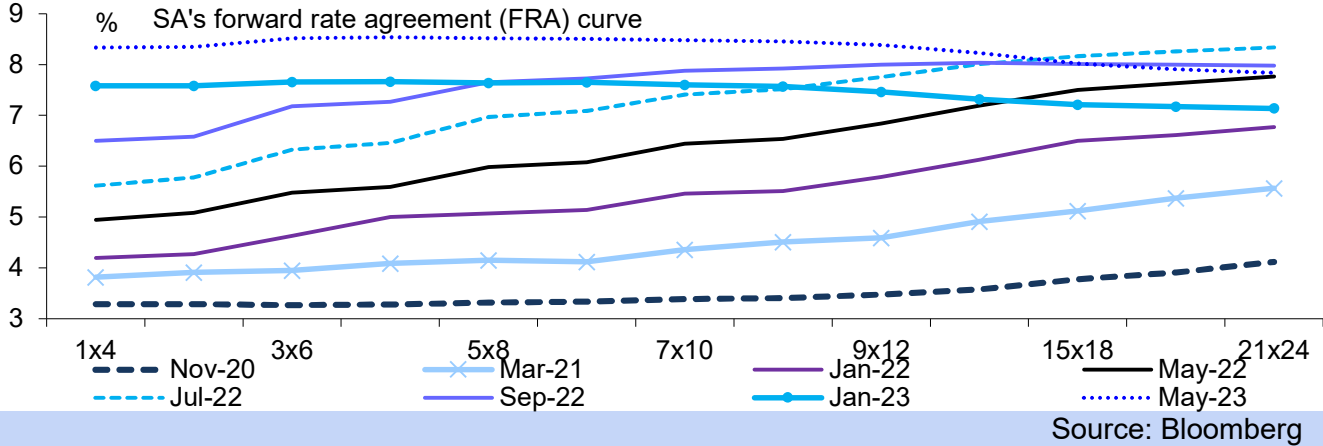




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Figure 1: Forward Rate Agreement (FRA) curve



Source: Bloomberg

South Africa's Reserve Bank (SARB) Governor, Lesetja Kganyago, has highlighted the feed through effect of rand weakness into higher inflation in SA, in particular noting "(a)s the dollar has strengthened, the inflationary impact of currency depreciation has resurfaced, a result of the reduced appetite for risk and the relative attractiveness of EM assets". Adding, "(t)his limits the benefits of slowing global inflation to domestic inflation. In fact, the SARB has revised its inflation projections upwards – headline inflation is now forecast to decelerate at a slower rate, averaging 6.0% in 2023 (5.4% previously) from 6.9% in 2022." Foreigners have sold -R11.4bn (net of purchases) of SA bonds for this year to date, undermining the domestic currency. The Reserve Bank Governor further highlights "higher fuel and food price inflation ... (are) a direct consequence of a more depreciated exchange rate. Domestic food price inflation continues to rise despite normalising global agricultural commodity prices. ... food price inflation usually spills over into wage costs and other constraints, such as electricity and logistics, which will continue to put upward pressure on prices and business input costs." "If the expectations that firms and households hold for future inflation stray from the inflation target, then higher nominal wages and consumer prices are likely to emerge." "This implies that we need to continue the normalisation of interest rates". With this commentary coming out over the past few weeks, it is clear that the higher inflationary effects, and rand depreciation, are front of mind for the SARB, which is widely expected to hike the repo rate again this month on 25th as CPI inflation has climbed higher over Q1.23, along with core inflation.

Indeed, the SARB warns "(a)s inflation rises, and growth slows, a central bank that fails to respond to rising prices will face the prospect of compounding inflationary shocks. Currencies depreciate and investment falls." This has also been the case over the past year for the rand, along with the domestic currency depreciating in an increasingly risk adverse environment for global financial markets as interest rates have risen globally to tame inflation. SA's 'real return' on interest rates is low, and not attractive to investors

Figure 2: Forecasts

Period end rate %	Q1.23	Q2.23	Q3.24	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24
Repo Rate	7.50	7.75	7.75	7.50	7.00	7.00	7.00	6.50
Prime Overdraft Rate	11.00	11.25	11.25	11.00	10.50	10.50	10.50	10.00

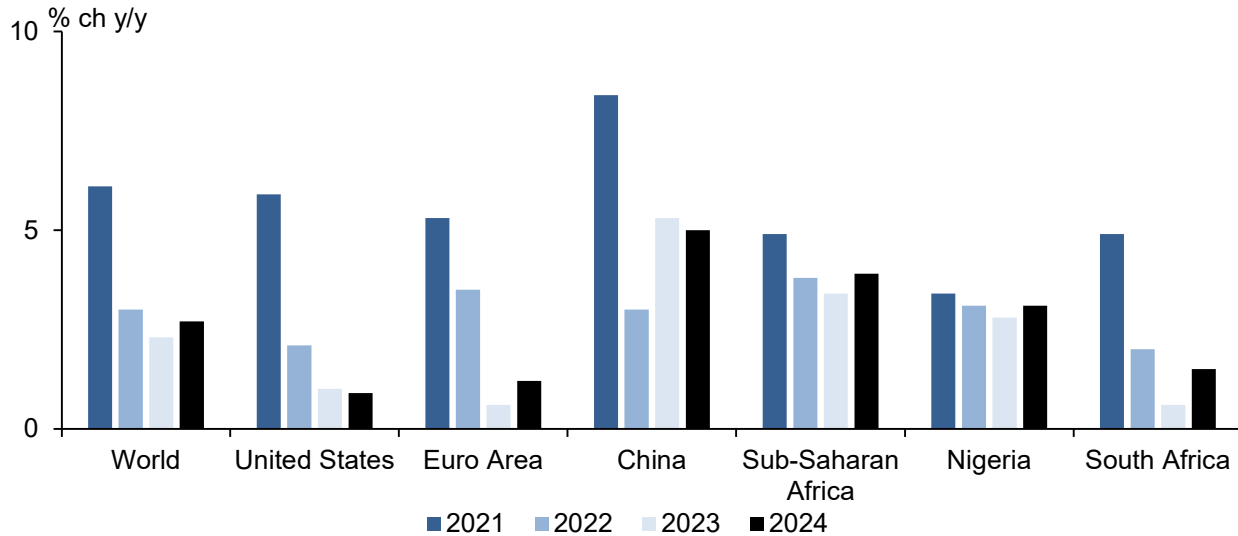
Source: Iress, Investec



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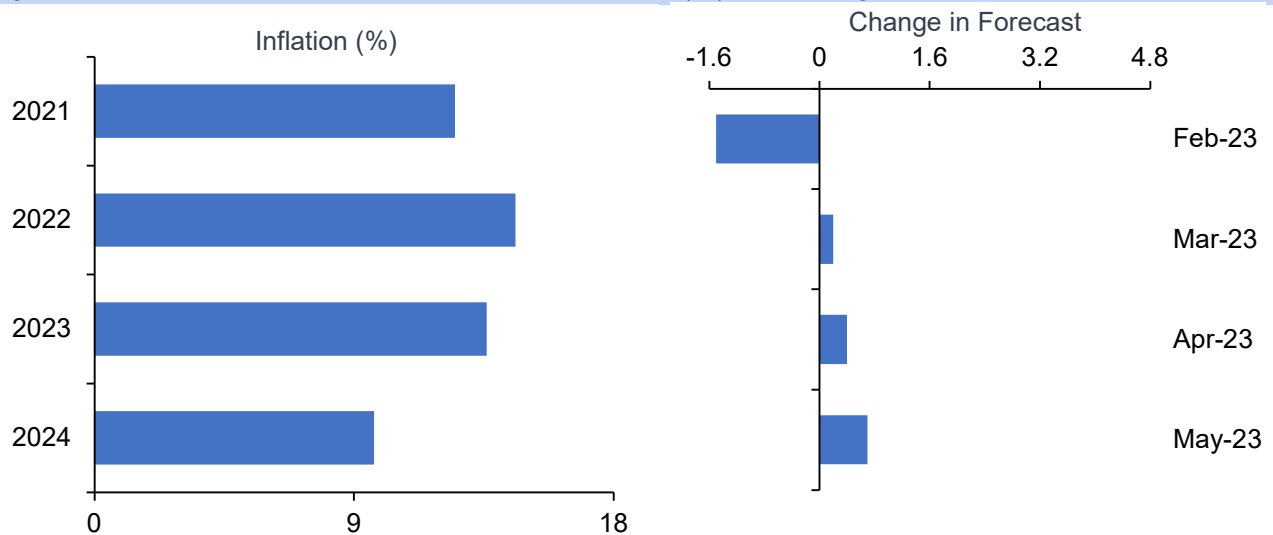
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Figure 3: Major Economies and Sub-Saharan Africa, Real GDP, annual variation in %



Source: Focus Economics May 2023

Figure 4: Sub-Saharan Africa, 2023: 13.6% - inflation (%) and change in forecast



Source: Focus Economics March 2023

Figure 5: Reuters April 2023 forecasts: CPI % y/y

Forecast period	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	2023	2024	2025
CPI % y/y	6.4	5.5	5.3	5.6	5.2	4.6	5.8	4.7	4.5
Previous survey	5.8	5.0	4.8	5.2	4.9	na	5.6	4.7	4.6

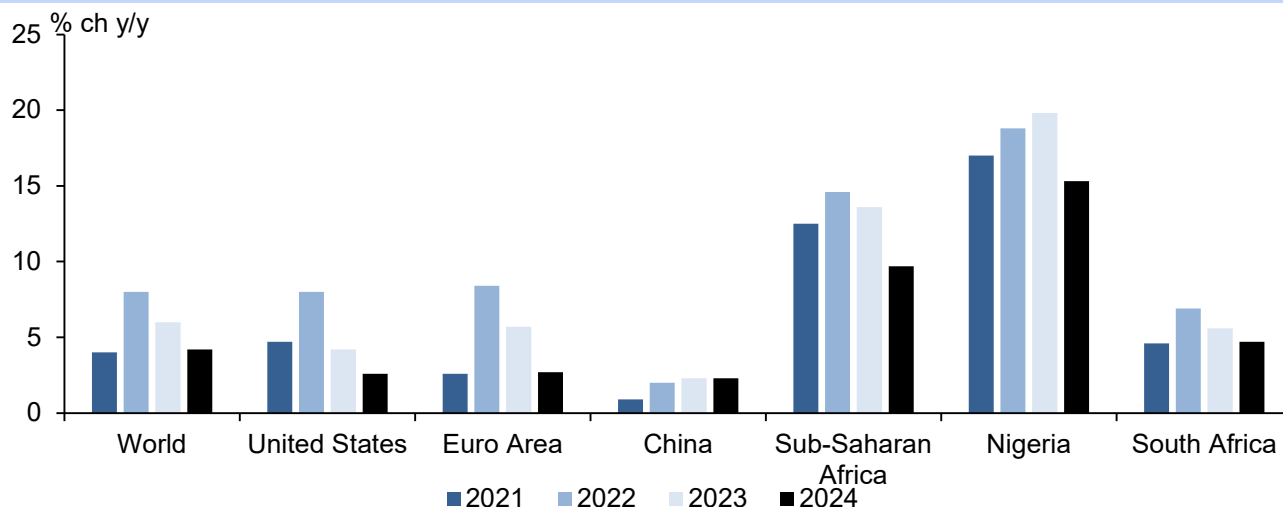
Source: Reuters



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



Source: Focus Economics May 2023

comparatively, adding to rand weakness. South Africa has failed to hike its interest rate by the same degree as the US has, partly as SA has an MPC meeting every second month, while the FOMC meets every six weeks, with the SARB often hiking its interest rates by the same amount that the US has, and consequently falling behind. That is, the US has raised the Fed funds rate by 5.00% since the start of the current interest rate cycle, while SA has only lifted the repo rate by 4.25%, reducing the risk premium offered to investors. This has not been appropriate for SA, either for the rand or for inflation. Lowering the difference between SA and US interest rates (compressing the margin) weakens the rand, which in turn places upwards pressure on inflation. The high-risk nature of SA as an investment destination means interest rates must be higher in SA than in the US. Comparatively low interest rates in SA have damaged the carry trade, placing SA around the bottom of the Bloomberg EM country ranker on carry trade returns versus a year ago for this year.

Figure 7: Reuters April 2023 forecasts: Repo rate % y/y

Forecast period	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	2023	2024	2025
Repo rate % y/y	7.75	7.75	7.75	7.50	7.25	7.00	7.75	7.00	7.00
Previous survey	7.50	7.50	7.25	7.00	7.00	na	7.25	6.75	6.65

Source: Reuters

Figure 8: Inflation forecasts	2022	2023	2024	2025	2026	2027
Consumer Inflation (Av: %)	6.9	6.0	4.8	4.3	4.6	4.7
Producer Inflation (Av: %)	14.4	7.1	5.0	5.1	5.1	5.0
Salary & wage increases (%)	3.6	4.8	5.0	5.4	5.2	5.4

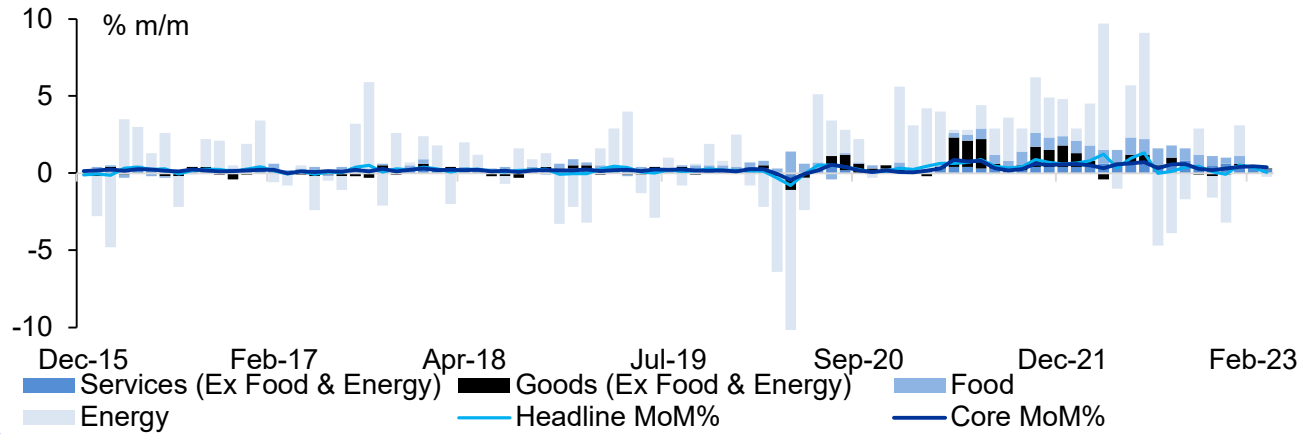
Source: Investec



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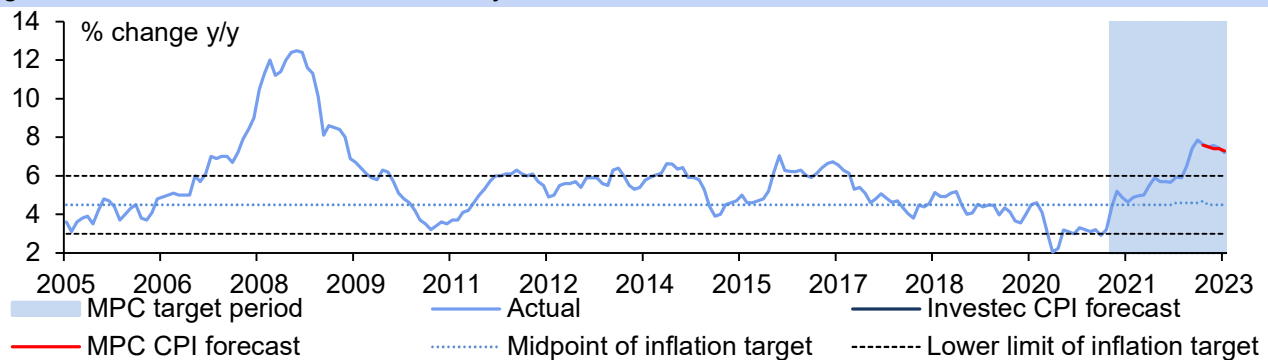
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Figure 9: Contributions to US CPI mom % (sa), and core CPI



Source: Bloomberg

Figure 10: SA Consumer Inflation: history and forecasts



Source: Stats SA, SARB, Investec

Figure 11: Reuters May 2023 Foreign exchange rates poll: USDZAR

	1M	3M	6M	1Y
Release/Effective Date	31 May 2023	31 Jul 2023	31 Oct 2023	30 Apr 2024
Median	18.1000	18.0000	17.7000	17.4750
High	18.2063	17.6521	17.9446	17.5214
Low	+0.1063	-0.3329	+0.2446	+0.0464
No. of forecasts	19	22	22	18

Source: Reuters

Figure 12: Reuters April 2023 forecasts: GDP

Forecast period	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	2023	2024	2025
GDP y/y %	0.0	0.6	0.6	1.2	1.0	1.0	1.1	0.4	1.4	1.5
Previous survey	-0.3	1.2	1.0	1.2	1.3	1.6	na	1.0	1.5	1.8

Source: Reuters



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Figure 13: SA Monetary Policy Committee (MPC) meeting dates for 2023

Month	Date	Investec Forecast
May	23 rd May – 25 th May	7.75
July	18 th July – 20 th July	7.75
September	19 th – 21 st September	7.75
November	21 st -23 rd November	7.50

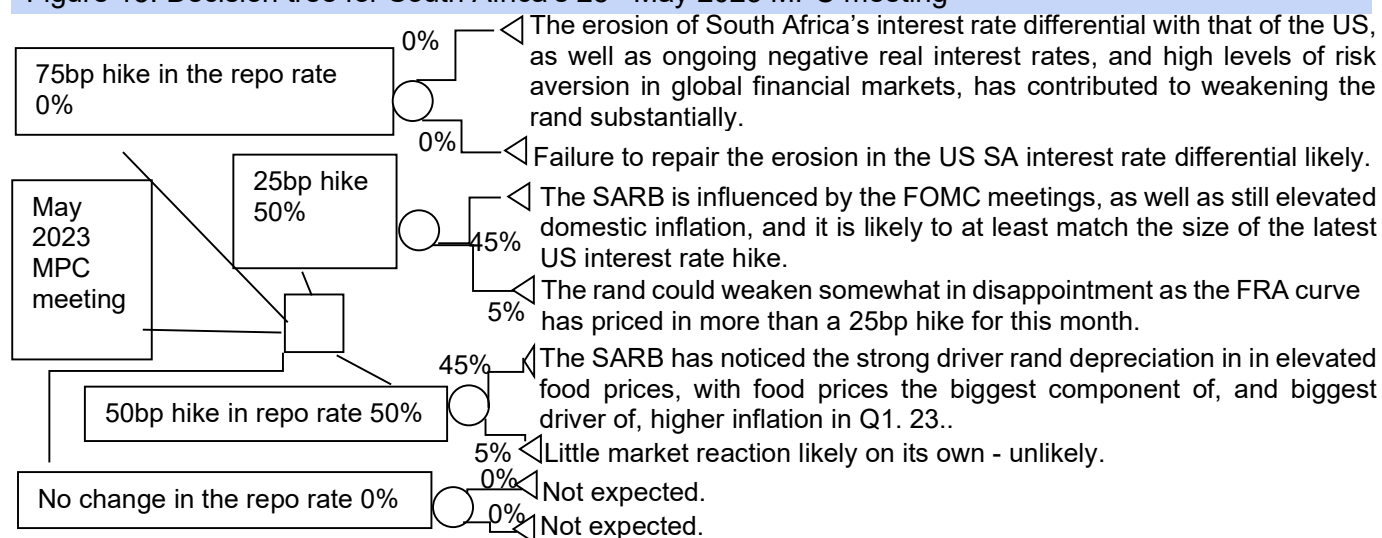
Source: SARB, Investec

Figure 14: Forecasts	2022	2023	2024	2025	2026	2027
Repo Rate	7.00	7.50	6.50	6.50	6.50	6.50
Prime Overdraft rate	10.50	11.00	10.00	10.00	10.00	10.00
SA rand bond	11.55	10.90	10.50	10.10	10.00	9.90
US Fed funds rate	4.50	5.00	3.75	2.75	2.75	2.75
UK Bank rate	3.50	4.00	2.75	2.50	2.50	2.50

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

The SARB could surprise again with another 50bp hike on 25th May, but this would still leave SA's interest rate hikes (4.75% if it hikes this month by 50bp) below that of the US which has hiked by a full 5.00% in the current rate hike cycle. A 75bp hike from the SARB to close the gap is unlikely. Looking forward, markets expect the US to cut interest rates in the second half of this year, and SA's FRA curve has started showing some of these expectations too. Indeed, the May MPC meeting may be the last one the SARB could deliver a larger (50bp) hike at, with SA GDP statistics also due out in early June, and likely to show Q1.23 contracted on the harsh load shedding regime, and other deteriorating factors of production.

Figure 15: Decision tree for South Africa's 25th May 2023 MPC meeting



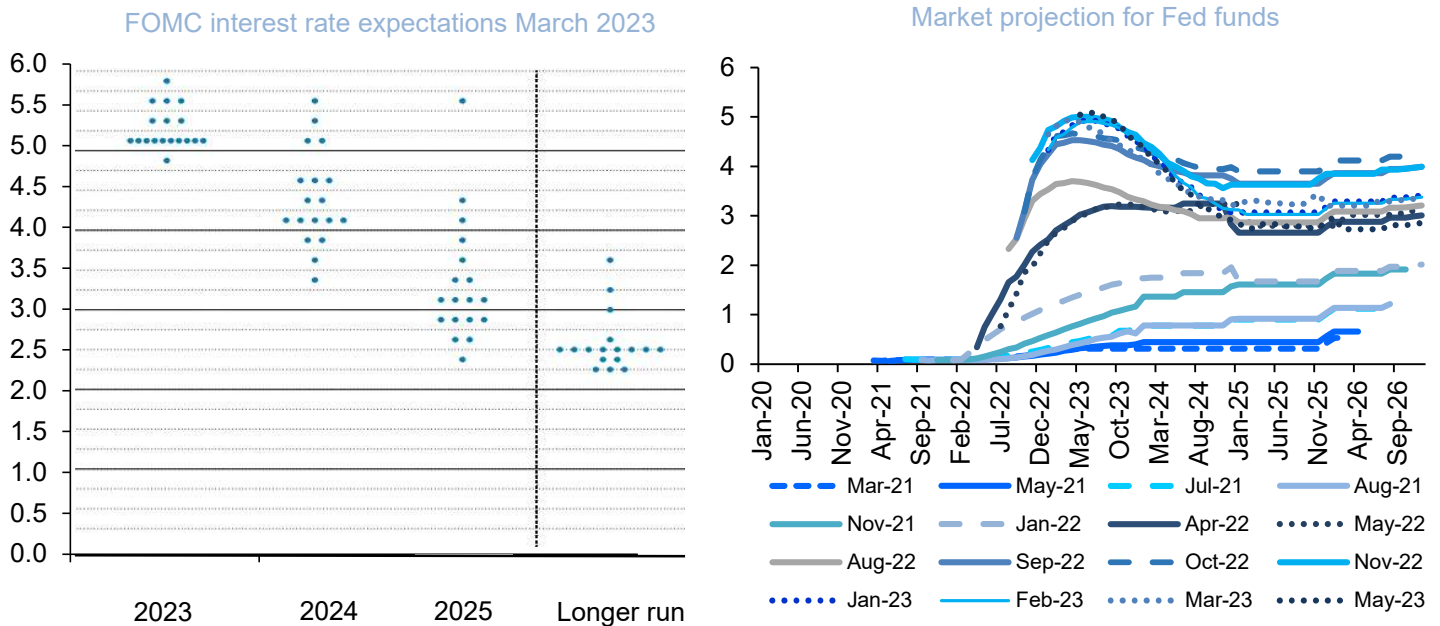
Key: squares are decision nodes; circles are chance nodes and triangles end nodes. Source: Investec



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Figure 16: US interest rate projections



Source: FOMC, Bloomberg

Figure 17: FOMC /2023 Meeting Schedule

- 13th-14th June 2023
- 25th-26th July 2023
- 19th-20th September 2023
- 31st October-1st November 2023
- 12th-13th December 2023

Source: Federal Reserve Bank

Figure 18: Forecast of international interest rates (% , end quarter)

	US Fed funds	Euro zone Refi rate	Euro zone deposit rate	UK Bank Rate
Current	4.25-5.00	3.50	3.00	4.25
Q1.23	4.75-5.00	3.50	3.00	4.25
Q2.23	5.00-5.25	4.00	3.50	4.50
Q3.23	5.00-5.25	4.00	3.50	4.50
Q4.23	4.75-5.00	4.00	3.50	4.25
Q1.24	4.25-4.50	3.50	3.25	3.75
Q2.24	3.75-4.00	3.25	3.00	3.25
Q3.24	3.50-3.75	2.75	2.50	3.00
Q4.24	3.50-3.75	2.75	2.50	3.00

Source: Macrobond, Investec



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Figure 19: Interest rate forecast end rates

Date	Prime forecast	Prime less Inflation	Repo	Repo less Inflation
Jan 2022	7.50	1.8	4.00	-1.7
Feb 2022	7.50	1.8	4.00	-1.7
Mar 2022	7.75	1.8	4.25	-1.7
Apr 2022	7.75	1.9	4.25	-1.6
May 2022	8.25	1.7	4.75	-1.8
Jun 2022	8.25	0.8	4.75	-2.7
Jul 2022	9.00	1.2	5.50	-2.3
Aug 2022	9.00	1.4	5.50	-2.1
Sep 2022	9.75	2.3	6.25	-1.2
Oct 2022	9.75	2.2	6.25	-1.3
Nov 2022	10.50	3.1	7.00	-0.4
Dec 2022	10.50	3.3	7.00	-0.2
Jan 2023	10.75	3.9	7.25	0.4
Feb 2023	10.75	3.7	7.25	0.2
Mar 2023	11.00	3.9	7.50	0.4
Apr 2023	11.00	4.1	7.50	0.6
May 2023	11.25	4.7	7.75	1.2
Jun 2023	11.25	5.5	7.75	2.0
Jul 2023	11.25	6.2	7.75	2.7
Aug 2023	11.25	6.0	7.75	2.5
Sep 2023	11.25	5.8	7.75	2.3
Oct 2023	11.25	5.8	7.75	2.3
Nov 2023	11.00	5.5	7.50	2.0
Dec 2023	11.00	5.7	7.50	2.2
Jan 2024	11.00	5.0	7.50	1.5
Feb 2024	11.00	5.5	7.50	2.0
Mar 2024	10.50	5.4	7.00	1.9
Apr 2024	10.50	5.5	7.00	2.0
May 2024	10.50	5.5	7.00	2.0
Jun 2024	10.50	5.7	7.00	2.2
Jul 2024	10.50	5.7	7.00	2.2
Aug 2024	10.50	5.9	7.00	2.4
Sep 2024	10.50	5.9	7.00	2.4
Oct 2024	10.50	6.1	7.00	2.6
Nov 2024	10.50	6.1	7.00	2.6
Dec 2024	10.00	5.8	6.50	2.3

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 2025	10.00	5.6	6.50	2.1
Feb 2025	10.00	5.5	6.50	2.0
Mar 2025	10.00	5.6	6.50	2.1
Apr 2025	10.00	5.8	6.50	2.3
May 2025	10.00	6.0	6.50	2.5
Jun 2025	10.00	6.0	6.50	2.5
Jul 2025	10.00	5.7	6.50	2.2
Aug 2025	10.00	5.6	6.50	2.1
Sep 2025	10.00	5.6	6.50	2.1
Oct 2025	10.00	5.7	6.50	2.2
Nov 2025	10.00	5.8	6.50	2.3
Dec 2025	10.00	5.6	6.50	2.1
Jan 2026	10.00	5.7	6.50	2.2
Feb 2026	10.00	5.7	6.50	2.2
Mar 2026	10.00	5.7	6.50	2.2
Apr 2026	10.00	5.5	6.50	2.0
May 2026	10.00	5.3	6.50	1.8
Jun 2026	10.00	5.2	6.50	1.7
Jul 2026	10.00	5.3	6.50	1.8
Aug 2026	10.00	5.4	6.50	1.9
Sep 2026	10.00	5.5	6.50	2.0
Oct 2026	10.00	5.3	6.50	1.8
Nov 2026	10.00	5.2	6.50	1.7
Dec 2026	10.00	5.3	6.50	1.8
Jan 2027	10.00	5.3	6.50	1.8
Feb 2027	10.00	5.2	6.50	1.7
Mar 2027	10.00	5.1	6.50	1.6
Apr 2027	10.00	5.2	6.50	1.7
May 2027	10.00	5.3	6.50	1.8
Jun 2027	10.00	5.3	6.50	1.8
Jul 2027	10.00	5.6	6.50	2.1
Aug 2027	10.00	5.4	6.50	1.9
Sep 2027	10.00	5.3	6.50	1.8
Oct 2027	10.00	5.3	6.50	1.8
Nov 2027	10.00	5.5	6.50	2.0
Dec 2027	10.00	5.5	6.50	2.0

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 2022	100.2	5.7	0.2			
Feb 2022	100.8	5.7	0.6			
Mar 2022	101.8	5.9	1.0	5.8		
Apr 2022	102.4	5.9	0.6			
May 2022	103.1	6.5	0.7			
Jun 2022	104.2	7.4	1.1	6.6		
Jul 2022	105.8	7.8	1.5			
Aug 2022	106.0	7.6	0.2			
Sep 2022	106.1	7.5	0.1	7.7		
Oct 2022	106.5	7.6	0.4			
Nov 2022	106.8	7.4	0.3			
Dec 2022	107.2	7.2	0.4	7.4	2022	6.9
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	109.5	6.9	0.5			
May 2023	109.9	6.5	0.4			
Jun 2023	110.2	5.8	0.4	6.4		
Jul 2023	111.1	5.0	0.8			
Aug 2023	111.6	5.2	0.4			
Sep 2023	111.9	5.5	0.3	5.2		
Oct 2023	112.3	5.5	0.4			
Nov 2023	112.7	5.5	0.3			
Dec 2023	112.9	5.3	0.2	5.4	2023	6.0
Jan 2024	113.5	6.0	0.5			
Feb 2024	113.8	5.5	0.3			
Mar 2024	114.5	5.1	0.6	5.5		
Apr 2024	115.0	5.0	0.4			
May 2024	115.3	5.0	0.3			
Jun 2024	115.5	4.8	0.2	4.9		
Jul 2024	116.5	4.8	0.8			
Aug 2024	116.7	4.6	0.2			
Sep 2024	117.0	4.6	0.3	4.7		
Oct 2024	117.3	4.4	0.2			
Nov 2024	117.6	4.4	0.3			
Dec 2024	117.7	4.2	0.1	4.3	2024	4.8

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 2025	118.5	4.4	0.7			
Feb 2025	119.0	4.5	0.4			
Mar 2025	119.6	4.4	0.5	4.5		
Apr 2025	119.8	4.2	0.2			
May 2025	119.9	4.0	0.1			
Jun 2025	120.2	4.0	0.2	4.1		
Jul 2025	121.5	4.3	1.1			
Aug 2025	121.9	4.4	0.3			
Sep 2025	122.2	4.4	0.3	4.4		
Oct 2025	122.4	4.3	0.1			
Nov 2025	122.6	4.2	0.2			
Dec 2025	122.8	4.4	0.2	4.3	2025	4.3
Jan 2026	123.6	4.3	0.6			
Feb 2026	124.1	4.3	0.4			
Mar 2026	124.7	4.3	0.5	4.3		
Apr 2026	125.2	4.5	0.4			
May 2026	125.6	4.7	0.3			
Jun 2026	125.9	4.8	0.3	4.7		
Jul 2026	127.2	4.7	1.0			
Aug 2026	127.5	4.6	0.2			
Sep 2026	127.7	4.5	0.2	4.6		
Oct 2026	128.1	4.7	0.3			
Nov 2026	128.5	4.8	0.3			
Dec 2026	128.6	4.7	0.1	4.7	2026	4.6
Jan 2027	129.4	4.7	0.6			
Feb 2027	130.0	4.8	0.5			
Mar 2027	130.8	4.9	0.6	4.8		
Apr 2027	131.2	4.8	0.3			
May 2027	131.5	4.7	0.2			
Jun 2027	131.9	4.7	0.3	4.7		
Jul 2027	132.8	4.4	0.7			
Aug 2027	133.3	4.6	0.4			
Sep 2027	133.7	4.7	0.3	4.6		
Oct 2027	134.1	4.7	0.3			
Nov 2027	134.2	4.5	0.1			
Dec 2027	134.4	4.5	0.1	4.6	2027	4.7
Jan 2028	135.1	4.4	0.5			
Feb 2028	135.7	4.4	0.5			
Mar 2028	136.5	4.4	0.6	4.4		
Apr 2028	137.1	4.5	0.4			
May 2028	137.5	4.6	0.3			

Source: Stats SA, Investec



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Figure 23: Economic Scenarios: note updated probabilities

		Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24
Extreme	USD/Rand (average)	17.76	16.60	15.90	15.50	15.00	14.60	14.50	14.40
	Repo rate (end rate)	7.75	7.00	6.75	6.50	6.00	6.00	5.75	5.50
1%	<p>Up case 1% SA economic growth very quickly 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. Strong global growth, risk-on, commodity boom. Rapid upgrades of credit ratings to investment grade. Very short grey listing. Quick transition to renewable energy from fossil fuels.</p>								
Up case	USD/Rand (average)	17.76	17.50	17.20	16.90	16.50	16.10	16.00	15.70
	Repo rate (end rate)	7.75	7.25	7.25	7.25	6.75	6.75	6.50	6.00
1%	<p>Up case 1% Economic growth averages 3.3% over five-year period, but lifts towards 5.0% y/y by period end, 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 privatisation. Credit rating upgrades on fiscal consolidation, markedly lower borrowings. Substantial transition to renewable energy away from fossil fuel usage, comprehensive measures to alleviate climate change impact on economy. Grey listed for less than eighteen months.</p>								
Base case	USD/Rand (average)	17.76	18.00	17.80	17.60	17.25	17.45	17.65	17.35
	Repo rate (end rate)	7.75	7.75	7.75	7.50	7.00	7.00	7.00	6.50
48%	<p>Base case 48% Economic growth modest (1.9% average over 5 years) but lifts towards 3.0% y/y by end period on reforms, global financial market risk sentiment is neutral to positive. South Africa follows fiscal consolidation (debt to GDP stabilisation) leading to positive outlooks, then likely credit rating upgrades. The rand stabilises, then strengthens somewhat. Inflation is impacted by the course of weather patterns via food price inflation. A 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 conflict eases and does not exacerbate. Little expropriation without compensation. Temporary grey listing.</p>								
Lite	USD/Rand (average)	17.76	18.60	18.70	19.00	18.60	18.75	18.90	18.70
	Repo rate (end rate)	7.75	8.00	8.50	9.00	9.00	9.00	9.00	9.00
40%	<p>Lite 40% Weak GDP growth (0.9% average over 5-years), swing toward left leaning policies. Business confidence depressed, substantial electricity and water shedding, very weak rail capacity, civil and political unrest, little investment growth, recession. Increased state borrowings, risk of credit rating downgrades rises, then occurs later in period. Some expropriation of private sector property without compensation with a negative impact on the economy. High inflation on unfavorable weather conditions, marked rand weakness. Little transition to renewable energy or measures to alleviate climate change. Lengthy greylisting.</p>								
Severe down case	USD/Rand (average)	17.76	19.30	19.70	20.00	20.20	20.50	20.80	21.20
	Repo rate (end rate)	7.75	9.00	10.00	10.50	10.50	11.00	11.00	11.50
10%	<p>Severe down case 10% Lengthy global recession, global financial crisis – insufficient monetary and other support domestically and internationally. ANC/EFF coalition in 2024. Widespread, severe services load shedding, severe civil and political unrest. Government borrows from increasingly wider sources, SA rated single B from all three key agencies, eventually CCC grade, increased risk of default, sinks deeper into a debt trap. Failure to transition to renewable energy and to sufficient measures to alleviate the impact of climate change on the economy. Very high inflation on very adverse weather conditions, severe rand weakness. Expropriation of private property without compensation with a marked negative economic impact. Black listed.</p>								

Note: Event risk begins Q2.23. Source: Investec



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Tuesday 9th May 2023



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