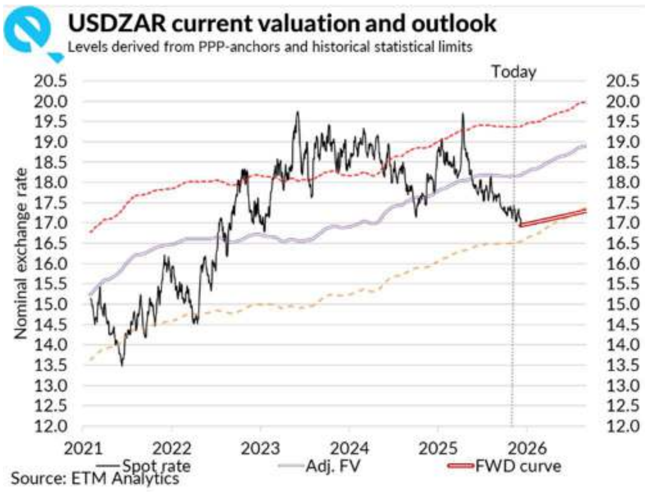
ZAR Service: FX positioning
December 2025

Summary of macroeconomic research views:

- **Inflation:** Headline CPI increased by slightly less than expected in October, to +3.6% y/y from +3.4% y/y in September. Higher fuel costs thus drove the uptick while food inflation slowed for a third straight month. Overall, SA's inflationary outlook remains subdued, and inflation could fall back slightly by the end of the year.
- **Repo rate:** The SARB cut interest rates by 25bp last month. Although this was the first meeting under the newly formalised inflation-targeting framework, policymakers agreed that monetary conditions could be eased without jeopardising progress toward the new target. The SARB QPM model forecasts interest rates to average 6.19% by end-2026 and 5.99% by end-2027.
- **Government Finances:** From a ytd perspective, the main budget deficit (-R266.4bn) continues to report improved readings compared to the same period in the 2024/25 fiscal year -R302.1bn. The government has received a helping hand from the SARB's inflation target shift, which helps to reduce interest rates and, in turn, leads to lower interest payments.
- **GDP Growth:** Q/q seasonally adjusted growth declined slightly from 0.9% in Q2 to 0.5% in Q3. Gross fixed capital formation (GFCF), saw a moderate improvement, driven in large measure by transport. Alongside the improvement in exports, one suspects that the impact of Operation Vulindlela on restructuring the transport sector is beginning to yield fruit. Nonetheless, growth remains fairly pedestrian overall, at around 1%, indicating that more reforms are necessary to lift the economy.
- **Currency:** The ZAR closed the month of November on a high note. It gained 1.3% against the USD, 0.8% against the EUR and 0.7% against the GBP. Stock markets rebounded in the last week of November, nearly erasing earlier losses in the month, which boosted risk sentiment and supported the ZAR. Strong US equity performance, rising gold prices, and elevated terms of trade for commodity exporters are contributing positively. Combined with favourable real interest rates and attractive bond yields, South Africa remains highly ranked for emerging-market carry opportunities.
- **Offshore conditions:** In November, global markets were shaped by the resolution of the US government shutdown, easing a major source of uncertainty and restoring confidence among investors. US equity markets rebounded, boosting risk appetite and supporting the US dollar, while expectations for further Federal Reserve rate cuts have increased. Meanwhile, commodity markets were firmer, with gold sustaining gains and key exporters benefiting from elevated terms of trade. Overall, market sentiment improved as geopolitical and policy uncertainty risks in major economies showed signs of stabilisation.

FX valuation indicators:



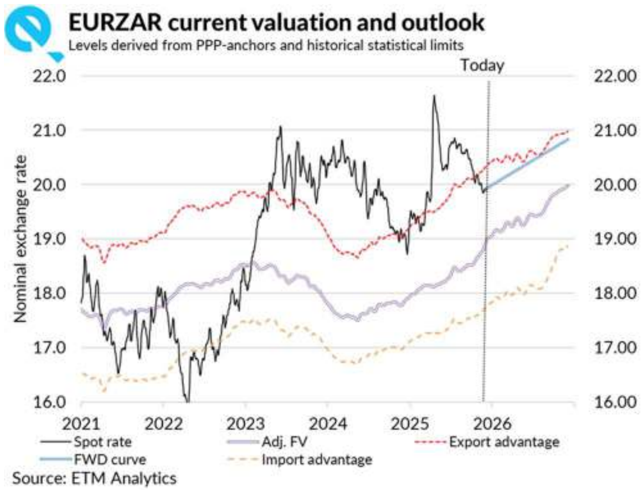
USD-ZAR: On a risk-adjusted basis, the ZAR remains in overvalued territory against the USD (USD-ZAR undervalued), suggesting importers should take advantage of current levels.

The ZAR continued to benefit from positive local developments, including a relatively well-received MTBPS, a GNU which appears to be functioning more cohesively compared to the February budget debacle, the move to a lower inflation target, reforms under Operation Vulindlela, and an S&P credit rating upgrade.

Although it remains sub-investment grade, it's a step in the right direction. Reform momentum is key to improving the ZAR's reliability.

Against this, the USD is 15% overvalued on a real effective basis with the possibility of further correction in the coming months. Developments such as a weakening labour market, which could increase the possibility of rate cuts, as well as persistent reports that White House economic adviser

Kevin Hassett is the frontrunner to succeed Jerome Powell as Fed Chair in May, are some of the factors weighing on the greenback at present. Overall, the framework suggests that the USD-ZAR may still slide further, but will run out of momentum given the current valuation.

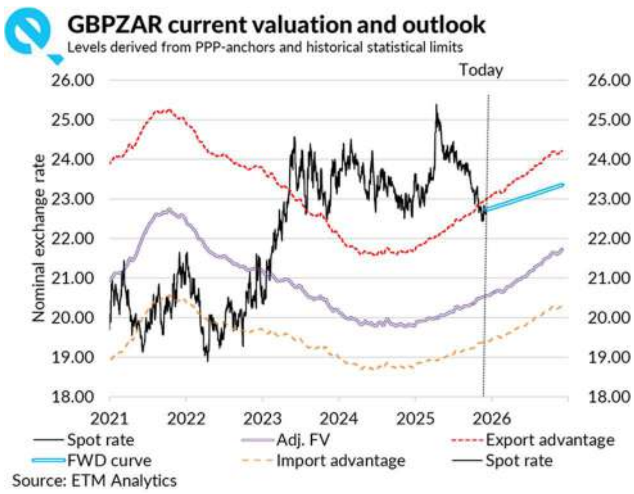


EUR-ZAR: The EUR struggled again in November, weakening against all major FX peers except the ZAR. This is reflected in the EUR-ZAR slipping back below the upper bound of its overvaluation range, where it has broadly traded since mid-2023.

The ZAR remains supported by several bullish tailwinds: a cautious SARB, removal from the greylist, a credit rating upgrade, stronger gold prices boosting terms of trade, and improving risk appetite. Even so, the cross remains well above its risk-adjusted fair value, maintaining a directional bias tilted toward further depreciation. This backdrop offers exporters an attractive window to lock in forward rates, while importers may prefer to hold off.

Structurally, the ECB held its policy rate at 2% in October, with markets expecting no further cuts this cycle. The SARB, meanwhile, still has room to ease, even as it works to anchor expectations around its new 3% inflation target.

For now, the ZAR continues to benefit from favourable commodity dynamics and reform momentum, which enhance South Africa's investment appeal. With the cross significantly overvalued and fundamentals supportive, risks remain skewed toward additional ZAR appreciation in the months ahead, even as the SARB eventually resumes its cutting cycle.



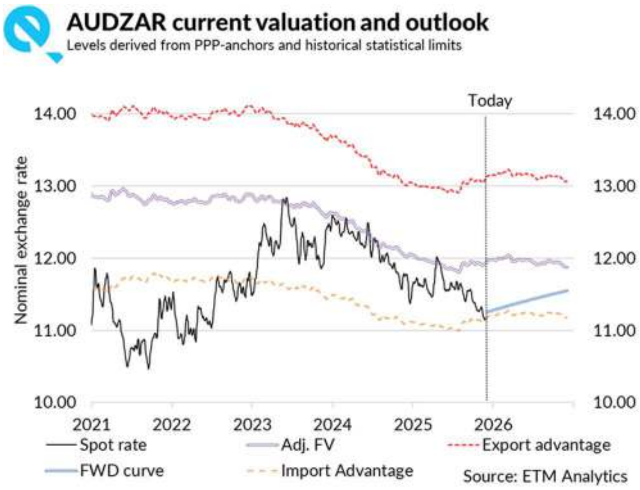
GBP-ZAR: The GBP-ZAR continues to trade at elevated levels (ZAR undervalued), notwithstanding a substantial correction from the April peak.

Whilst the pair has gravitated towards the lower end of its trading band since mid-2023, considerable ground remains to be covered before fully unwinding the gains accumulated in early 2023.

From a risk-adjusted standpoint, the cross remains far from fair value, which sits nearer to 21.0000. This persistent overvaluation continues to present South African exporters with an opportunity to lock in favourable forward rates.

The outlook for sterling may offer some support to the ZAR, with the BoE anticipated to deliver further rate cuts extending into 2026 and the UK's Labour government managing a constrained fiscal situation. By contrast, the rand benefits from strong commodity terms of trade, signs of domestic reform momentum, and a broader improvement in emerging market sentiment.

The balance of probabilities, therefore, tilts strongly in favour of additional ZAR strength, even if the pace of gains moderates following the recent sharp rally. Exporters would be well advised to take advantage of prevailing elevated rates, whilst importers should exercise patience.



AUD-ZAR: The AUD-ZAR cross has traded below its risk-adjusted fair value since mid-2025, recently testing the lower bound of its undervalued range. This 'importer advantage' zone typically signals that momentum is more likely to shift toward appreciation than deeper depreciation.

With the ZAR still very strong, this degree of mispricing presents an attractive opportunity to take money offshore or accumulate Australian assets. However, momentum indicators since late 2023 still point to near-term downside.

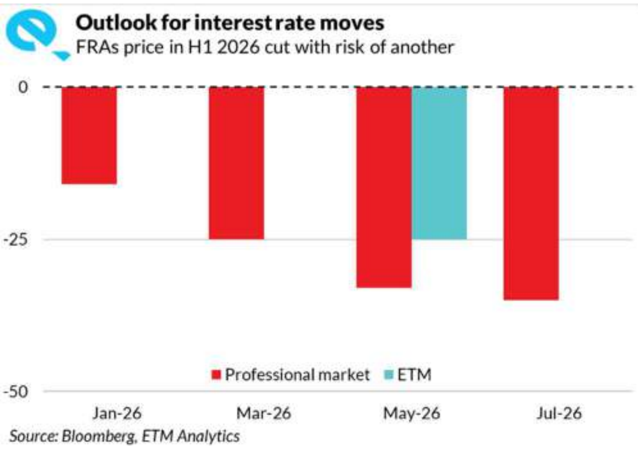
With AUD-ZAR around 11.2162 at the time of writing, a move toward the 11.0000 handle by end-Q1 2026 remains plausible.

Several ZAR-supportive forces reinforce this bias: a cautious SARB protecting its new 3% inflation target, rising PGM prices boosting SA's terms of trade, and improving global risk appetite. On the other hand, the RBA held rates steady in November but struck a more hawkish tone as inflation remains well above its 2.5% midpoint target.

Cash Rate Futures now price a 32% chance of a 25bp hike by February 2026 and a 100% probability of one by the end of 2026. With the RBA's benchmark rate seen as too low after earlier cuts, this shift strengthens the case for an AUD recovery if the bank pivots to tightening. Rising commodity prices also favour the high-beta AUD.

While model estimates point to a mean-reverting AUD-ZAR appreciation, fair value should be viewed as a pivot rather than a firm target. With both currencies shaped by similar macro backdrops and cautious central banks, idiosyncratic drivers will determine the next meaningful leg in the cross.

Interest rate indicators:

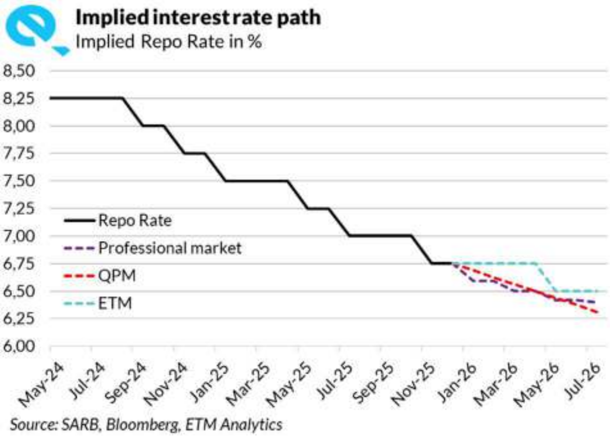


The broader tone of the SARB's November MPC meeting was perhaps slightly more dovish than expected, as was the unanimous vote on the 25bp cut. This suggests that the SARB may see scope for further rate reductions in the coming months, even if the stop-go pattern we are currently in continues.

The SARB is moving into uncharted territory with its new 3% inflation goal and will not want to damage its credibility by easing too vigorously and allowing inflation to rise near the top of, or beyond, the new 1% tolerance band.

However, based on the market reaction and the QPM Model, another two cuts could be on the cards before the end of H1 2026. Of course, this will depend on the evolution of inflation over the months ahead.

Structurally, inflation in SA may remain contained over the next few months, but the risk of external shocks remains high, and these will need to be navigated with even greater caution now if they materialise.



On the external front, while several major central banks are likely nearing the end of their easing cycles, the US Fed is still expected to cut rates further, with another cut next week almost certain in the markets.

Labour-market indicators, including ADP's November report of private-sector job losses and Revelio Labs data, suggest a softening employment environment, which keeps expectations high that the Fed will continue easing in 2026. This creates breathing room for the SARB to further ease monetary policy while maintaining a favourable interest rate differential with the US, keeping ZAR investments relatively attractive.

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