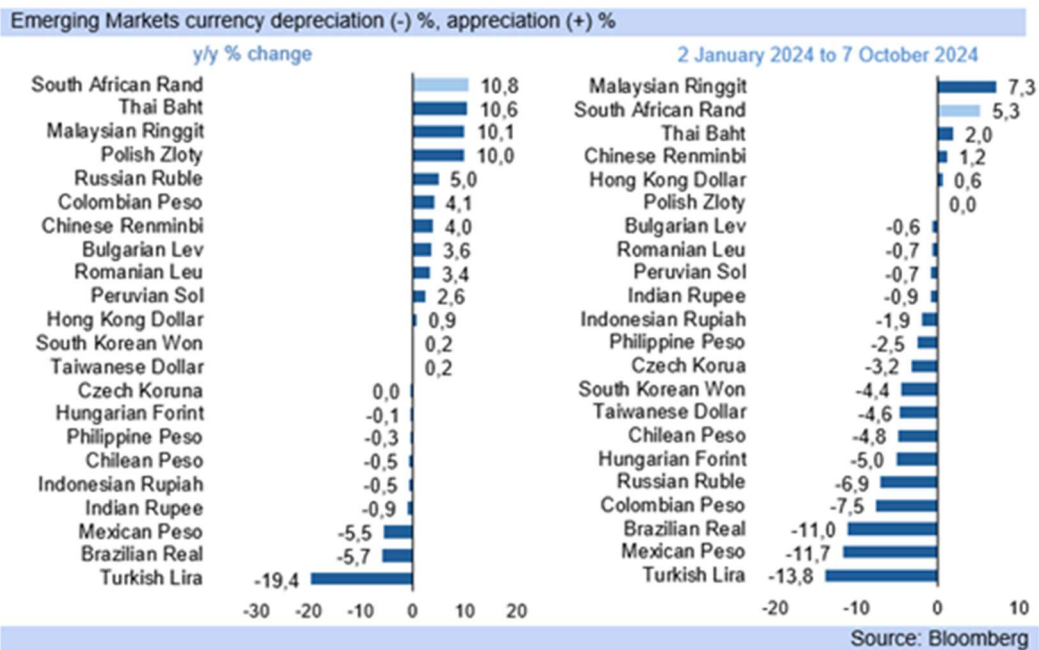


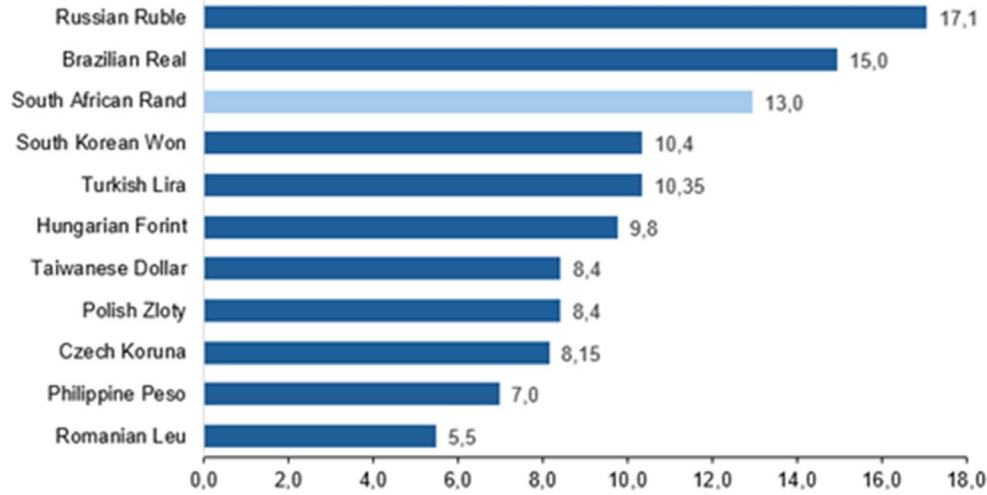


Rand note: rand volatility persists, reflecting investor sentiment

Monday 7 October 2024

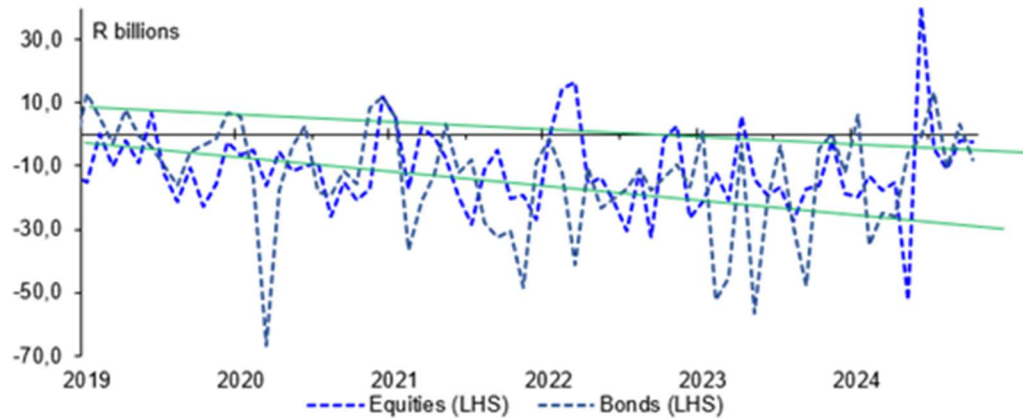


Emerging Markets Implied Volatilities – values 7 October 2024

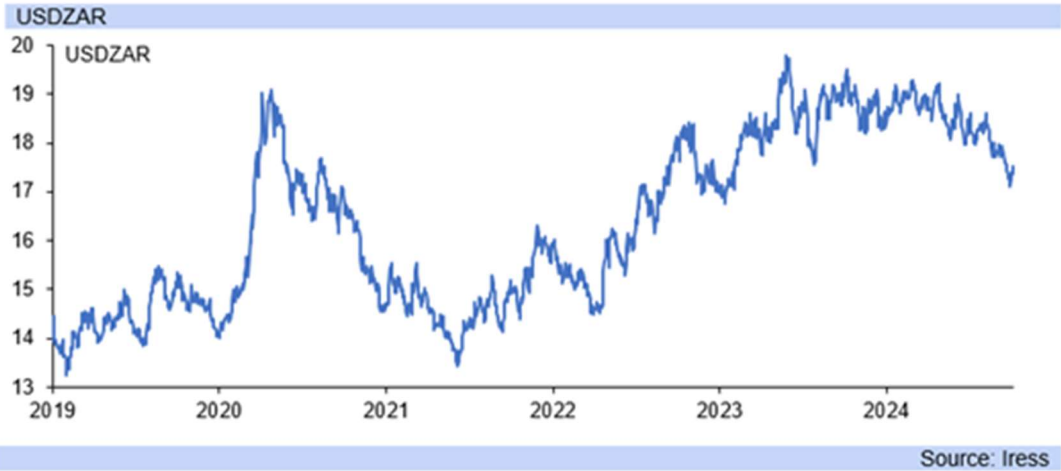


Source: Bloomberg

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



Source: Iress, Bloomberg



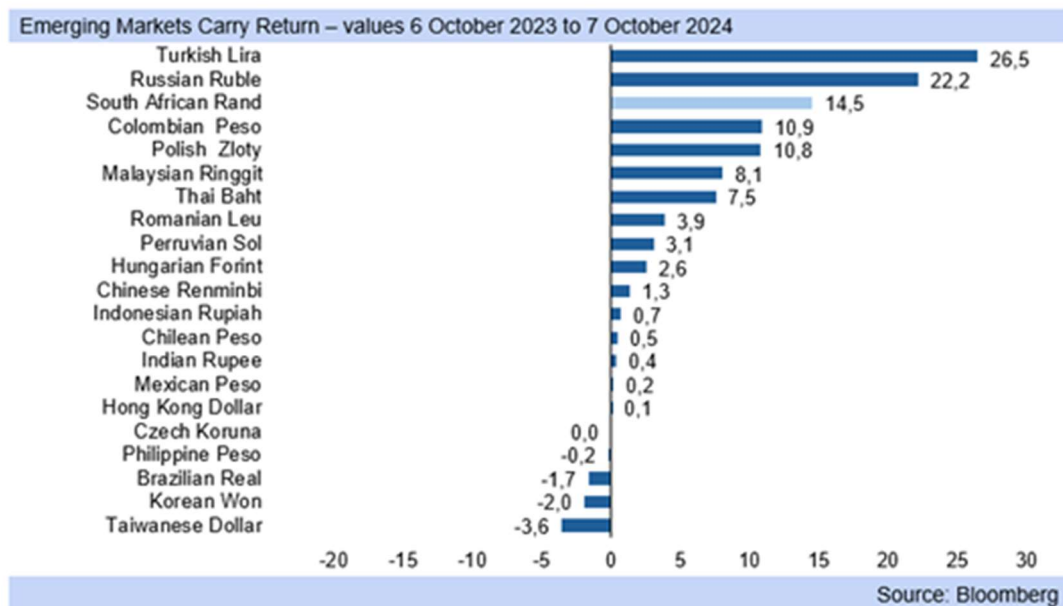
Expected Case: Exchange Rate forecasts												
	2024				2025				2026			
	Q1.24	Q2.24	Q3.24	Q4.24	Q1.25	Q2.25	Q3.25	Q4.25	Q1.26	Q2.26	Q3.26	Q4.26
USD/ZAR	18.87	18.60	18.00	17.20	17.00	16.90	16.80	16.60	16.30	16.10	15.90	15.70
GBP/ZAR	23.96	23.44	23.37	22.79	22.61	22.65	22.76	22.66	22.01	21.41	20.67	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

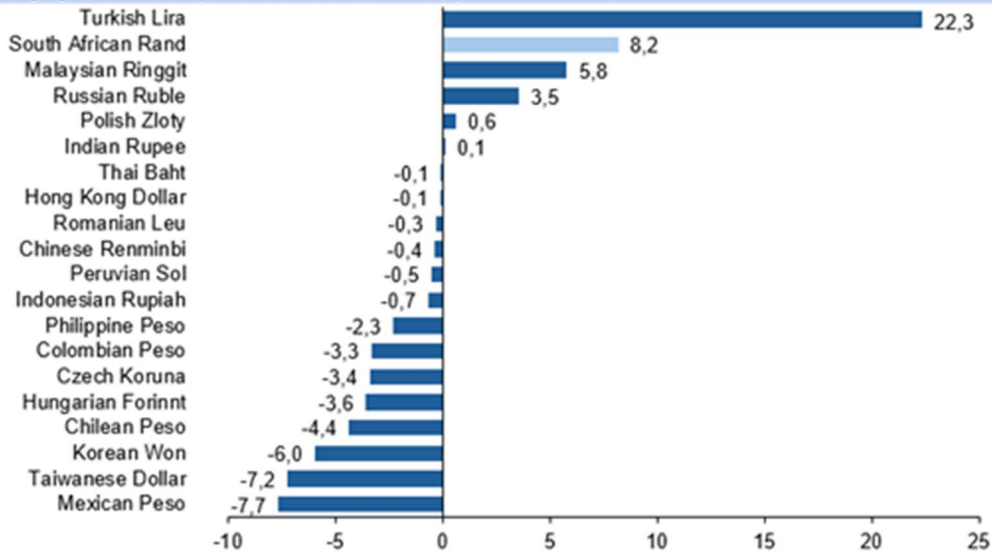
- After rapid strength post the recent US interest rate cut, the rand has pulled back, trading near R17.40/USD, on an escalation in the war in the Middle-East and the cautious tone sounded by the US Fed Chair on future interest rate cuts.
- The rand has weakened from close to R17.00/USD at the end of September, with the US surprise -50bp cut coming in the second half of September. R17.00/USD is a major resistance level and will be challenging for the rand to sustainably break through.
- The rand is highly volatile, reflective of investor sentiment, with foreigners showing changing levels of interest in SA's portfolio assets week to week, while the rand has moved to R17.75/USD last week, before slipping below R17.30/USD.
- Volatility is likely to persist for the domestic currency, as it remains influenced by US data releases and commentary from monetary policy officials, while the rand has seen an underpin of weakness from a deterioration in the country's terms of trade.

- South Africa's terms of trade (see Trade Outlook note, 4th October, contact details below), had an undermining influence on the rand in Q3.24, but this was overshadowed by positive investor sentiment, and foreign buying of portfolio assets.
- The trade surplus has been weakening too in Q3.24 as exports moderated, with two months trade data available for the third quarter so far. However, the weakening in global manufacturing in September points to a similar weak underpin for the rand.
- In particular, the global PMI reading (J.P.Morgan Global Manufacturing PMI) showed contracting activity in each month for Q3.24, including September, which indicates some trade weakness for SA in the last month of the third quarter as well.
- This underpin of weakness, with global demand unlikely to have turned rapidly around in October, is likely exerting an underpin of weakness on the rand into October, now that investor risk-taking has withdrawn somewhat.
- Investors have become cautious in risk taking after Fed Chair, Jerome Powell, cautioned that the Fed will not likely deliver -50bp cuts at each meeting, which has seen risk assets, including EM currencies such as the rand, pull back somewhat.

Please scroll down to the second section below

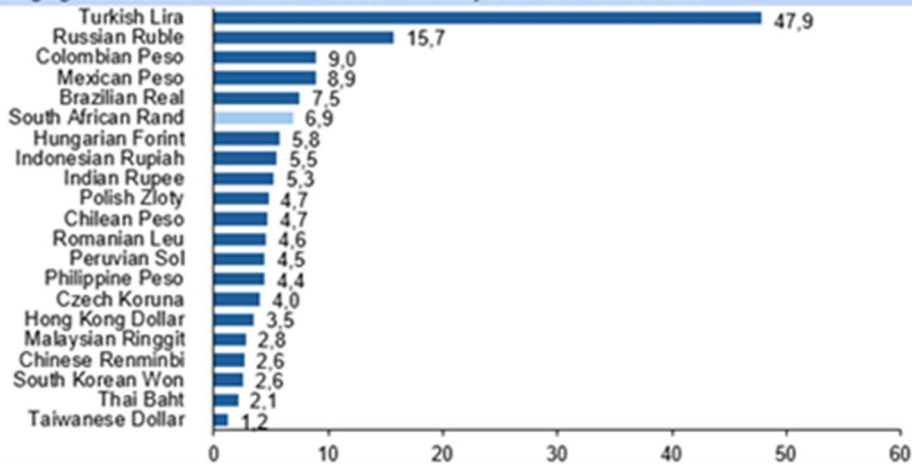


Emerging Markets Carry Return – values 1 January 2024 to 7 October 2024



Source: Bloomberg

Emerging Markets Interest Return – values 1 January 2024 to 7 October 2024



Source: Bloomberg



- After dipping to US\$71.7/bbl, the Brent crude oil price has risen, to US\$79.6/bbl, which has reduced the likelihood of a substantial petrol price cut for SA next month, as worries over the impact of the Middle-East conflict on oil supply rose.
- In particular, threats of bombing Iranian oil fields have raised concerns, with China a key importer of Iranian oil, and a large global oil importer, which would push up the oil price as demand would increase for remaining global supplies.
- Higher global oil prices are negative for inflation. The lift so far in Brent crude has not fully cancelled out a petrol price cut in November, but only a moderate cut, of around 50c/litre is being signalled now.

- Key for the rand, the US CPI inflation data is due in the week ahead, on Thursday, and the core reading is expected to remain unchanged, at 3.2% y/y. Should a lower outcome occur, this could provide some support for the rand.
- Also key this week is the release of the FOMC minutes, which markets will scrutinise for indications of the pace of the US interest rate cut cycle, although recent Fed comments show smaller (-25bp) cuts are likely going forward.
- “Looking forward, if the economy evolves broadly as expected, policy will move over time toward a more neutral stance. But we are not on any preset course. The risks are two-sided, and we will continue to make our decisions meeting by meeting.”
- “As we consider additional policy adjustments, we will carefully assess incoming data, the evolving outlook, and the balance of risks. Overall, the economy is in solid shape; we intend to use our tools to keep it there.”
- Market concerns over a delay in US rate cuts and the effect on the economy likely saw the Fed deliver a -50bp cut in September to begin the cycle and allay market fears, but since has indicated that -50bp cuts cannot be relied on going forward.
- Interest rate cuts in the US will be data dependent, with inflation expected lower. With two more interest rate cuts in the US, of -25bp each, and only one -25bp cut in SA this year this will strengthen the rand (widen the interest rate differential).

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
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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
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