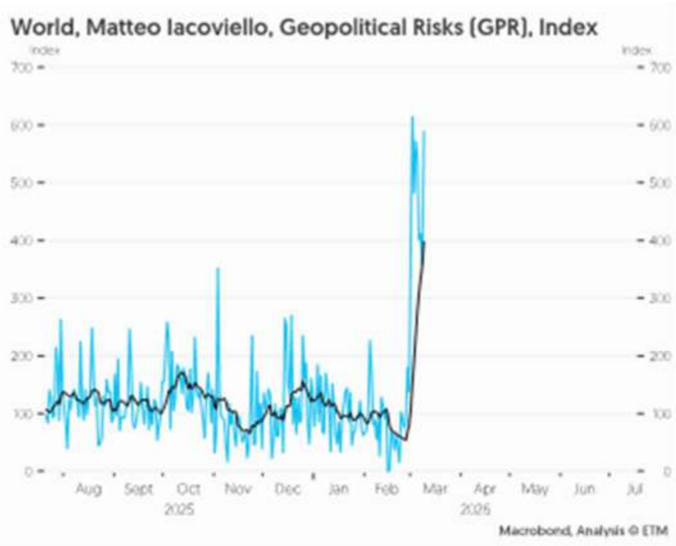
Viewpoint: Bringing some sanity to recent market moves

Key points

- It is always unnerving when substantial changes occur in a very short time. The outbreak of war in the Middle East has caused many disruptions, and there will be significant consequences that flow from it. How bad things get will depend on how long the war lasts and how much damage is inflicted in between.
- However, sometimes it is worth taking stock of SA's real position to understand the longer-lasting implications. From a trade perspective, which will directly influence the ZAR, the picture might not be as dire as some people anticipate. This report seeks to introduce some sanity to discussions. It is not an exhaustive document that aims to cover all the impacts of the war, but it does seek to inject some balance into some debates.

BASELINE VIEW: Although risk aversion has ramped up dramatically, SA's terms of trade have not completely collapsed. The country was on a solid fundamental footing before the war, and that will mitigate some of the fallout. That does not preclude the ZAR from depreciating further in the next two weeks, but it does suggest that, instead of viewing current events as a grand collapse, one should see it as an opportunity for exporters that have had a much tougher time of late.

Consequential curveballs to a war that shows no signs of an imminent end



Markets are often thrown curveballs, and those curveballs can sometimes have cascading effects that trigger consequences many had never considered. It may not be accurate to suggest that the current war was completely unexpected.

There was plenty of buildup ahead of the original attacks by the US and Israel, and then there were the failed negotiations, which were another precursor to the conflict.

However, what was perhaps less evident at the time was Iran's reaction to the US and Israel military action, and the rapid broadening of the conflict to include Gulf states that had precious little to do with the original conflict.

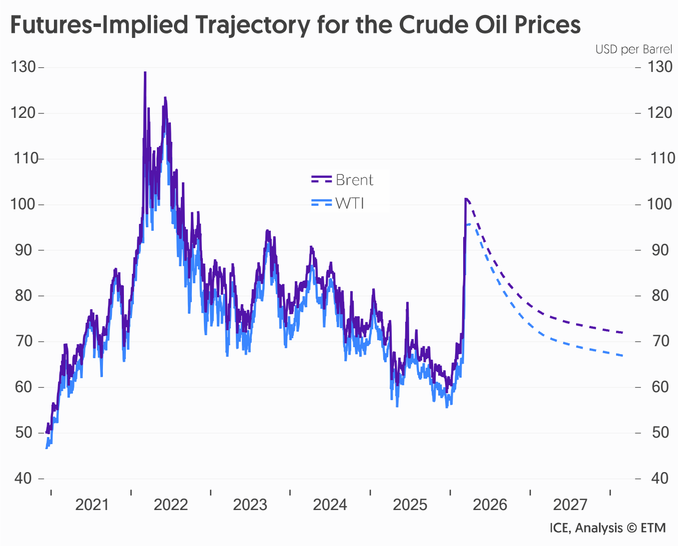
Iran's strategy was clear: if the US and Israel attack, they will make this war everyone's problem, and a sure way to do so would be to ensure that oil prices rise so aggressively that the pain is felt worldwide.

The obvious logic being that if the world was made to suffer, the pressure on the US and Israel to stop would similarly ramp up. One could argue that this has already happened, and that there are many vested interests worldwide pushing hard for this war to be brought to a close and for ways to normalise oil production and safe passage through the Strait of Hormuz.

If one would excuse the pun, this was Iran's Trump card that has clearly disrupted financial markets and turned monetary policies on their head in the space of just two weeks.

The worst part is that the near-term indicators meant to gauge whether there is any de-escalation remain as elevated as ever, and there is no sign that this war is about to end any time soon, regardless of how President Trump tries to frame the US's success.

Oil price shock imposes a significant price shock on the global economy



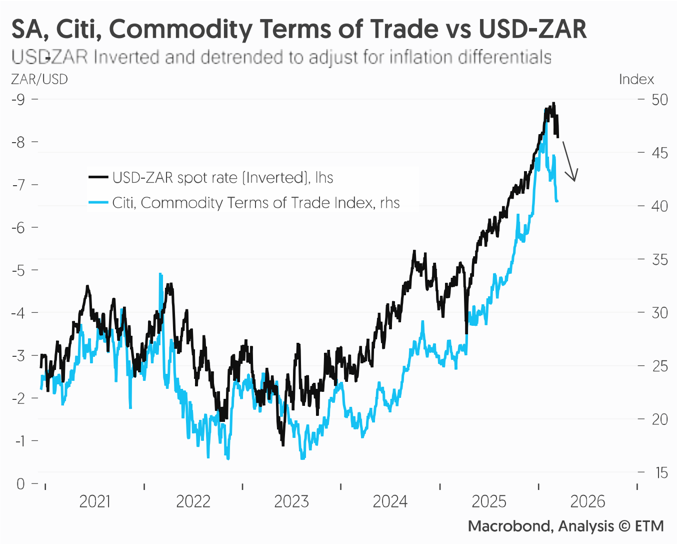
In a very short space of time, investors and policymakers have had to contend with a sharp change of fortunes, reflected in the spike in oil prices. Although investors are positioning for a resolution to the war or other developments, such as the release of strategic reserves and the lifting of Russian oil sanctions, there is no evidence yet that this will work.

On the contrary, Iran is threatening to keep the Strait of Hormuz closed to drive up oil prices to $200 pb.

For markets that have been priced for a more Goldilocks environment, this is obviously bad news, leaving them vulnerable to a selloff.

The exact magnitude will depend almost entirely on how high oil prices go and the trajectory of retreat. If the retreat is quick, this will be a fleeting bout of pressure that will not trouble markets much. However, early indications suggest this is not the case and that the effects of the oil disruption could unwind slowly.

SA's terms of trade imply a further correction is possible



The past two years have seen the ZAR perform very impressively, with its direction largely driven by the surge in gold and platinum prices.

Other commodity prices have also helped drive SA's terms of trade higher, and those improved terms of trade have found expression in a surplus current account position and a better-performing ZAR. The last two weeks have naturally changed that.

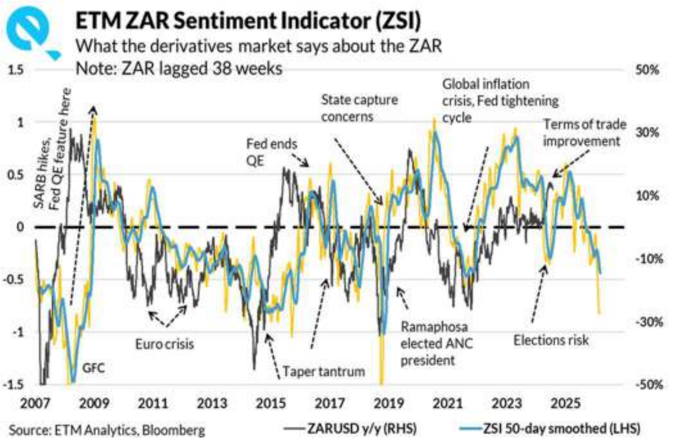
However, it is worth pulling back the lens and taking stock. Sometimes looking at a picture more holistically offers a healthier perspective, free of the emotion that typically accompanies getting caught up in short-term moves.

For now, the terms-of-trade shock suggests the ZAR could lose more ground, and if the retreat in the terms of trade were reflected in the USD-ZAR, it might rise to levels comfortably above 17.50/dlr.

However, in the longer term, that would not stand out as an unsustainable move. On the contrary, it would fit within the broader appreciative channel established in 2023.

The point is that, despite the uncertainty and volatility, the USD-ZAR has not traded wildly outside its range. Many of the fundamentals that drove the ZAR to these levels remain intact, and one can therefore speculate that if the geopolitical environment improves, so too will the ZAR.

ZAR Sentiment Indicator falls off sharply

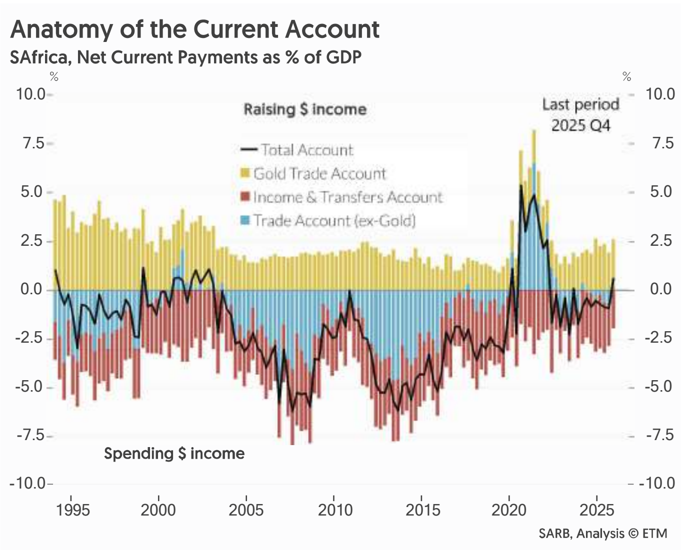


Even before the war had begun, ETM's ZAR Sentiment Indicator had started deteriorating. The message at the time was clear. The ZAR had appreciated aggressively, and at some point, that trading action would become too one-sided to remain sustainable. It appears this point was reached before the war began, leaving the ZAR vulnerable to a selloff.

The fact that it coincided with the war only underscores why the ZAR selloff might've been amplified. However, this is a short-term cyclical indicator, and one should not read anything more into it than that. The ZAR's fundamental drivers have not changed, and once the dust settles on this war, just as it has with Ukraine, trends can reassert themselves.

However, this indicator serves an important purpose for near-term positioning, as it highlights why the ZAR might find itself on the defensive in the weeks ahead. It helps inform exporters that better times lie ahead and that patience might be rewarded with higher levels to cover forward.

Fundamentals remain intact



One of the best ways to gauge whether the fundamentals of an economy have changed is to analyse the current account to understand the underlying drivers of cross-border flows better.

From the accompanying chart, it becomes quite clear that, while the income and transfers account remains in deficit as always, a neutral trade account, when combined with the surplus gold trade account, has made a significant contribution towards the current account surplus.

This is the first surplus since the pandemic and suggests that, as of the end of 2025, there was fundamental support for the ZAR. One should consider this chart together with the analysis of the terms of trade above.

Given that the gold price has risen even more, and that higher interest rates could curtail consumption, one gets the sense that the current account surplus could be sustained for a while longer. Of course, a much higher oil price would negatively impact this calculation, but there is some capacity to absorb the higher oil cost without plunging the current account into a deep, unsustainable deficit that would require a substantially weaker ZAR to rebalance.

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