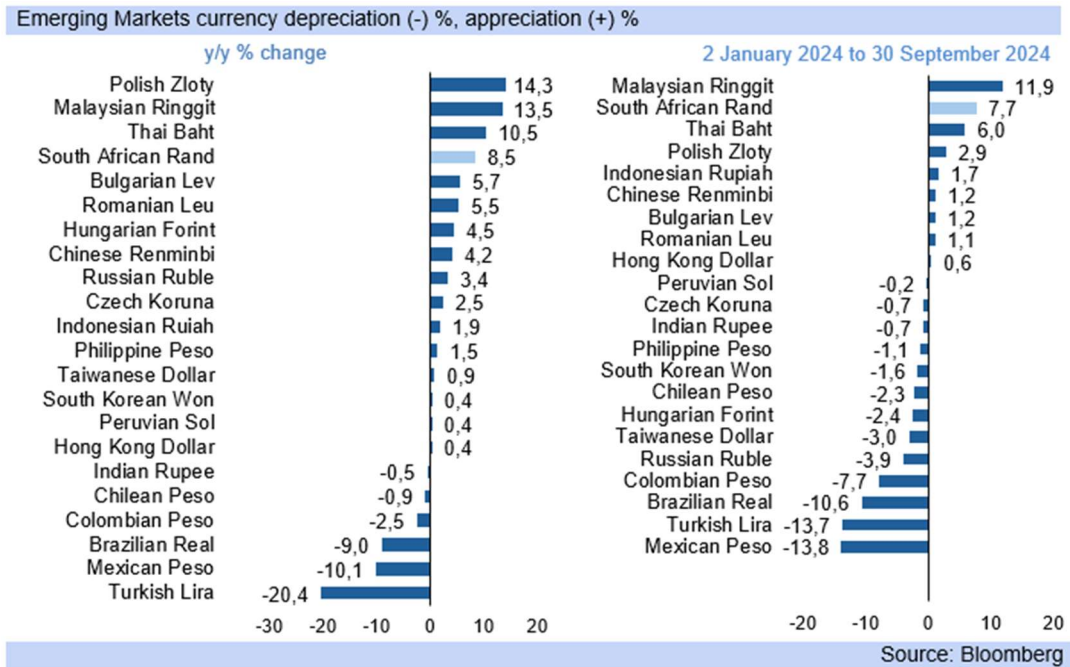


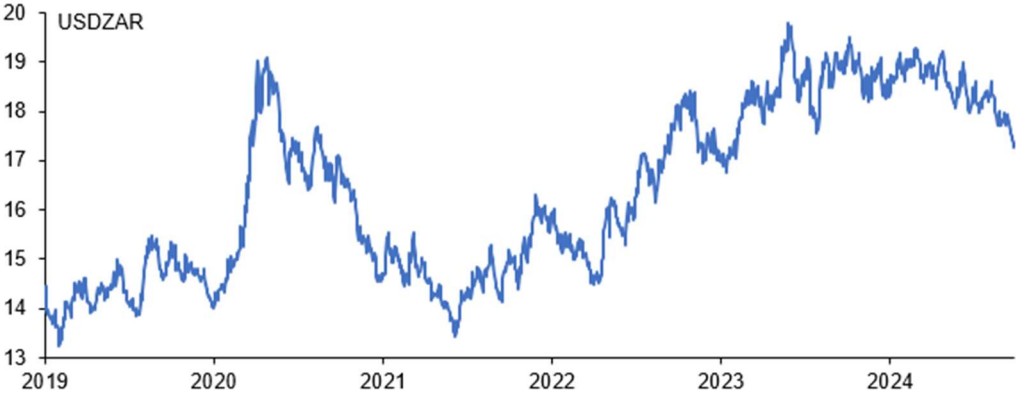


Rand note: the rand's strength will be underpinned by the US interest rate cut cycle

Thursday 30 September 2024

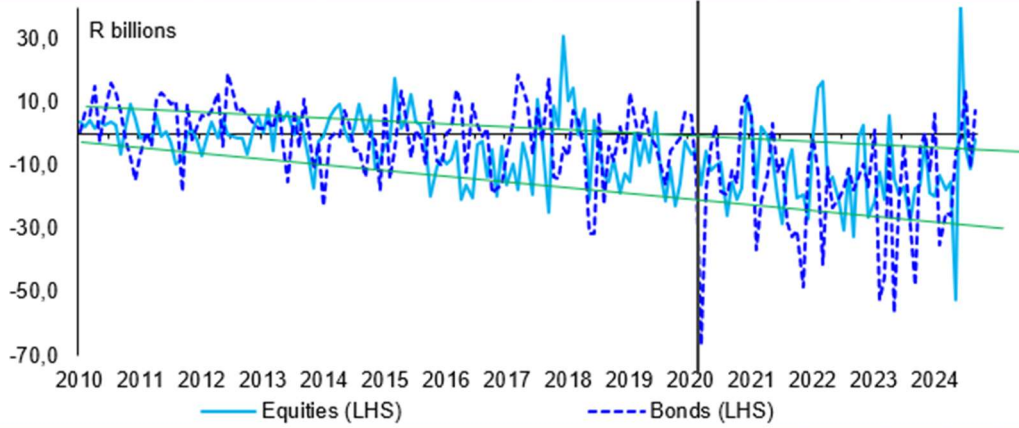


USDZAR



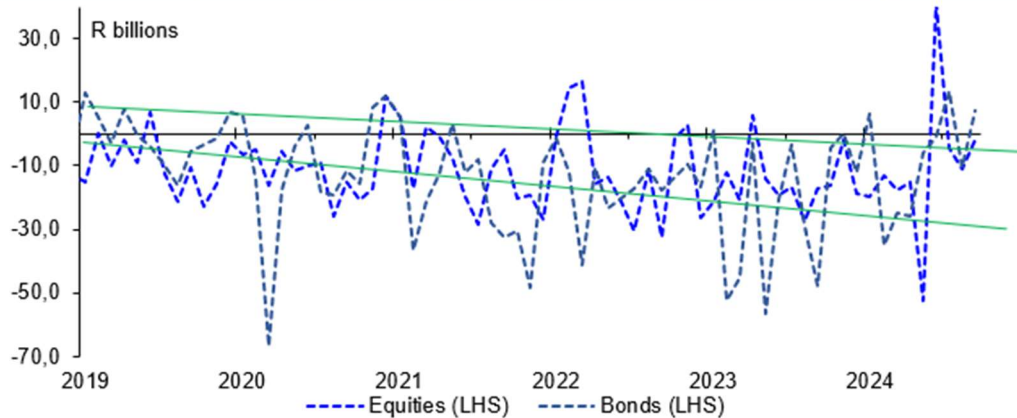
Source: Iress

Volatile non-resident portfolio net purchases (+)/ sales (-) vs USD/ZAR (monthly averages)



Source: Iress, Investec

Volatile non-resident portfolio net purchases (+)/ sales (-) vs USD/ZAR (monthly averages)



Source: Iress, Bloomberg

Expected Case: Exchange Rate forecasts

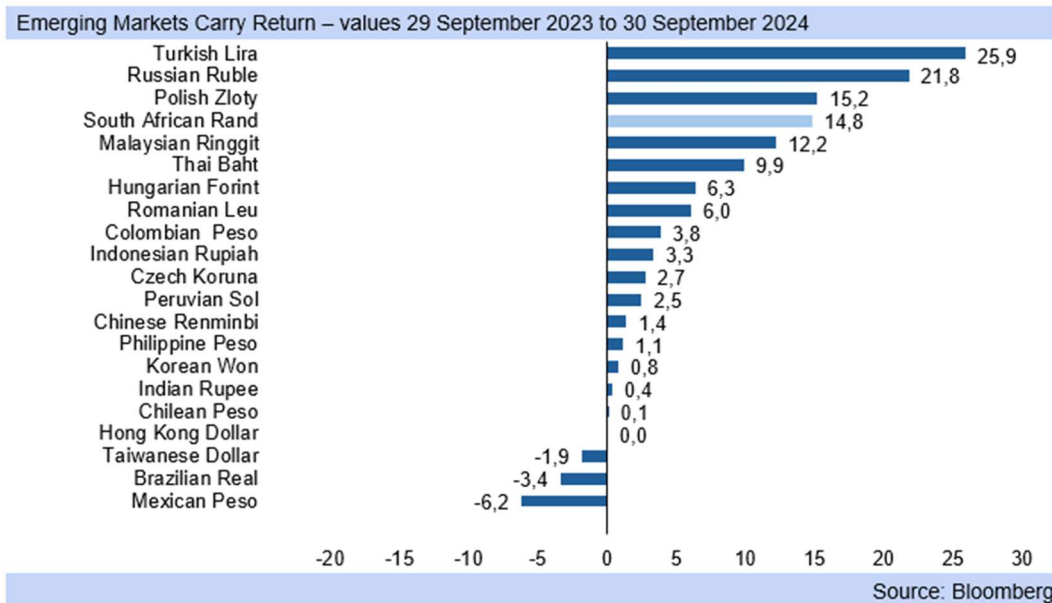
	2024				2025				2026			
	Q1.24	Q2.24	Q3.24	Q4.24	Q1.25	Q2.25	Q3.25	Q4.25	Q1.26	Q2.26	Q3.26	Q4.26
USD/ZAR	18.87	18.60	18.00	17.20	17.00	16.90	16.80	16.60	16.30	16.10	15.90	15.70
GBP/ZAR	23.96	23.44	23.37	22.79	22.61	22.65	22.76	22.66	22.01	21.41	20.67	20.41
EUR/ZAR	20.57	20.09	19.75	19.09	18.87	18.84	18.90	18.92	18.75	18.52	18.44	18.21
ZAR/JPY	7.84	8.39	8.30	8.28	8.29	8.22	8.15	8.16	8.28	8.32	8.43	8.34
CHFZAR	21.69	20.67	20.76	19.99	19.55	19.33	19.19	19.02	18.31	17.89	17.47	17.25
AUDZAR	12.45	12.28	12.04	11.70	11.56	11.58	11.59	11.54	11.25	11.11	10.97	10.83
GBP/USD	1.27	1.26	1.30	1.33	1.33	1.34	1.36	1.37	1.35	1.33	1.30	1.30
EUR/USD	1.09	1.08	1.09	1.11	1.11	1.12	1.13	1.14	1.15	1.15	1.16	1.16
USD/JPY	148	156	152	143	141	139	137	136	135	134	134	131

Note: averages, Source: Investec, Iress

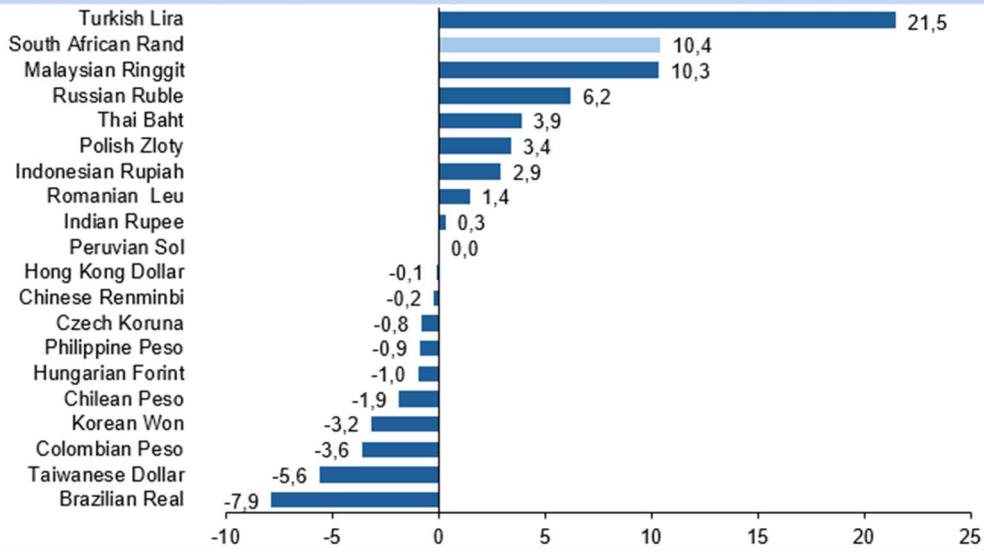
- The rand has strengthened quickly over the past couple of weeks, running rapidly stronger on the surprise -50bp US interest rate cut, but already having appreciated, albeit more slowly, since the national election in South Africa at the end of May.
- With the rand initially nearing R17.00/USD on Friday, at 17.03/USD, the domestic currency was then rebuffed, closing at the end of last week at R17.12/USD, but reached R17.04/USD again today.
- The rand is beginning to unwind its depreciation experienced under the US interest rate hike cycle, with the domestic currency running below R15.00/USD before the US started hiking interest rates in early 2022.
- R17.00/USD is a major resistance level however, with the rand not having reached it yet, and will likely require further momentum to convincingly pierce it, driven either by positive data outcomes, or further US interest rate cut surprises, or both.

- The Chinese stimulus has also helped allay some worries over the weakness of global activity, with commodities' prices seeing some benefit too, along with EM currencies, although the recent US interest rate cut is the main driver of rand strength.
- More supportive stimulus measures are expected to follow from China, while in US markets, the implied Fed funds futures are currently pricing in about a 40% chance of another -50bp cut, which is supporting investor sentiment.
- In South Africa, improving economic activity has also had a positive effect on the domestic currency, along with the reduction in political risk on the formation of a centrist government, and increased foreign appetite for SA's portfolio assets.
- The substantial movement in the rand since the US interest rate cut this month has brought it towards R17.70/USD more quickly than a -25bp US cut would have done, and Q4.24 is therefore likely to be significantly stronger, at R17.20/USD than Q3.24.
- While the rand is expected to see further strength over the course of the US interest rate cut cycle, markets expect US rate cuts to end in H2.25 and are also eyeing the possibility of further -50bp cuts in the US interest rate cutting cycle.

Please scroll down to the second section below

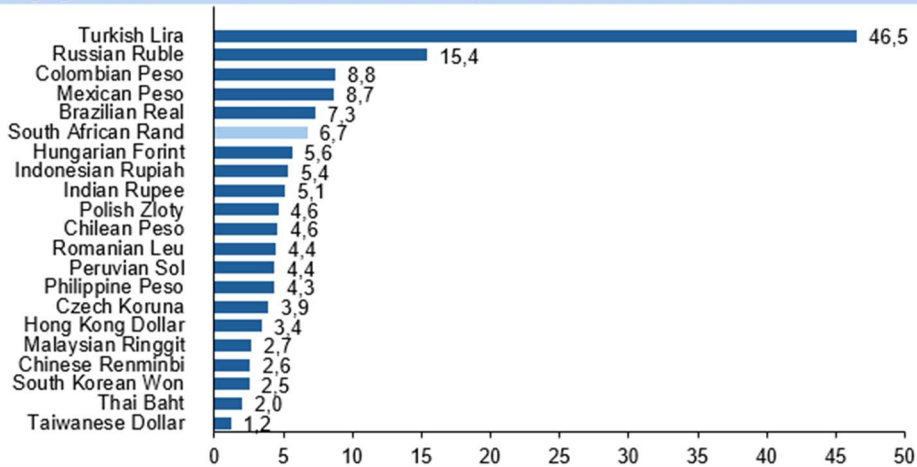


Emerging Markets Carry Return – values 1 January 2024 to 30 September 2024

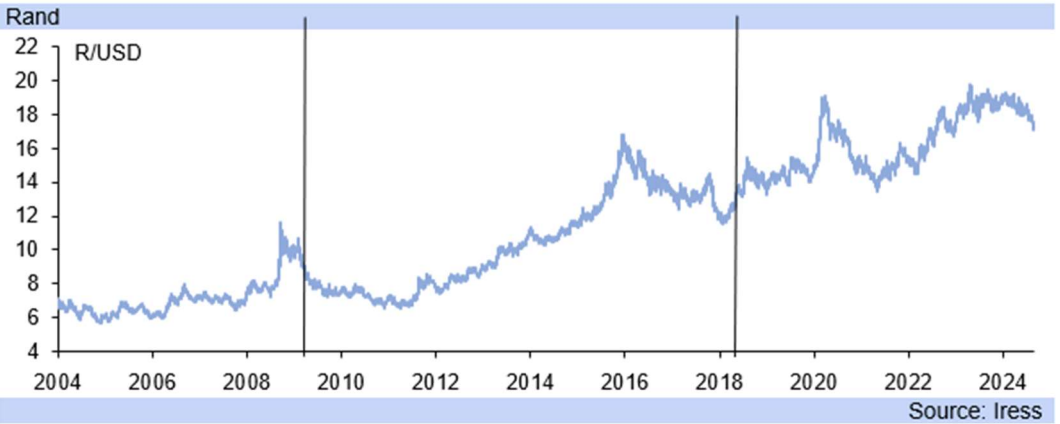
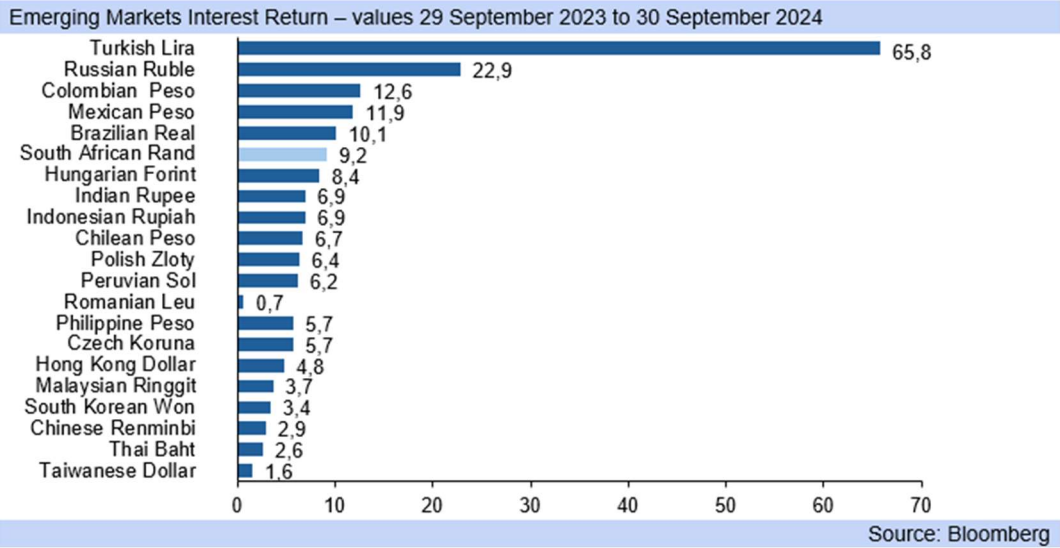


Source: Bloomberg

Emerging Markets Interest Return – values 1 January 2024 to 30 September 2024



Source: Bloomberg



- The deep, fast US interest rate cut cycle currently being factored in for the US by financial markets tilts the risk towards a faster appreciation in the domestic currency than factored in in the base case, which in turn, could benefit inflation outcomes.
- As highlighted in the rand note of 25th September (contact details below), the recalibration in financial markets expectations, post the FOMC meeting on 18th September, has been the key driver of rand strength, along with the US cut.
- The differential between US and South African interest rates has widened by 25bp this month, as the MPC delivered a -25bp cut. The US cuts again in November and December, while South Africa’s MPC has only one meeting left, in November.

- Consequently, the differential: between US and South African interest rates is likely to widen by at least another 25bp by the end of this year, supportive of underpinning the rand's strength.
- Financial markets expect a cut in US interest rates at every FOMC meeting in the remainder of this year, and over H1.25, a total of six meetings, while SA only has four in the period.
- By the end of 2025, the US is expected to cut its interest rates by around 1.50% (150bp), while South Africa is expected to see further cuts of 1.25% (125bp) at most according to the FRA (Forward Rate Agreement) curve.
- The further widening in the interest rate differential between the US and South Africa is also supportive of further, marked rand strength, although domestic and global risks (particularly on the geopolitical front) could slow the rand's trajectory.
- While load shedding has halted on increased capacity, lower unplanned outages (by -9% y/y), and expenditure on diesel to fire generators is R11.3bn lower y/y, concerns persist on the stability of the grid, particularly due to aged infrastructure.
- Progress on rectifying the problems at the ports and on the rails has been slow, severely limiting economic growth, as is the lack of ability of the DMRE (Department of Minerals and Energy) to drive large-scale mining exploration and investment.

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	16.50	15.50	14.60	14.50	14.40
	Repo rate (end rate)	8.25	8.25	8.00	7.25	6.75	6.50	6.25	6.00
<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 12%	USD/Rand (average)	18.87	18.60	18.00	17.00	16.60	16.30	15.90	15.70
	Repo rate (end rate)	8.25	8.25	8.00	7.50	7.00	6.75	6.50	6.25
<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 50%	USD/Rand (average)	18.87	18.60	18.00	17.20	17.00	16.90	16.80	16.60
	Repo rate (end rate)	8.25	8.25	8.00	7.75	7.50	7.50	7.25	7.00
<p>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.</p>									
Lite (domestic) Down case 35%	USD/Rand (average)	18.87	18.60	18.00	19.70	19.50	19.30	19.00	19.10
	Repo rate (end rate)	8.25	8.25	8.00	8.50	8.75	9.50	9.50	9.50
<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 1%	USD/Rand (average)	18.87	18.60	18.00	20.20	20.50	20.70	20.70	20.60
	Repo rate (end rate)	8.25	8.25	8.00	9.00	9.75	11.00	11.50	11.50
<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>									

Note: Event risk begins Q4 24. Source: Investec

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	18.60	18.00	17.00	16.60	16.30	15.90	15.70	15.50	15.30	15.10	14.90
GBP/ZAR	23.96	23.44	23.37	22.53	22.08	21.84	21.54	21.43	20.93	20.35	19.63	19.37
EUR/ZAR	20.57	20.09	19.75	18.87	18.43	18.17	17.89	17.90	17.83	17.60	17.52	17.28
ZAR/JPY	7.84	8.39	8.30	8.38	8.49	8.53	8.62	8.63	8.71	8.76	8.87	8.79
CHF/ZAR	21.69	20.67	20.76	19.76	19.09	18.64	18.16	17.99	17.42	17.00	16.59	16.37
AUD/ZAR	12.45	12.28	12.04	11.56	11.29	11.17	10.97	10.91	10.70	10.56	10.42	10.28
GBP/USD	1.27	1.26	1.30	1.33	1.33	1.34	1.36	1.37	1.35	1.33	1.30	1.30
EUR/USD	1.09	1.08	1.09	1.11	1.11	1.12	1.13	1.14	1.15	1.15	1.16	1.16
USD/JPY	148	156	152	143	141	139	137	136	135	134	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	18.60	18.00	16.50	15.50	14.60	14.50	14.40	14.10	13.80	13.90	13.70
GBP/ZAR	23.96	23.44	23.37	21.86	20.62	19.56	19.65	19.66	19.04	18.35	18.07	17.81
EUR/ZAR	20.57	20.09	19.75	18.32	17.21	16.28	16.31	16.42	16.22	15.87	16.12	15.89
ZAR/JPY	7.84	8.39	8.30	8.64	9.10	9.52	9.45	9.41	9.57	9.71	9.64	9.56
CHFZAR	21.69	20.67	20.76	19.18	17.83	16.70	16.56	16.50	15.84	15.33	15.27	15.05
AUDZAR	12.45	12.28	12.04	11.22	10.54	10.00	10.01	10.01	9.73	9.52	9.59	9.45
GBP/USD	1.27	1.26	1.30	1.33	1.33	1.34	1.36	1.37	1.35	1.33	1.30	1.30
EUR/USD	1.09	1.08	1.09	1.11	1.11	1.12	1.13	1.14	1.15	1.15	1.16	1.16
USD/JPY	148	156	152	143	141	139	137	136	135	134	134	131

Note: averages. Source: Investec, Iress

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	18.60	18.00	19.70	19.50	19.30	19.00	19.10	18.80	18.70	18.40	18.40
GBP/ZAR	23.96	23.44	23.37	26.10	25.94	25.86	25.75	26.07	25.38	24.87	23.92	23.92
EUR/ZAR	20.57	20.09	19.75	21.87	21.65	21.52	21.38	21.77	21.62	21.51	21.34	21.34
ZAR/JPY	7.84	8.39	8.30	7.23	7.23	7.20	7.21	7.09	7.18	7.17	7.28	7.12
CHFZAR	21.69	20.67	20.76	22.90	22.43	22.07	21.70	21.88	21.12	20.78	20.22	20.22
AUDZAR	12.45	12.28	12.04	13.40	13.26	13.22	13.11	13.27	12.97	12.90	12.70	12.70
GBP/USD	1.27	1.26	1.30	1.33	1.33	1.34	1.36	1.37	1.35	1.33	1.30	1.30
EUR/USD	1.09	1.08	1.09	1.11	1.11	1.12	1.13	1.14	1.15	1.15	1.16	1.16
USD/JPY	148	156	152	143	141	139	137	136	135	134	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	18.60	18.00	20.00	20.50	20.70	20.70	20.60	20.40	20.40	20.30	20.40
GBP/ZAR	23.96	23.44	23.37	26.50	27.27	27.74	28.05	28.12	27.54	27.13	26.39	26.52
EUR/ZAR	20.57	20.09	19.75	22.20	22.76	23.08	23.29	23.48	23.46	23.46	23.55	23.66
ZAR/JPY	7.84	8.39	8.30	7.13	6.88	6.71	6.62	6.58	6.62	6.57	6.60	6.42
CHFZAR	21.69	20.67	20.76	23.25	23.58	23.67	23.64	23.60	22.92	22.67	22.31	22.42
AUDZAR	12.45	12.28	12.04	13.60	13.94	14.18	14.28	14.32	14.08	14.08	14.01	14.08
GBP/USD	1.27	1.26	1.30	1.33	1.33	1.34	1.36	1.37	1.35	1.33	1.30	1.30
EUR/USD	1.09	1.08	1.09	1.11	1.11	1.12	1.13	1.14	1.15	1.15	1.16	1.16
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Note: averages, Source: Investec, Iress