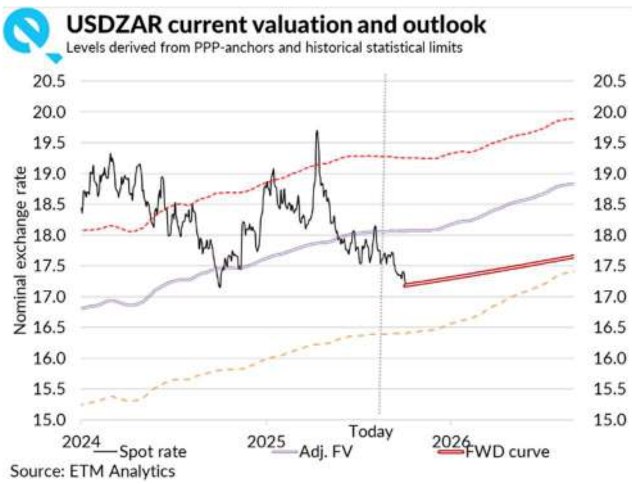
Summary of macroeconomic research views:

- **Inflation:** Headline CPI slowed unexpectedly to +3.3% y/y in August from +3.5% y/y in July. Core CPI (excluding food and energy) edged upwards to +3.1% y/y from +3.0% y/y in July. A lower CPI reading for August is surprising, but welcome, as ongoing low inflation will continue to support broader economic activity, mainly through resilient consumer spending.
- **Repo rate:** Despite the decline in CPI, the SARB opted to keep the interest rate unchanged as it steers market expectations towards its preferred 3% inflation target. This suggests rates are likely to stay higher for longer, with any potential cuts this year expected to be limited compared with previous low-inflation cycles.
- **Government Finances:** On a year-to-date perspective, the budget deficit stood at -R215.2 bn in August, improving from the -R251.6 bn deficit recorded over the same period in the 2024/25 fiscal year. The delay of the 2025/26 Budget legislation limited government expenditure until its eventual passage, temporarily supporting year-to-date budget readings compared to last year. However, this improvement is temporary unless concerted efforts are made to rein in spending and boost revenue.
- **GDP Growth:** SA's economy grew by +0.8% q/q in Q2, up from a marginal +0.1% q/q in Q1. On a y/y basis, slower growth of +0.6% was reported in Q2 from +0.8% in Q1. A temporary rebound in industrial production drove the uptick in quarterly GDP. Overall growth in 2025 is still likely to remain below +1.0% and the ongoing decline in investment further underscores the economy's stagnation. Without stronger investment, prospects for sustained growth remain limited.
- **Currency:** September marked another favourable month for the ZAR, which gained 2.3% of its value against the USD, making it the third-best-performing emerging market currency. The ZAR also appreciated against other advanced economies' currencies, including the EUR (1.7%) and the GBP (2.6%). Global risk aversion, as measured by the VIX, remained relatively low through September and supported emerging market currencies such as the ZAR.
- **Offshore conditions:** Speculators have recently been increasing bearish bets on the USD as global investors hedge currency risk while still pouring into US stocks and Treasuries. The move, driven by tariff concerns, Fed independence concerns and cheaper hedging costs from rate cuts, is keeping the dollar weak and could extend pressure into 2026 despite strong US asset inflows. Finally, weighing on the USD recently has been the US government shutdown, which suspends economic data releases and federal operations, whilst Trump escalates political confrontation through selective spending cuts. Investors continued to find refuge in safe-haven assets, most notably, gold, which reached new all-time highs.

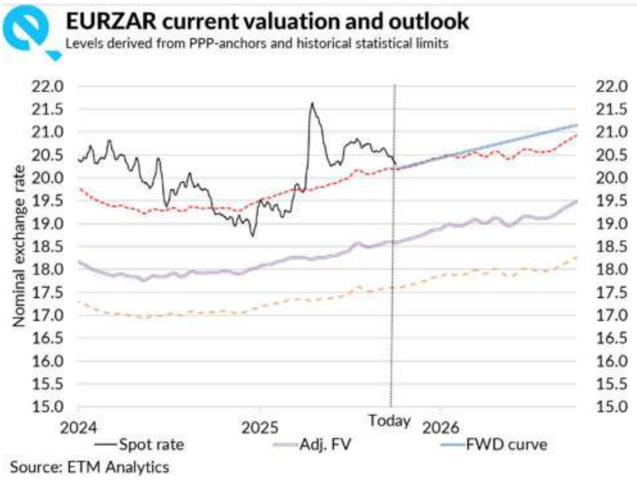
FX valuation indicators:



USD-ZAR: On a risk-adjusted basis, the ZAR moved further into overvalued territory against the USD (USD-ZAR undervalued). While the USD has come under pressure, robust inflows into South African bonds, partly driven by JPMorgan's index reweighting that reduced China and India's share, supported the ZAR's appreciation.

Foreign demand has boosted liquidity, lowered yields, and enhanced carry appeal, helping shield the currency from fiscal pressures and reinforcing its resilience amid improved government stability. This also contributes to ZAR strength through reducing risk premiums, increasing foreign portfolio inflows, and achieving greater stability against major currencies, supporting further ZAR appreciation in the near term.

Furthermore, SA's expected removal from the FATF "grey list" and favourable trade dynamics are supporting the ZAR amid a USD that is currently still 14% overvalued on a real effective basis and, therefore, ripe for further correction. The valuation framework indicates that the USD-ZAR may consolidate or drift higher towards year-end. However, it should be noted that the fair value serves more as a pivot point around which the pair tends to oscillate in mean-reverting fashion. When also considering the USD's broader valuation and the trajectory of gold prices, the ZAR continues to look attractive for further appreciation.



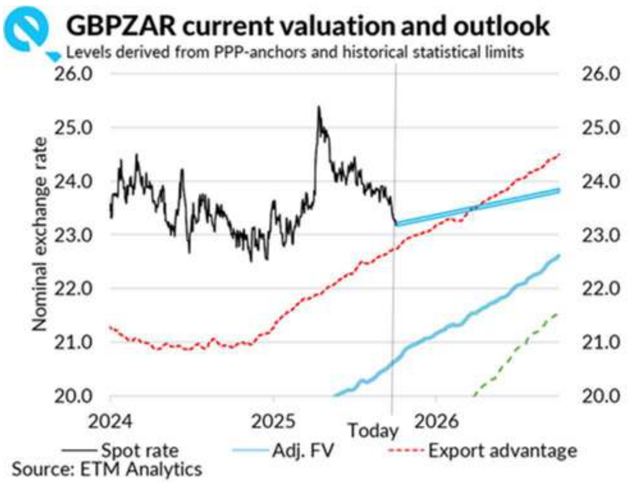
EUR-ZAR: The ZAR remains deeply undervalued against the EUR on a risk-adjusted basis, with the pair currently trading around 20.2500, above both its historical valuation range and risk-adjusted fair value closer to 19.5000.

This presents an attractive opportunity for South African exporters to lock in elevated rates. The ECB has kept its benchmark rate at 2% since June, with no further cuts anticipated in the current cycle.

Meanwhile, the SARB held the repo rate steady at 7% in September, although the rate-cutting cycle is likely not over as the central bank works to anchor inflation expectations at its new de facto 3% target.

For now, however, the ZAR is continues to enjoy strong support from elevated and rising gold prices, which are improving South Africa's terms of trade.

Given the significant overvaluation and these supportive fundamentals, the balance of risks tilts towards ZAR appreciation in the coming months, even if the SARB resumes its rate-cut cycle. Exporters should take advantage of current levels to hedge forward exposure, while importers would be well-advised to exercise patience and wait for the pair to move closer towards fair value.



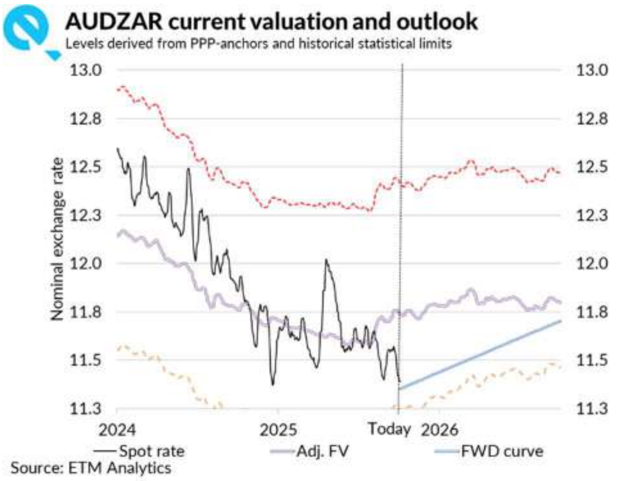
GBP-ZAR: The ZAR remains substantially undervalued against Sterling, with the pair trading at 23.20, well above risk-adjusted fair value closer to 22.50. Whilst the cross has retreated from April's highs, it continues to offer South African exporters an opportunity to secure attractive forward rates.

The BoE cut rates to 4% in August but held steady in September, adopting a more cautious stance amid concerns over resurgent inflation. Further easing now looks unlikely until late in Q1 next year as policymakers await clearer evidence of sustained disinflation.

The SARB's gradual approach to normalising rates on the domestic front should support the rand, particularly given improved fundamentals from rising gold prices.

Looking ahead, the balance of risks strongly favours further ZAR appreciation, although the pace may moderate following recent sharp moves. That being said, UK fiscal risks loom large, with Chancellor Rachel Reeves set to present her budget in late November.

Market speculation around tax rises and spending decisions could weigh on Sterling sentiment, particularly as political pressures mount on PM Keir Starmer's Labour government. Exporters should capitalise on current elevated levels, whilst importers are advised to remain patient.



Source: ETM Analytics

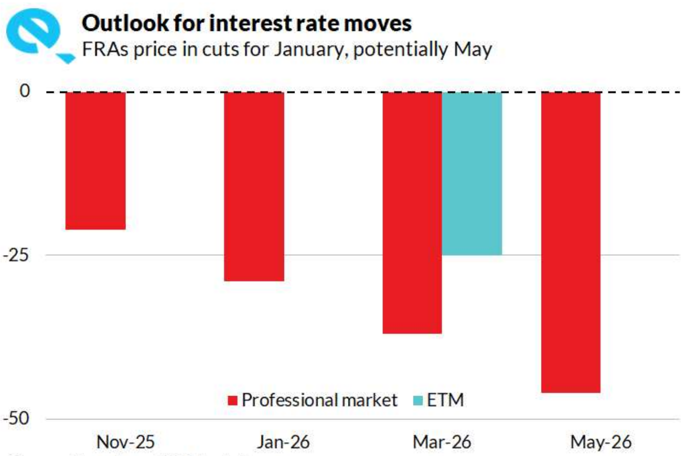
AUD-ZAR: Speculators remain bearish on the AUD amid renewed China concerns and repeated technical rejection at key resistance levels against the dollar. Risk appetite toward China has soured as ongoing debt distress at Evergrande and Country Garden weighs on commodity markets and, in turn, Australia's terms of trade.

By contrast, the AUD-ZAR cross highlights the rand's relative strength, keeping the pair locked in a broader downtrend. While the 11.4000 support has held since late August and again into late September, mirroring a failed break in late 2024, the cross is still trading very weak.

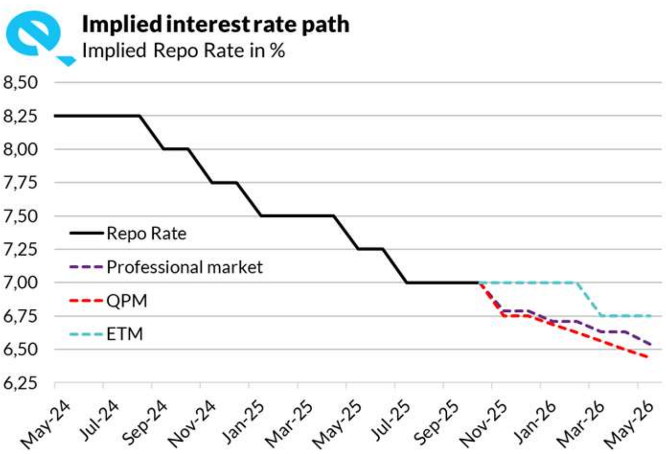
The ZAR's resilience is underpinned by firmer gold prices, hefty foreign inflows into SAGBs, and the SARB's conservative stance to entrench its new 3% inflation target. Although the RBA's policy stance broadly mirrors the SARB's, with futures pricing a 25bp cut by March 2026, the pair remains below its risk-adjusted fair value and is edging further into undervaluation territory. This should encourage importers to hedge forward, with the curve pointing to a drift back toward fair value around 11.80, implying potential ZAR weakness ahead.

While the model suggests mean-reverting appreciation in AUD-ZAR through year-end, the fair value should be seen more as a pivot than a firm target. Given that both currencies share similar macro drivers, idiosyncratic forces will ultimately guide direction.

Interest rate indicators:



Source: Bloomberg, ETM Analytics



Source: SARB, Bloomberg, ETM Analytics

The recent appreciation of the ZAR and the drop in SAGB yields have led to a notable shift in interest rate expectations amongst market participants. The FRA curve has shifted lower, and we now see that the market is pricing in a greater chance of more rate cuts within the next six to nine months.

FRAs that cover the November MPC meeting reflect more than 20bp worth of rate cut risk priced in, while coverage of the January meeting factors in a full 25bp reduction. By the May meeting, market implied rates reflect 46bp of rate cut risk. Sentiment is increasingly aligning with two cuts over the coming year. This broadly aligns with the SARB's Quarterly Projection Model (QPM).

ETM believes that a January rate cut remains possible, but that a March reduction is more likely, potentially followed by September. Of course, this will depend largely on the inflation data released over the coming months and any developments regarding the shift in the SARB's inflation target. The 3% inflation preference is likely to be confirmed as the target in the coming months, and that will see inflation expectations steadily decline.

Meanwhile, our inflation risk indicator continues to indicate a very low risk of a sharp increase in inflation. While administered price increases remain the key topside risk, ZAR strength and softening global oil prices, coupled with weak credit demand locally, all suggest that overall inflation pressures should remain contained.Finally, while the broader global theme of monetary policy easing is losing some momentum, the US is beginning to catch up, with the Fed cutting rates last month and expectations for further reductions rising. According to Fed Funds Futures, the market expects at least four 25bp rate cuts by the end of 2026. If this materialises, it will allow the SARB to cut further without eroding South Africa's attractive interest rate differential with the US.

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