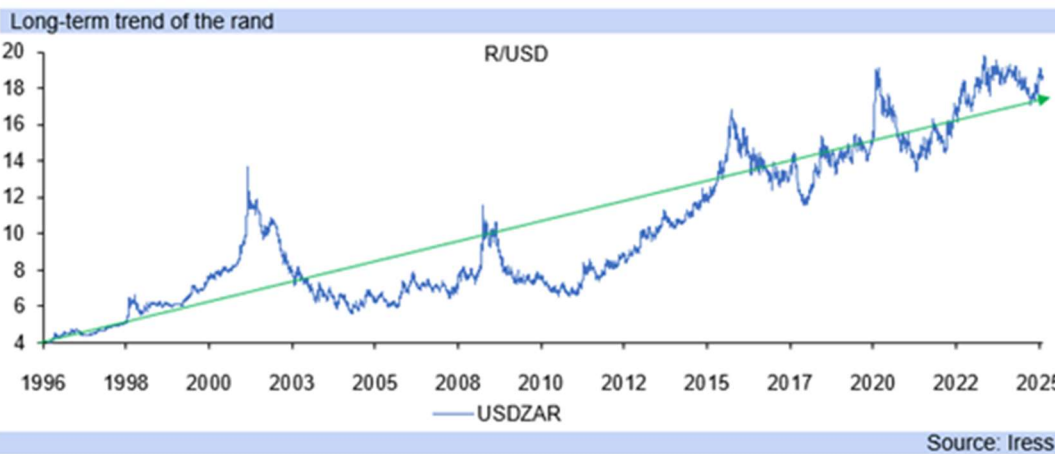
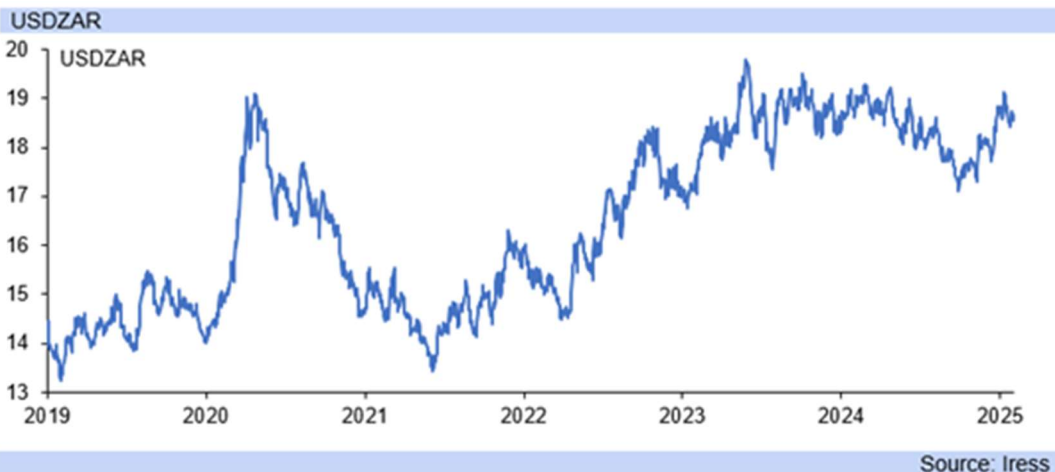
Note: averages, Source: Investec, Iress

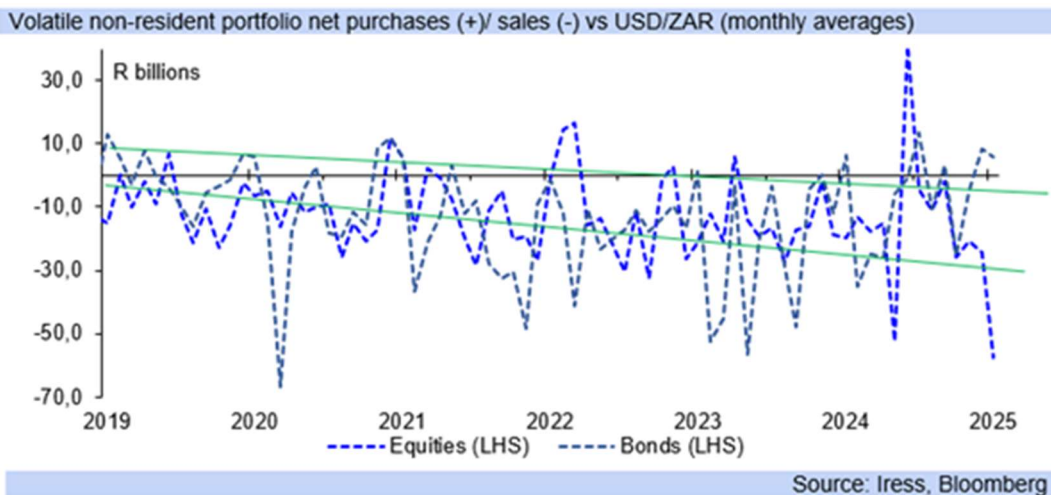
- The rand's best level last week was R18.42/USD, averaging R18.72/USD over January. US core PCE inflation (the Fed's preferred measure of inflation for its implicit target of 2.0% y/y) came out unchanged, and as expected, at 2.8% y/y.
- In November last year we changed the rand's forecast trajectory after the US election outcome, ending 2025 at R17.60/USD instead of R16.50/USD and also altering the forecast to R17.50/USD by end of 2026, instead of R15.60/USD.
- In December, the FOMC pushed up its inflation forecasts on expectations of US tariff increases, and also uncertainty around this, causing markets to cut back on interest rate cut forecasts, and so resulting in US dollar strength and rand weakness.
- US dollar strength on risk aversion saw the rand weaker, with targeted tariff increases expected, which caused the substantial revision of the rand forecasts

noted above. A modest further adjustment has occurred as some increases have been announced

- Specifically, over the weekend, the Trump administration imposed tariffs of 25% on goods imported from Mexico and Canada (except energy imports from Canada), as previously threatened on the both illegal drug and immigrant flows into the US.
- Oil, gas and other energy imports from Canada will be subjected to a 10% tariff, sparking promises of retaliatory tariffs as a trade war gets under way, and seeing the rand temporarily exceed R19.00/USD, as volatility in the domestic currency persists.
- The rand reached R19.04/USD today on the announcements, then pulled back to R18.69/USD, with markets already having partially built in expectations of higher tariffs from the US, and so somewhat higher inflation after December's FOMC meeting.
- The US also signed in more tariffs for China as well (10%), but China is reported to have said that it will file a lawsuit with the World Trade Organisation for "wrongful practices" as it believes it has counternarcotics cooperation with the US.
- The White House notes "(d)uring his first term as President of the United States, President Trump established the President's Commission on Combating Drug Addiction and the Opioid Crisis and declared the Opioid Crisis a public health emergency."
- US "trade accounts for 67% of Canada's GDP, 73% of Mexico's GDP, and 37% of China's GDP, it accounts for only 24% of U.S. GDP. However, in 2023 the U.S. trade deficit in goods was the world's largest at over \$1 trillion."
- Under the prior Trump administration, substantial protectionism slowed global growth and trade, weakening the rand and creating risk-off sentiment, with markets factoring in similar, and the trajectory for the rand is flat to somewhat weaker.

Please scroll down to the second section below





- A bout of load-shedding in SA over the weekend also had a negative effect on the domestic currency, but Eskom noted “(t)his is a temporary setback, as loadshedding is largely behind us due to structural improvements in the generation fleet”.
- “Following over 10 months of uninterrupted electricity supply ..., Eskom has encountered a temporary setback. As a result, Stage 3 loadshedding is being implemented from (Friday evening) until Sunday.”

- “Over the past seven days, we ... experienced several breakdowns that require extended repair times. This has necessitated the use of all our emergency reserves, which now need to be replenished over the weekend”.
- Eskom has subsequently suspended load shedding of electricity, but it remains a risk, and is a characteristic of the lite down case, along with water shedding, as warned by the DWS (Department of Water and Sanitation).
- The US imposed tariffs on “(t)he extraordinary threat posed by illegal aliens and drugs, including deadly fentanyl, constitutes a national emergency under the International Emergency Economic Powers Act (IEEPA)” on China, Canada and Mexico.
- The White House adds “Chinese officials have failed to take the actions necessary to stem the flow of precursor chemicals to known criminal cartels and shut down money laundering by transnational criminal organizations.”
- Furthermore, “(a)ccess to the American market is a privilege. The United States has one of the most open economies in the world, and the lowest average tariff rates in the world.”
- “The government of Mexico has afforded safe havens for the cartels to engage in the manufacturing and transportation of dangerous narcotics, which collectively have led to the overdose deaths of hundreds of thousands of American victims.”
- “(T)he Mexican drug trafficking organizations have an intolerable alliance with the government of Mexico. This alliance endangers the national security of the United States, and we must eradicate the influence of these dangerous cartels.”
- “There is also a growing presence of Mexican cartels operating fentanyl and nitazene synthesis labs in Canada. A recent study recognized Canada’s heightened domestic production of fentanyl, and growing footprint within international narcotics distribution”.
- “President Trump promised in November to “sign all necessary documents to charge Mexico and Canada a 25% Tariff ... This Tariff will remain in effect until such time as Drugs, in particular Fentanyl, and all Illegal Aliens stop this Invasion of our Country!”

Economic Scenarios:									
		Q1.25	Q2.25	Q3.25	Q4.25	Q1.26	Q2.26	Q3.26	Q4.26
Extreme Up case 2%	USD/Rand (average)	17.00	16.00	15.30	14.50	14.40	14.10	13.80	13.90
	Repo rate (end rate)	7.00	6.75	6.50	6.25	6.00	5.50	5.25	5.00
	SA economic growth rises to 3-5%, then 5-7%. Good governance, growth-creating reforms, structural (including infrastructure) 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. 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. Geopolitical tensions subside.								
Up case 15%	USD/Rand (average)	17.30	16.60	16.30	15.90	15.70	15.50	15.30	15.10
	Repo rate (end rate)	7.25	7.00	6.75	6.50	6.25	6.00	5.75	5.50
	Economic growth eventually lifts towards 5.0%, rising confidence and investment levels, structural (including infrastructure) 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. Positive outlooks on credit ratings turn into upgrades on substantial fiscal consolidation, debt projections fall substantially. Grey listed for a moderate period. Substantial transition to renewable energy away from fossil fuel usage, comprehensive measures to alleviate climate change impact on economy. Geopolitical tensions ease.								
Base case 50%	USD/Rand (average)	18.70	18.90	18.80	18.70	18.50	18.60	18.70	18.60
	Repo rate (end rate)	7.50	7.50	7.25	7.00	6.75	6.75	6.75	6.75
	Economic growth modest but lifts towards 3.0% y/y over five years on sufficient domestic policy support measures but is still limited by structural (including infrastructure such as freight transport) constraints. Global financial market risk sentiment is neutral to positive. South Africa is 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. A modest transition to renewable energy occurs and measures to alleviate the impact of climate change on the economy are implemented. Little expropriation without compensation occurs and has no significant negative effect on economy, there is no nationalisation. South Africa's grey listing lifted in the period. Geopolitical tensions persist but do not exacerbate.								
Lite Down case 32%	USD/Rand (average)	19.00	19.50	19.30	19.00	19.10	19.30	19.40	19.20
	Repo rate (end rate)	8.50	8.75	9.50	9.50	9.50	9.25	9.25	9.25
	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 remains depressed, load shedding and freight (infrastructure) constraints worsen, weak investment, 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)	20.00	20.50	20.70	20.70	20.60	20.40	20.40	20.30
	Repo rate (end rate)	9.00	9.75	11.00	11.50	11.00	10.75	10.00	10.25
	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, lengthy recession occurs. 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 sector property without compensation with a noticeable negative economic impact. SA is blacklisted. Geopolitical 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	19.30	19.40	19.20	19.00	18.90	19.00	18.90
GBP/ZAR	23.37	23.40	23.35	23.56	23.88	24.32	24.64	24.77	24.51	24.57	24.70	24.57
EUR/ZAR	19.38	19.50	19.49	19.38	19.86	20.27	20.76	20.93	21.28	21.55	22.04	21.92
ZAR/JPY	8.21	8.10	8.29	8.32	8.01	7.67	7.47	7.45	7.42	7.35	7.21	7.14
CHF/ZAR	21.11	21.67	21.44	21.59	21.95	22.18	22.56	22.59	21.84	21.24	20.88	20.77
AUD/ZAR	11.78	12.09	12.16	12.16	12.42	12.74	13.00	12.86	13.11	13.04	13.11	13.04
GBP/USD	1.23	1.20	1.21	1.24	1.25	1.26	1.27	1.29	1.29	1.30	1.30	1.30
EUR/USD	1.02	1.00	1.01	1.02	1.04	1.05	1.07	1.09	1.12	1.14	1.16	1.16
USD/JPY	156	158	160	158	153	148	145	143	141	139	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	24.60	24.60	25.05	25.67	25.75	25.70	25.91	26.19	26.32	26.26	26.39	26.52
EUR/ZAR	20.40	20.50	20.91	21.11	21.42	21.42	21.83	22.13	22.85	23.03	23.55	23.66
ZAR/JPY	7.80	7.71	7.73	7.63	7.43	7.25	7.11	7.04	6.91	6.88	6.75	6.62
CHFZAR	22.22	22.78	23.00	23.52	23.68	23.45	23.72	23.88	23.45	22.70	22.31	22.42
AUDZAR	12.40	12.71	13.04	13.25	13.39	13.46	13.67	13.60	14.08	13.94	14.01	14.08
GBP/USD	1.23	1.20	1.21	1.24	1.25	1.26	1.27	1.29	1.29	1.30	1.30	1.30
EUR/USD	1.02	1.00	1.01	1.02	1.04	1.05	1.07	1.09	1.12	1.14	1.16	1.16
USD/JPY	156	158	160	158	153	148	145	143	141	139	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	21.28	19.92	19.72	19.72	19.63	19.53	19.43	19.48	19.22	19.18	18.92	19.05
EUR/ZAR	17.65	16.60	16.46	16.22	16.33	16.28	16.37	16.46	16.69	16.82	16.88	16.99
ZAR/JPY	9.02	9.52	9.82	9.94	9.75	9.55	9.48	9.47	9.46	9.42	9.42	9.22
CHFZAR	19.22	18.44	18.11	18.07	18.05	17.82	17.79	17.76	17.13	16.57	15.99	16.10
AUDZAR	10.73	10.29	10.27	10.18	10.21	10.23	10.25	10.12	10.28	10.18	10.04	10.11
GBP/USD	1.23	1.20	1.21	1.24	1.25	1.26	1.27	1.29	1.29	1.30	1.30	1.30
EUR/USD	1.02	1.00	1.01	1.02	1.04	1.05	1.07	1.09	1.12	1.14	1.16	1.16
USD/JPY	156	158	160	158	153	148	145	143	141	139	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	20.91	19.20	18.51	17.98	18.00	17.77	17.53	17.93	17.67	17.68	17.55	17.16
EUR/ZAR	17.34	16.00	15.45	14.79	14.98	14.81	14.77	15.15	15.34	15.50	15.66	15.31
ZAR/JPY	9.18	9.88	10.46	10.90	10.63	10.50	10.51	10.29	10.29	10.22	10.15	10.23
CHFZAR	18.89	17.78	17.00	16.48	16.55	16.21	16.05	16.35	15.75	15.28	14.84	14.51
AUDZAR	10.54	9.92	9.64	9.28	9.36	9.31	9.25	9.31	9.45	9.38	9.32	9.11
GBP/USD	1.23	1.20	1.21	1.24	1.25	1.26	1.27	1.29	1.29	1.30	1.30	1.30
EUR/USD	1.02	1.00	1.01	1.02	1.04	1.05	1.07	1.09	1.12	1.14	1.16	1.16
USD/JPY	156	158	160	158	153	148	145	143	141	139	137	135

Note: averages, Source: Investec, Iress