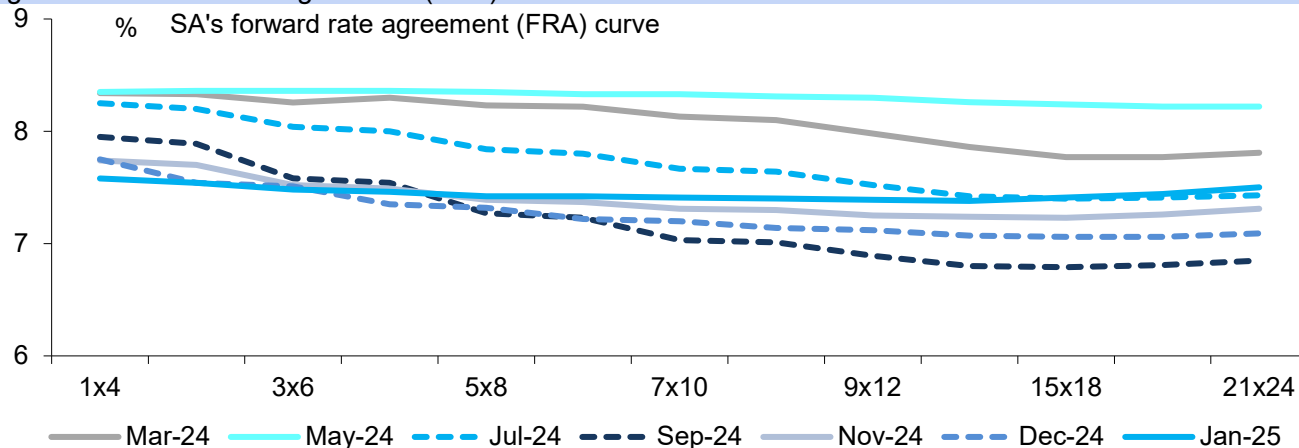




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Figure 1: Forward Rate Agreement (FRA) curve



Source: Bloomberg

South Africa's Reserve Bank (SARB) meets to reconsider its interest rate stance next week, with the decision taking place on Thursday, the 30th. The Reserve Bank's MPC is widely expected to cut the repo rate by -25bp this quarter, and we expect this will occur next week, and that the SARB won't do a further cut at the March MPC meeting. The interest rate cut cycle is expected to slow this year, after two cuts in quick succession at the end of last year, with SARB not expected to ease interest rates again until July at least. Expectations for interest rate cuts in the US have moderated, from three -25bp drops, to one definite -25bp drop, and currently just under 70% chance of a second for this year.

With the US presidential inauguration last night, the rand strengthened, reaching R18.48/USD as the US dollar weakened, with President Trump highlighting the need to bring inflation down, while stimulating economic growth, shoring up US industrial activity and lowering taxes. While he mentioned taxing other countries via tariffs, specifics were not given and markets strengthened in relief as risk-off subsided somewhat. President Trump's economic team has previously discussed the potential for a moderate tariff path, covering only critical imports, as opposed to a sharp universal tariff approach on all imports. The former would have less of a price, and growth shock. The more moderate proposals than were originally threatened have not been approved yet, and markets are being cautious. An unwind of the Trump trade, which saw US dollar strength and rand weakness against the USD, recently occurred in part from R19.23/USD to R18.48/USD, although the volatile rand reached R17.60/USD in December. Rand strength aids lower inflation and interest rates for SA.

Figure 2: Forecasts

Period end rate %	Q1.24	Q2.24	Q3.24	Q4.24	Q1.25	Q2.25	Q3.25	Q4.25
Repo Rate	8.25	8.25	8.00	7.75	7.50	7.50	7.25	7.00
Prime Overdraft Rate	11.75	11.75	11.50	11.25	11.00	11.00	10.75	10.50

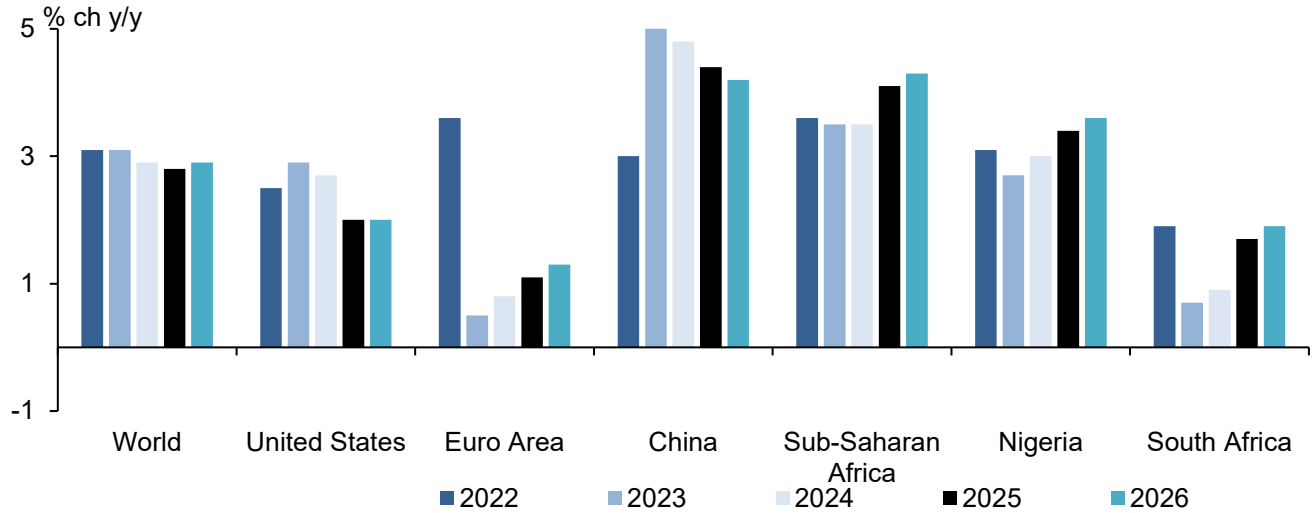
Source: Iress, Investec



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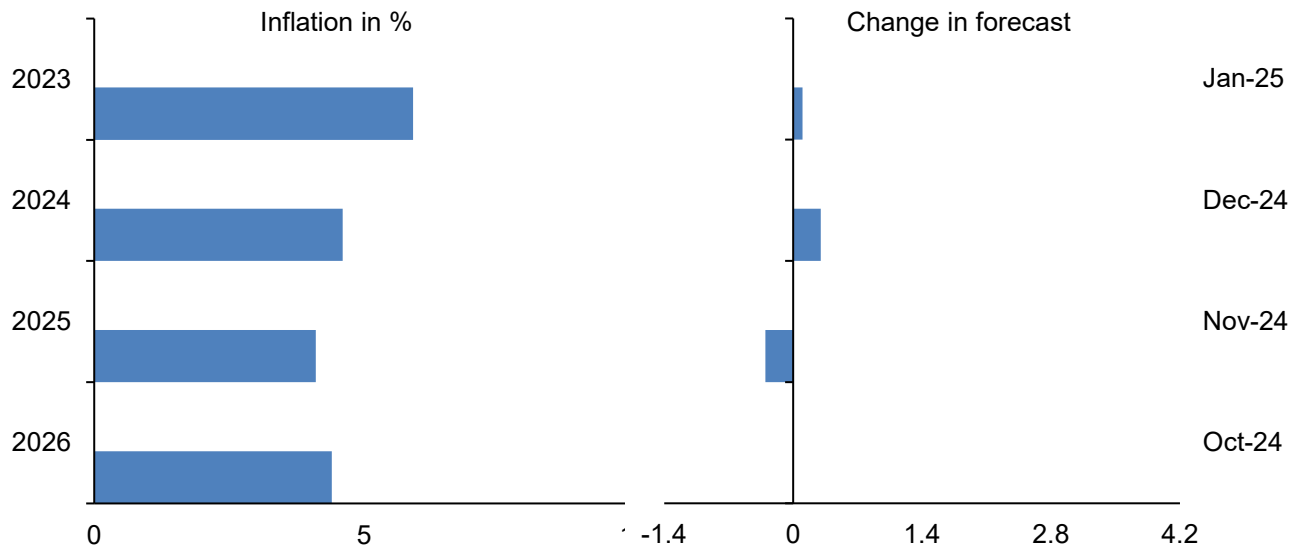
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Figure 3: Major Economies and Sub-Saharan Africa, Real GDP, annual variation in %



Source: Focus Economics January 2025

Figure 4: Sub-Saharan Africa, 2025: 10.6% - inflation (%) and change in forecast



Source: January 2025

Figure 5: Reuters December 2024 forecasts: CPI % y/y

Forecast period	Q4.24	Q1.25	Q2.25	Q3.24	Q4.25	Q1.26	2024	2025	2026
CPI % y/y	3.1	3.6	3.6	4.3	4.6	4.4	4.5	4.1	4.5
Previous survey	3.6	3.9	3.7	4.5	4.5	4.6	4.5	3.8	4.2

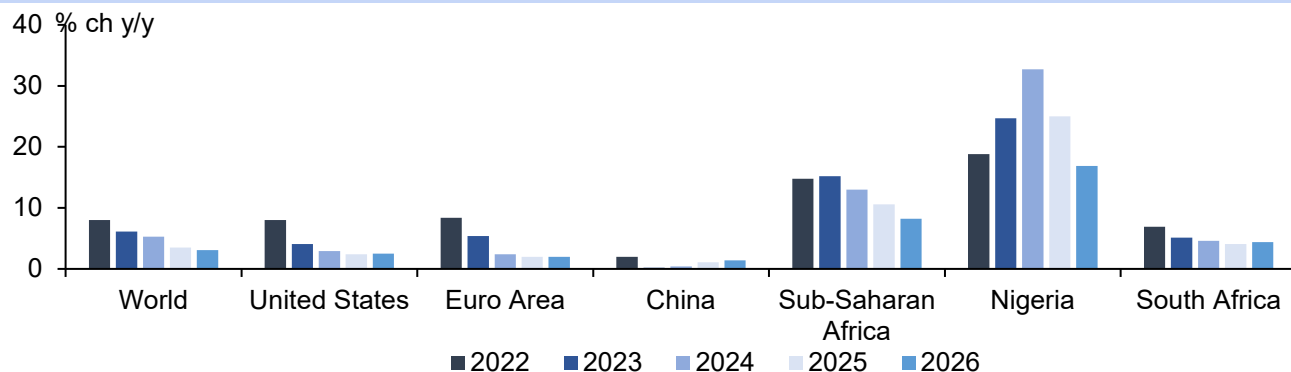
Source: Reuters



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Figure 6: Major Economies and Sub-Saharan Africa consumer prices, annual variation in %



Source: Focus Economics January 2025

Inflation in South Africa has fallen below the 3-6% inflation band, dropping to 2.8% y/y in October and rising only slightly to 2.9% y/y in November, with tomorrow's inflation outcome also expected to be close to 3.0% y/y. Both 2025 and 2026 are expected to see inflation average 3.5% y/y this year, and 4.6% y/y next year, while the SARB targets a 4.5% y/y point (not a 3% y/y to 6% y/y range). South Africa's FRA (Forward Rate Agreement) curve has only priced in around one -25bp cut in the repo rate this quarter, and has priced in little further, although it should be noted that South Africa's FRA (Forward Rate Agreement) curve changes frequently on shifting market expectations and is not a good longer-term predictor of MPC interest rate decisions, versus the very short-term. The MPC makes its decisions meeting by meeting and takes a wide range of variables and indicators into account, including the current FRA curve view on the next month's outlook, that is the one-month view.

The US Fed has cut its interest rates by -75bp so far, and SA by only -50b, although this has not provided much support for the rand as previous concerns over higher inflation in the US and so little further in terms of

Figure 7: Reuters December 2024 forecasts: Repo rate % y/y

Forecast period	Q4.24	Q1.25	Q2.25	Q3.25	Q4.24	Q1.26	2024	2025	2026
Repo rate % y/y	7.75	7.25	7.00	7.00	7.00	7.00	7.75	7.00	7.00
Previous survey	7.75	7.25	7.00	7.00	7.00	7.00	7.75	7.00	7.00

Source: Reuters

Figure 8: Inflation forecasts	2023	2024	2025	2026	2027	2028
Consumer Inflation (Av: %)	5.9	4.4	3.5	4.6	4.5	4.6
Producer Inflation (Av: %)	6.8	3.0	2.5	5.1	5.0	5.1
Salary & wage increases (%)	4.5	5.1	4.1	4.5	4.7	4.9

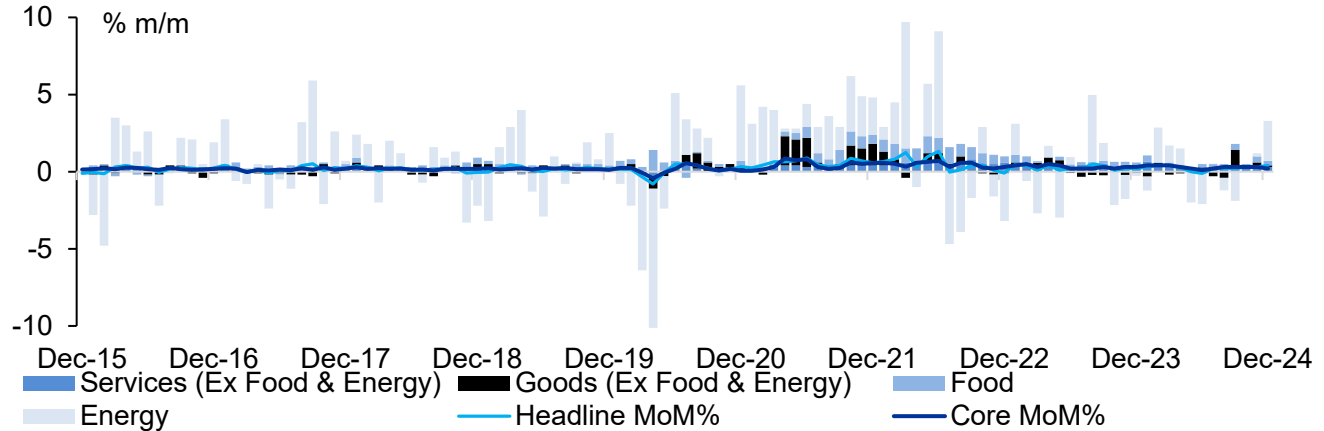
Source: Investec



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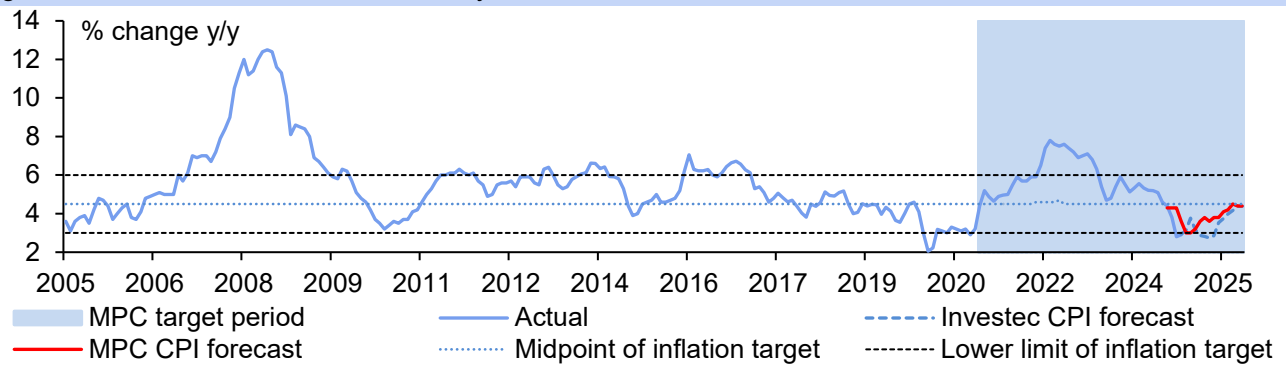
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Figure 9: Contributions to US CPI mom % (sa), and core CPI



Source: Bloomberg

Figure 10: SA Consumer Inflation: history and forecasts



Source: Stats SA, SARB, Investec

Figure 11: Reuters January 2025 Foreign exchange rates poll: USDZAR

	1M	3M	6M	1Y
Release/Effective Date	31 Jan 2025	31 Mar 2025	30 Jun 2025	31 Dec 2025
Median	18.5290	18.2250	18.2150	18.0250
High	19.0000	19.2500	19.5000	19.5000
Low	18.0000	17.6000	17.6000	17.0000
No. of forecasts	12	22	22	20

Source: Reuters

Figure 12: Reuters December 2025 forecasts: GDP

Forecast period	Q3.24	Q4.24	Q1.25	Q2.25	Q3/25	Q4.24	Q1.26	2024	2025	2026
GDP y/y %	3.3	1.4	1.3	2.1	1.7	1.9	3.3	0.6	2.2	2.2
Previous survey	1.6	2.7	1.3	1.2	1.6	1.9	1.5	1.0	1.7	1.9

Source: Reuters



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Figure 13: SA Monetary Policy Committee (MPC) meeting dates for 2025

Month	Date	Investec Forecast
January	30 January	7.50
March	20 March	7.50
May	29 May	7.50
July	31 July	7.25
September	18 September	7.25
November	20 November	7.00

Source: SARB, Investec

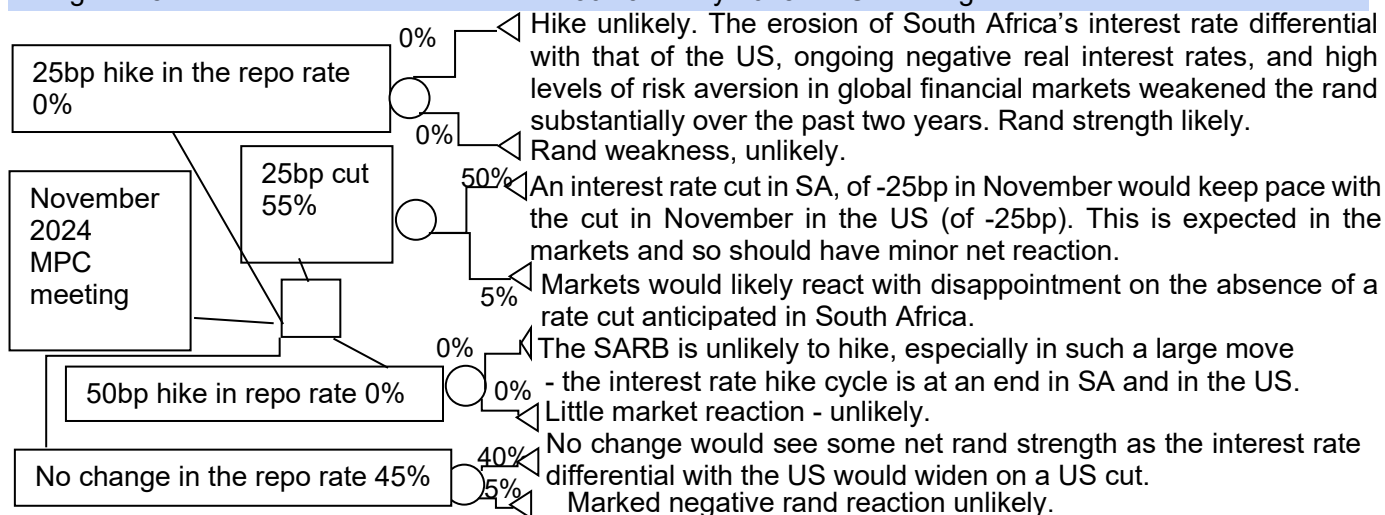
Figure 14: Forecasts	2023	2024	2025	2026	2027	2028	2029
Repo Rate	8.25	7.75	7.00	6.75	6.75	6.75	6.75
Prime Overdraft rate	11.75	11.25	10.50	10.25	10.25	10.25	10.25
SA rand bond	11.69	10.50	10.20	10.00	9.80	9.60	9.50
US Fed funds rate	5.50	4.50	4.25	3.50	3.50	3.50	3.50
UK Bank rate	5.25	4.75	4.50	4.00	3.75	3.75	3.75

Note: forecasts are % year-end. Source: Investec, SARB, IRESS

US interest rate cuts this year, has seen the dollar strengthen substantially and so the rand weaken.

The inflation environment has been very moderate in SA, notably with strong support from rand strength and a moderation in fuel commodity prices over 2024. However, an end to the US interest rate cut cycle sooner than markets anticipate has seen some recent rand weakness. Fewer interest rate cuts than have been expected are a risk for SA, although this will remain dependent on the domestic inflation outlook.

Figure 15: Decision tree for South Africa's 30th January 2025 MPC meeting



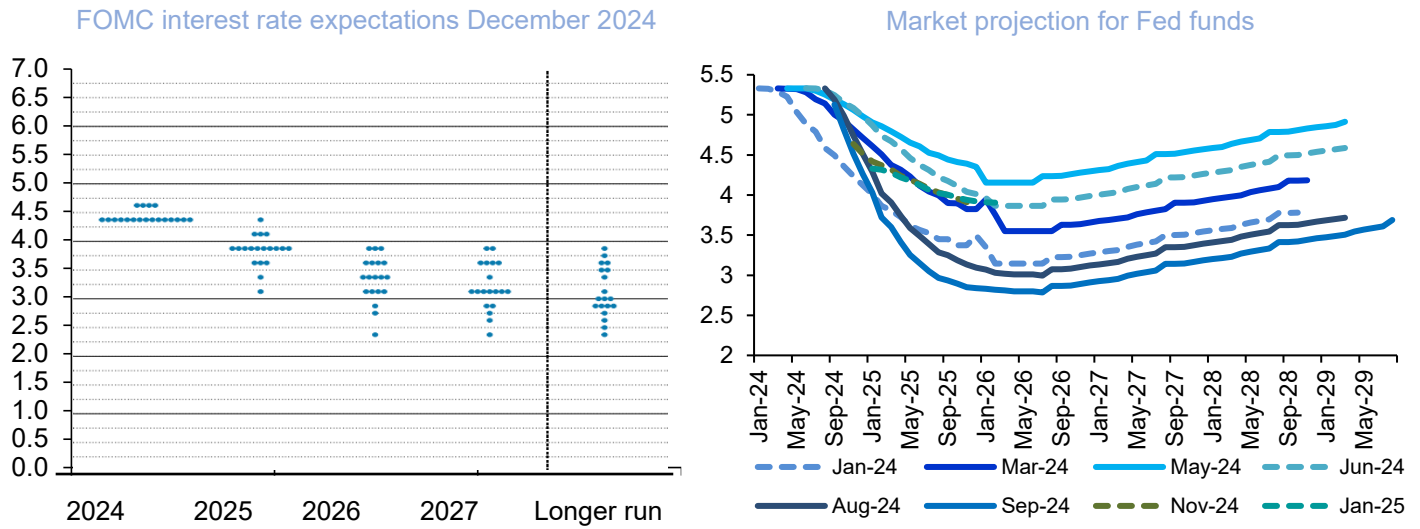
Key: squares are decision nodes; circles are chance nodes and triangles end nodes. Source: Investec



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Figure 16: US interest rate projections – December 2024



Source: FOMC, Bloomberg

Figure 17: FOMC 2025 Meeting Schedule

- 28-29 January 2025
- 18-19 March 2025
- 6-8 May 2025
- 17-18 June 2025
- 29-30 July 2025
- 16-17 September 2025
- 28-29 October 2025
- 9-10 December 2025

Source: Federal Reserve Bank

*Meeting associated with a summary of Economic Projections

Figure 18: Key official interest rates (% end quarter)

	US Fed funds	Eurozone refi rate	Eurozone deposit rate	UK Bank rate	Australia cash rate
Current	4.75-4.75	3.40	3.25	4.75	4.35
Q1.24	5.25-5.50	4.50	4.00	5.25	4.35
Q2.24	5.25-5.50	4.25	3.75	5.25	4.35
Q3.24	4.75-5.00	3.65	3.50	5.00	4.35
Q4.24	4.25-4.50	3.15	3.00	4.75	4.35
Q1.25	4.00-4.25	2.65	2.50	4.50	4.35
Q2.25	4.00-4.25	2.15	2.00	4.25	4.10
Q3.25	4.00-4.25	1.90	1.75	4.00	3.85
Q4.25	4.00-4.25	1.65	1.50	3.75	3.85

Source: Macrobond, Investec UK



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Figure 19: Interest rate forecast end rates

Date	Prime forecast	Prime less Inflation	Repo	Repo less Inflation
Jan 2023	10.75	3.9	7.25	0.4
Feb 2023	10.75	3.7	7.25	0.2
Mar 2023	11.25	4.2	7.75	0.7
Apr 2023	11.25	4.4	7.75	0.9
May 2023	11.75	5.4	8.25	1.9
Jun 2023	11.75	6.4	8.25	2.9
Jul 2023	11.75	7.0	8.25	3.5
Aug 2023	11.75	6.9	8.25	3.4
Sep 2023	11.75	6.4	8.25	2.9
Oct 2023	11.75	5.8	8.25	2.3
Nov 2023	11.75	6.2	8.25	2.7
Dec 2023	11.75	6.6	8.25	3.1
Jan 2024	11.75	6.4	8.25	2.9
Feb 2024	11.75	6.2	8.25	2.7
Mar 2024	11.75	6.4	8.25	2.9
Apr 2024	11.75	6.5	8.25	3.0
May 2024	11.75	6.5	8.25	3.0
Jun 2024	11.75	6.6	8.25	3.1
Jul 2024	11.75	7.1	8.25	3.6
Aug 2024	11.75	7.3	8.25	3.8
Sep 2024	11.50	7.7	8.00	4.2
Oct 2024	11.50	8.7	8.00	5.2
Nov 2024	11.25	8.3	7.75	4.8
Dec 2024	11.25	8.1	7.75	4.6
Jan 2025	11.00	7.2	7.50	3.7
Feb 2025	11.00	7.8	7.50	4.3
Mar 2025	11.00	8.1	7.50	4.6
Apr 2025	11.00	8.2	7.50	4.7
May 2025	11.00	8.3	7.50	4.8
Jun 2025	11.00	8.1	7.50	4.6
Jul 2025	10.75	7.2	7.25	3.7
Aug 2025	10.75	7.0	7.25	3.5
Sep 2025	10.75	6.8	7.25	3.3
Oct 2025	10.75	6.6	7.25	3.1
Nov 2025	10.50	6.1	7.00	2.6
Dec 2025	10.50	6.1	7.00	2.6

Source: IRESS, Investec



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Figure 20: Interest rate forecast end rates (continued)

Date	Prime forecast	Prime less Inflation	Repo	Repo less Inflation
Jan 2026	10.50	6.2	7.00	2.7
Feb 2026	10.50	6.2	7.00	2.7
Mar 2026	10.25	6.0	6.75	2.5
Apr 2026	10.25	5.8	6.75	2.3
May 2026	10.25	5.6	6.75	2.1
Jun 2026	10.25	5.5	6.75	2.0
Jul 2026	10.25	5.6	6.75	2.1
Aug 2026	10.25	5.7	6.75	2.2
Sep 2026	10.25	5.8	6.75	2.3
Oct 2026	10.25	5.6	6.75	2.1
Nov 2026	10.25	5.5	6.75	2.0
Dec 2026	10.25	5.6	6.75	2.1
Jan 2027	10.25	5.8	6.75	2.3
Feb 2027	10.25	5.7	6.75	2.2
Mar 2027	10.25	5.6	6.75	2.1
Apr 2027	10.25	5.7	6.75	2.2
May 2027	10.25	5.8	6.75	2.3
Jun 2027	10.25	5.8	6.75	2.3
Jul 2027	10.25	6.1	6.75	2.6
Aug 2027	10.25	5.9	6.75	2.4
Sep 2027	10.25	5.8	6.75	2.3
Oct 2027	10.25	5.8	6.75	2.3
Nov 2027	10.25	6.0	6.75	2.5
Dec 2027	10.25	6.0	6.75	2.5
Jan 2028	10.25	5.9	6.75	2.4
Feb 2028	10.25	5.9	6.75	2.4
Mar 2028	10.25	5.9	6.75	2.4
Apr 2028	10.25	5.8	6.75	2.3
May 2028	10.25	5.7	6.75	2.2
Jun 2028	10.25	5.7	6.75	2.2
Jul 2028	10.25	5.3	6.75	1.8
Aug 2028	10.25	5.6	6.75	2.1
Sep 2028	10.25	5.7	6.75	2.2
Oct 2028	10.25	5.7	6.75	2.2
Nov 2028	10.25	5.7	6.75	2.2
Dec 2028	10.25	5.7	6.75	2.2

Source: IRESS, Investec



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Figure 21: CPI forecast averages

Date	Index Base 2016	Annual y/y	Monthly m/m	Quarterly y/y	Calendar year y/y	
Jan 2023	107.1	6.9	-0.1			
Feb 2023	107.9	7.0	0.7			
Mar 2023	109.0	7.1	1.0	7.0		
Apr 2023	109.4	6.8	0.4			
May 2023	109.6	6.3	0.2			
Jun 2023	109.8	5.4	0.2	6.2		
Jul 2023	110.8	4.7	0.9			
Aug 2023	111.1	4.8	0.3			
Sep 2023	111.8	5.4	0.6	5.0		
Oct 2023	112.8	5.9	0.9			
Nov 2023	112.7	5.5	-0.1			
Dec 2023	112.7	5.1	0.0	5.5	2023	5.9
Jan 2024	112.8	5.3	0.1			
Feb 2024	113.9	5.6	1.0			
Mar 2024	114.8	5.3	0.8	5.4		
Apr 2024	115.1	5.2	0.3			
May 2024	115.3	5.2	0.2			
Jun 2024	115.4	5.1	0.1	5.2		
Jul 2024	115.9	4.6	0.4			
Aug 2024	116.0	4.4	0.1			
Sep 2024	116.1	3.8	0.1	4.3		
Oct 2024	116.0	2.8	-0.1			
Nov 2024	116.0	2.9	0.0			
Dec 2024	116.2	3.1	0.2	3.0	2024	4.4
Jan 2025	117.0	3.8	0.7			
Feb 2025	117.5	3.2	0.4			
Mar 2025	118.1	2.9	0.5	3.3		
Apr 2025	118.3	2.8	0.2			
May 2025	118.5	2.7	0.1			
Jun 2025	118.7	2.9	0.2	2.8		
Jul 2025	120.0	3.5	1.1			
Aug 2025	120.4	3.8	0.3			
Sep 2025	120.7	4.0	0.3	3.8		
Oct 2025	120.8	4.2	0.1			
Nov 2025	121.1	4.4	0.2			
Dec 2025	121.3	4.4	0.2	4.3	2025	3.5

Source: Stats SA, Investec



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Figure 22: CPI forecast averages (continued)

Date	Index Base 2016	Annual y/y	Monthly m/m	Quarterly y/y	Calendar year y/y	
Jan 2026	122.1	4.3	0.6			
Feb 2026	122.5	4.3	0.4			
Mar 2026	123.2	4.3	0.5	4.3		
Apr 2026	123.6	4.5	0.4			
May 2026	124.0	4.7	0.3			
Jun 2026	124.4	4.8	0.3	4.7		
Jul 2026	125.6	4.7	1.0			
Aug 2026	125.9	4.6	0.2			
Sep 2026	126.1	4.5	0.2	4.6		
Oct 2026	126.5	4.7	0.3			
Nov 2026	126.9	4.8	0.3			
Dec 2026	127.0	4.7	0.1	4.7	2026	4.6
Jan 2027	127.5	4.5	0.4			
Feb 2027	128.2	4.6	0.5			
Mar 2027	128.9	4.7	0.6	4.6		
Apr 2027	129.3	4.6	0.3			
May 2027	129.6	4.5	0.2			
Jun 2027	130.0	4.5	0.3	4.5		
Jul 2027	130.9	4.2	0.7			
Aug 2027	131.4	4.4	0.4			
Sep 2027	131.8	4.5	0.3	4.3		
Oct 2027	132.2	4.5	0.3			
Nov 2027	132.3	4.3	0.1			
Dec 2027	132.5	4.3	0.1	4.3	2027	4.5
Jan 2028	133.1	4.4	0.5			
Feb 2028	133.8	4.4	0.5			
Mar 2028	134.6	4.4	0.6	4.4		
Apr 2028	135.1	4.5	0.4			
May 2028	135.5	4.6	0.3			
Jun 2028	135.9	4.6	0.3	4.6		
Jul 2028	137.3	4.9	1.0			
Aug 2028	137.6	4.7	0.2			
Sep 2028	137.8	4.6	0.2	4.7		
Oct 2028	138.3	4.6	0.3			
Nov 2028	138.4	4.6	0.1			
Dec 2028	138.5	4.6	0.1	4.6	2028	4.6

Source: Stats SA, Investec



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Figure 23: 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
<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	17.92	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
<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	17.92	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
<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	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
<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	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
<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 Q1 25. Source: Investec

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