ZAR Service: FX positioning
September 2025

TreasuryONE
Optimising Your Cash Flows

Summary of macroeconomic research views:

- **Inflation:** Headline CPI accelerated from +3.0% y/y in June to +3.5% y/y in July, marking the highest reading since September 2024. This rise will be perceived as significant, following the SARB's recent announcement that its preferred inflation target will be 3%, i.e. the lower end of its mandated 3% to 6% inflation target. Inflation is expected to continue rising, albeit moderately.

- **Repo rate:** The SARB's response to rising inflation in the context of its push for a 3% inflation target will be a key theme in the coming months. Considering July's higher CPI reading, SARB MPC members might prefer to keep interest rates slightly higher to anchor inflation expectations closer to the lower target, especially given recent multi-year, above-4% wage agreements by trade unions. While a September interest rate cut is unlikely, ongoing increases in inflation also reduce the likelihood of a cut at the November MPC meeting.

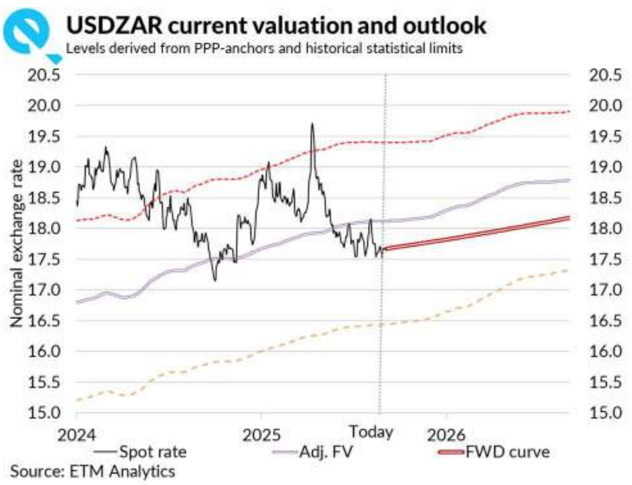
- **Government Finances:** On a year-to-date basis, the government budget shortfall stands at -R162.6bn, compared to -R199.6bn in the 2024/25 fiscal year. Overall, the domestic fiscal outlook remains weak, with public debt forecast to rise during 2025/26. Unless the government makes a concerted effort to reduce spending and raise revenue by liberalising economic growth through policy reform, the fiscal outlook will continue to deteriorate, even as National Treasury forecasts predict a stabilisation in debt.

- **GDP Growth:** SA's GDP grew by just 0.1% q/q in Q1, slowing from 0.4% in Q4. Y/y growth held steady at 0.8%. Without a second consecutive quarter of robust agricultural growth (+15.8%), overall GDP would have contracted. Particularly concerning is the significant decline across the productive sectors as mining output and manufacturing shrank by 4.1% and 2.0%, respectively.

- **Currency:** The ZAR ended August 3% stronger against the USD, making it the fourth-best performing emerging market currency against the greenback in the month. The USD remains some 14% overvalued on a real effective basis, suggesting the greenback still has some way to slide. It also appreciated vs the EUR, GBP and JPY, but the moves were not greater than 1%.

- **Offshore conditions:** Trump's protectionist policies and concerns surrounding Fed independence are detracting from the greenback's safe-haven appeal. Perceived Fed interference is also clouding the outlook for US interest rate cuts. Consequently, investors have found refuge in safe-haven assets like gold as it nears record highs. Globally, investors are concerned about rising fiscal risk in advanced economies, which is driving longer-dated yields sharply higher.

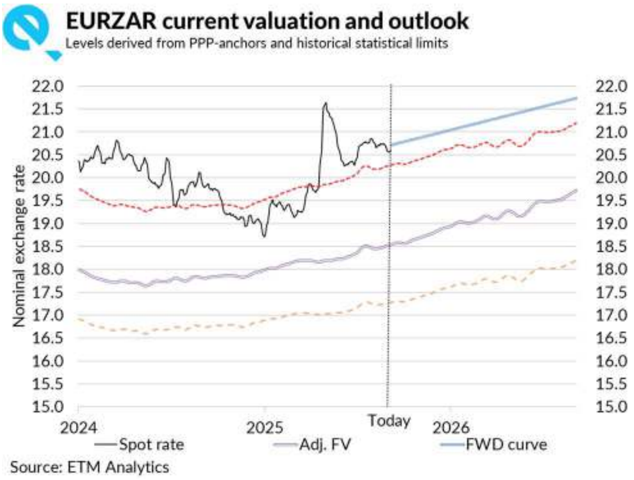
FX valuation indicators:



USD-ZAR: The ZAR appreciated by 3% against the USD in August, making it the fourth best-performing emerging market currency. This has led to the ZAR now trading in overvalued territory against the USD on a risk-adjusted basis (USD-ZAR undervalued). This has mainly been a function of USD weakness due to investor concerns about mounting political and policy risks. US President Trump's dismissal of US Fed Governor Lisa Cook fuelled concerns over US Fed independence and policy stability.

Furthermore, softer US economic data, including weaker labour market signals, further reinforced expectations of a September rate cut. There has been an increase in bets on a 50bp Fed rate cut at this month's meeting, which has diminished the greenback's appeal.

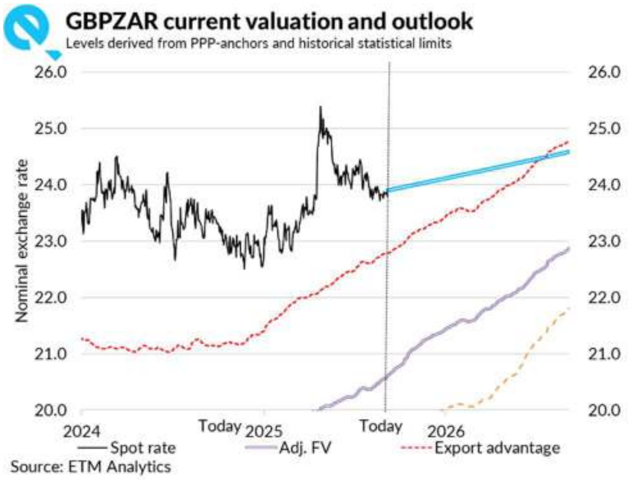
Finally, the Supreme Court of Appeals' decision, striking down parts of President Trump's tariff measures, added fresh pressure on the greenback in August as it heightened policy uncertainty. The ZAR will likely capitalise on any further correction in a USD that remains broadly overvalued, particularly if US Fed cuts rates more than what is currently priced in.



EUR-ZAR: The ZAR gained 0.7% against the EUR in August. Nonetheless, it remains significantly undervalued against the EUR on a risk-adjusted basis (EUR-ZAR overvalued), with the model currently suggesting a 75% chance that the EUR-ZAR falls from current levels, with risk-adjusted fair value at levels closer to 19.00-19.50.

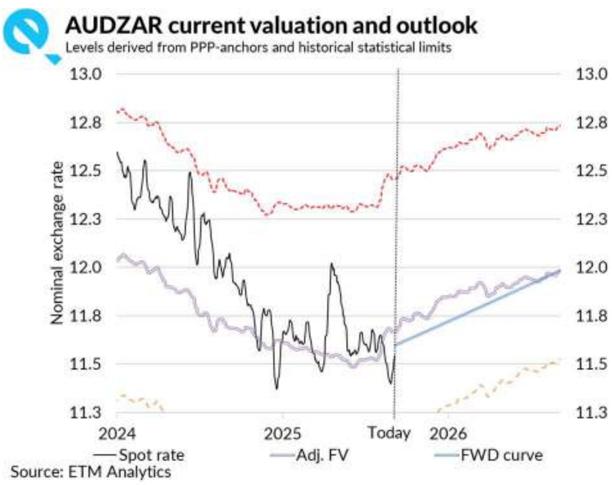
Consequently, South African exporters have a good opportunity to cover their exposure forward. Nonetheless, the case for the ZAR to strengthen against the EUR is more nuanced. Current EUR-ZAR levels could retain a degree of strength until the ECB starts to ease again and/or if the USD overvaluation continues to slide.

However, there is little in the way of ECB rate cut risk priced in over the remainder of the year and next year. Therefore, significant reforms and a very shallow rate-cutting cycle by the SARB are more likely catalysts for the ZAR to strengthen against the EUR.



GBP-ZAR: As with the other major currencies, the ZAR appreciated against the GBP in August by 0.9%. Still, the ZAR is trading in deeply undervalued territory on a risk-adjusted basis against the GBP (GBP-ZAR overvalued). South African exporters should thus take advantage by hedging forward. Fair value on a risk-adjusted basis sits closer to 23.00. While further UK interest rate cuts could see the GBP depreciate, the markets are not pricing in monetary easing until at least March 2026.

This could support the pair, depending on the extent to which the SARB cuts are coupled with structural reforms under the GNU. The SARB will likely remain cautious in cutting rates as it pivots towards its preferred 3% inflation target, even though this has not formally been accepted by the Ministry of Finance. The balance of risks remains tilted to a stronger ZAR against the GBP in the coming months, suggesting that importers should bide their time.

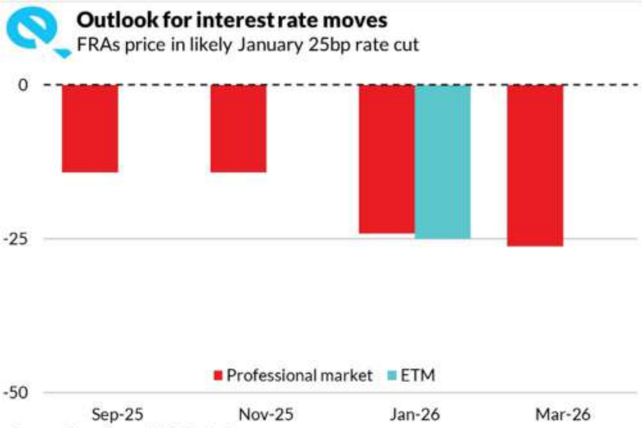


AUD-ZAR: The AUD-ZAR cross experienced notable volatility in August, initially depreciating to levels last seen in December 2024 around 11.30 as the ZAR capitalised on the Reserve Bank of Australia's dovish forward guidance that accompanied a 25bp rate cut. This move reflected the divergence in monetary policy trajectories, with the SARB maintaining a more cautious stance whilst trying to anchor inflation expectations at 3%.

However, the cross subsequently retraced much of that decline into month-end as markets digested the policy implications. According to our risk-adjusted valuation model, the AUD-ZAR remains slightly below its adjusted fair value yet not sufficiently undervalued to offer clear value to South African importers seeking forward cover.

The model's adjusted fair value in 12 months' time sits closer to 12.00, implying ZAR depreciation against the AUD that would be consistent with what is implied by the forward curve. The valuation framework thus indicates that the AUD-ZAR will likely continue to drift higher towards year-end, although 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. Given that both the AUD and ZAR share similar macroeconomic drivers, idiosyncratic factors will ultimately determine the pair's directional bias.

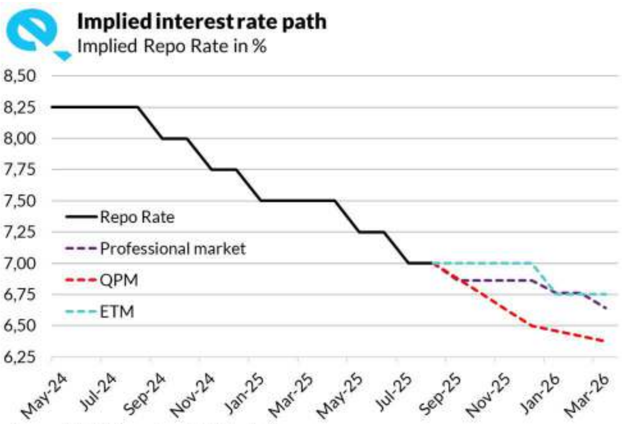
Interest rate indicators:



Source: Bloomberg, ETM Analytics

Recall that the SARB's July MPC meeting was quite dovish, delivering a 25bp rate cut to 7.00% and downward revisions to the Quarterly Projection Model (QPM) to signal the possibility of two more cuts this year.

However, ETM's view remains that the SARB will likely pause rate cuts until January 2026, adopting a cautious approach to assess the impact of evolving price pressures. These pressures stem from external risks, notably higher US tariffs on South African exports, which have already prompted downward revisions to GDP and internal factors such as higher than initially planned electricity tariff increases. Additionally, the SARB will evaluate the effects of its past rate reductions on domestic inflation dynamics.



Source: SARB, Bloomberg, ETM Analytics

While the SARB's QPM suggests the possibility of two more cuts over the coming months, market pricing leans towards just one, likely at the start of next year. We align with this relatively more conservative market outlook as external volatility necessitates patience to ensure inflation remains anchored at 3%. South Africa's subdued growth outlook and moderate economic reforms further complicate the SARB's path.

While risks to inflation rising over the coming months persist, the MPC's conservative policy stance aims to balance growth and price stability. By holding rates steady until early 2026, the SARB can better gauge global and domestic developments, ensuring its policy remains robust amidst elevated uncertainty.

The SARB has made progress in shifting inflation expectations lower toward the 3% lower bound of the current target. Overzealous easing from here on will work to undo that and make the ultimate transition toward a set 3% target all the more difficult.

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