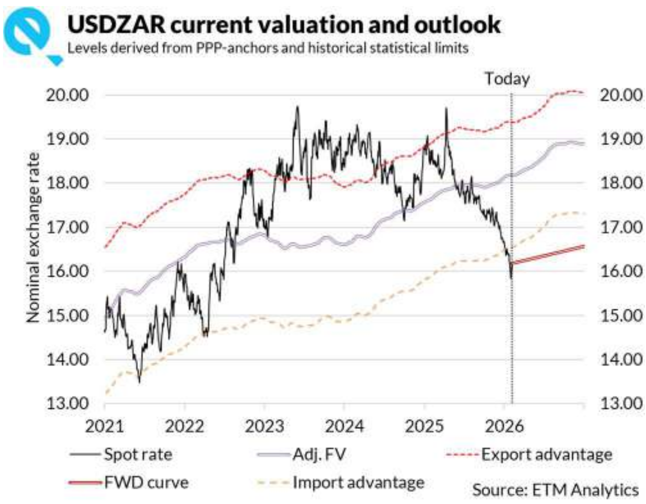
Summary of macroeconomic research views:

- **Inflation:** Headline consumer inflation increased marginally and in line with consensus estimates to +3.6% y/y in December from +3.5% y/y in November. The economy continues to benefit from a muted inflation environment, underpinned by the rand's strong performance and persistently low oil prices. In the coming months, headline CPI could decline.
- **Repo rate:** The SARB opted to keep the repo rate unchanged at 6.75% last month despite a stronger ZAR and subdued inflation. This decision builds credibility around the SARB's new 3% inflation target.
- **Government Finances:** The year-to-date (Apr-Dec25) borrowing requirement widened to -R374.7bn, compared with -R226.7bn over the same period in 2024/25. The still-elevated gross borrowing requirement underscores the continued weakness in the government's fiscal position, despite ongoing year-to-date primary budget improvements during 2025/26.
- **GDP Growth:** Q/Q seasonally adjusted growth declined slightly from 0.9% in Q2 to 0.5% in Q3. Gross fixed capital formation (GFCF) improved moderately, largely driven 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%, suggesting that further reforms are necessary to boost the economy.
- **Currency:** The ZAR started off the year on a positive note amid broader emerging market currency strength and the rise in gold and platinum prices to new all-time highs. This was reflected in SA's positive terms of trade. The ZAR appreciated by 2.6% against the greenback in January but has since corrected amid increased market volatility in the early days of February. Its performance against the EUR and GBP was not as impressive at 1.6% and 0.9% respectively. Looking ahead, valuations against the majors are mixed, but sentiment toward the ZAR should remain positive if broader financial market conditions stabilise.
- **Offshore conditions:** The year opened with volatility as markets reacted to Trump's fluid tariff rhetoric. Proposed levies on European goods tied to Trump's Greenland takeover ambitions were later paused, but renewed threats followed after US allies, including Canada and the UK, engaged China on trade. Regarding monetary policy, the Fed ultimately held rates steady, with guidance reinforcing market pricing for a potential July rate cut. Fortunately, concerns over Fed independence faded at the end of the month after Kevin Warsh was named the next Fed Chair, tempering expectations of a sharp dovish pivot.

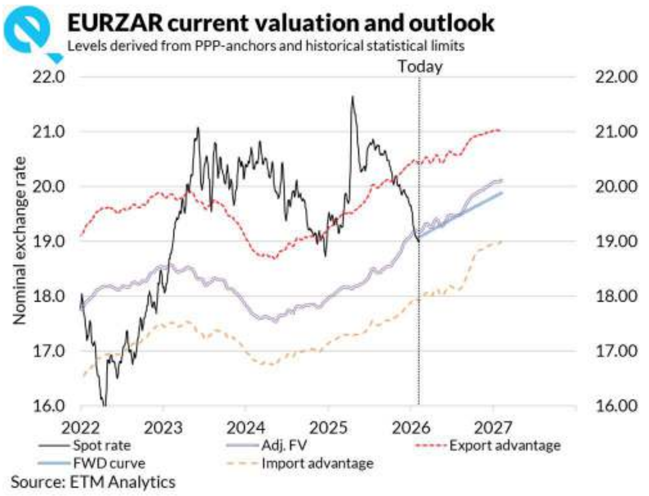
FX valuation indicators:



USD-ZAR: On a risk-adjusted basis, the ZAR remains deep in overvalued territory against the USD (USD-ZAR undervalued). Following the dramatic rally that saw the USD-ZAR touch 15.65 in late January, the pair has corrected as gold prices retreated from their $5595/ounce peak back to levels below $5000. This pullback represents a healthy correction after overextended positioning.

However, it is worth noting that the structural themes underpinning USD weakness – and ZAR strength – remain intact. These include persistent US policy uncertainty, ongoing central bank diversification away from dollar assets (and into gold), and South Africa's reform trajectory.

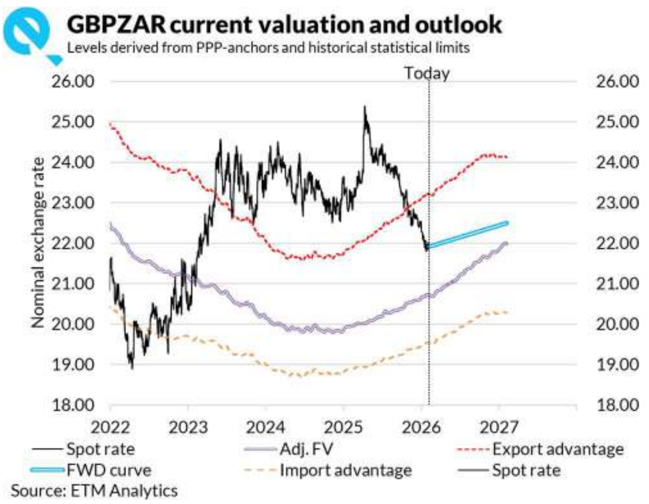
Looking ahead, the 2026 Budget Speech on 25 February will be critical. Markets will scrutinise Finance Minister Godongwana's proposals for insight into fiscal reform momentum, debt trajectory stabilisation efforts, and the potential path towards a credit rating upgrade.



EUR-ZAR: On a risk-adjusted basis, the EUR-ZAR is now trading at fair value following substantial ZAR appreciation since August 2025, when the pair was deeply overvalued (ZAR undervalued). This marks a significant shift from just a few months ago, when South African exporters enjoyed an opportunity to lock in attractive forward rates. The exporter value that previously existed due to ZAR weakness has now been fully eroded as the pair converged towards equilibrium.

It is important to note that trading at fair value does not preclude further ZAR appreciation. The fair value estimate serves more as a pivot point around which the pair tends to oscillate in mean-reverting fashion rather than a rigid ceiling

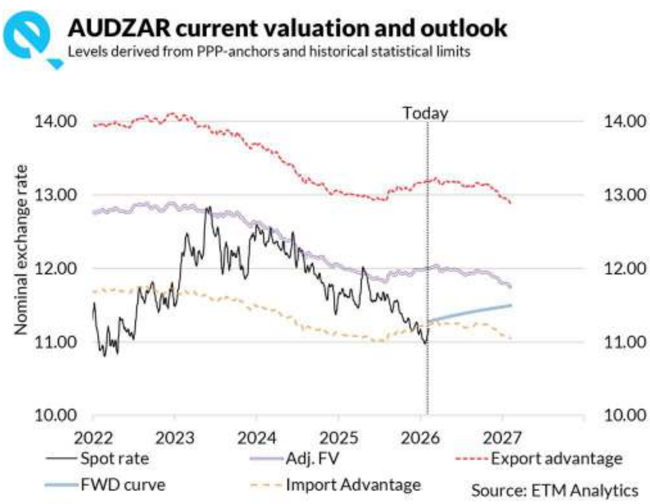
The European Central Bank's policy stance will be crucial in determining EUR-ZAR direction. Although Eurozone inflation remains subdued, the ECB has shown reluctance to cut rates further, with no additional cuts currently priced into markets for this cycle. The SARB, meanwhile, is expected to continue its easing trajectory. This divergence in policy paths will need to be weighed against SA's improving fiscal outlook ahead of the February Budget Speech when determining the mixed outlook for the EUR-ZAR pair.



GBP-ZAR: On a risk-adjusted basis, the GBP-ZAR continues to trade above fair value, suggesting the pair is overvalued (ZAR undervalued), even though the ZAR has appreciated significantly against the GBP since its May 2025 selloff. The model suggests that the ZAR has further to strengthen against the GBP.

While the ZAR is benefitting from positive terms of trade and some much-needed reforms, the GBP is facing rising risks. Political headwinds continue to swirl as pressure mounts on PM Starmer, reviving concerns about policy stability. Markets are growing increasingly sensitive to any signs of leadership risk, wary that a shift toward a more left-leaning agenda could dilute adherence to fiscal rules.

A surprisingly dovish BoE vote revealed more support for a rate cut than expected. The result is that the market has moved to price in the next rate cut for April or June, rather than July, prior to its meeting. Therefore, it is possible that the BOE will reduce rates more rapidly than a relatively cautious SARB, which will be ZAR-supportive. Overall, the GBP ranks poorly in ETM's carry attractiveness rankings. Therefore, a move to fair value for the GBP-ZAR pair suggests levels closer to the 21.00 mark could be seen in the coming months.

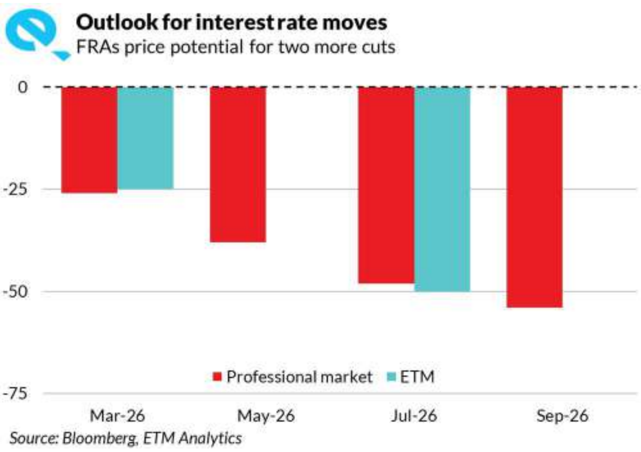


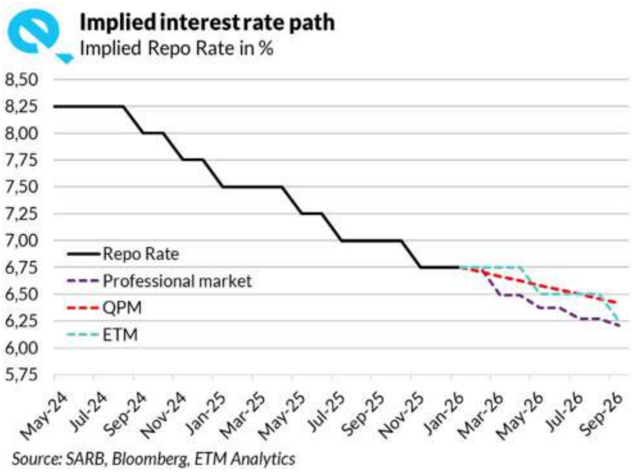
AUD-ZAR: The AUD-ZAR cross compressed sharply through much of 2025, leaving the cross deeply oversold as the ZAR staged a powerful rally. While the cross has edged higher into early 2026 amid a modest ZAR pullback and a recent RBA rate hike, it remains well below risk-adjusted fair value. With the ZAR still exceptionally strong against the AUD, current levels remain attractive for importers.

Historically, such undervalued levels have proven difficult to sustain, often preceding a move back toward risk-adjusted fair value. That said, AUD-ZAR has typically traded below fair value in recent years and rarely overshoots by a meaningful amount. The cross is currently trading around 11.27, supported by a recent RBA hike, after bottoming near 10.94 in mid-January, its weakest level since 2022.

What stands out is that the ZAR has appreciated strongly against another commodity currency that, in theory, should have benefited from the same constructive global backdrop. This suggests the move has been driven less by global market dynamics and more by an improvement in South Africa's perceived risk profile. That said, the balance of risks is beginning to shift. With the SARB expected to continue cutting rates as the RBA enters a hiking cycle, alongside a pullback in gold weighing on South Africa's terms of trade, the ZAR's recent trading range may reset. Add looming fiscal risks ahead of the February 2026 budget, near-term election uncertainty, and a fragile global backdrop, and the risk of a ZAR selloff is rising. Against this backdrop, a gradual move in AUD-ZAR back toward fair value looks increasingly plausible.

Interest rate indicators:





The January MPC meeting was characterised by a cautious SARB that kept rates on hold despite a notably stronger ZAR, limited inflation risk, and benign inflation expectations. The bout of ZAR weakness since the meeting justifies the cautious hold, but the SARB will not be able to maintain this stance for long if markets stabilise and the ZAR recovers.

SA's economy is also still a long way from manifesting any major demand-driven inflation. This is clear in the broader expectations for inflation, with market indicators still at their lowest levels in many years, while inflation expectation surveys continue to point to moderating price growth.

ETM's inflation risk indicator suggests that inflation should stabilise in the coming months, but risks persist from easing credit conditions, sticky food inflation, and high administered price increases. However, ZAR strength, subdued oil prices, and relatively weak domestic demand all suggest that any increase will be contained and kept within the SARB's estimates.

Currently, the market is positioned for at least two more rate cuts over the next few months, with the March meeting looking like it could be the first of the year. However, if markets do not find their footing before then, this will be pushed out to May. Beyond that, September looks likely for the second cut, as this will have provided enough time for inflation expectations to settle down.

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