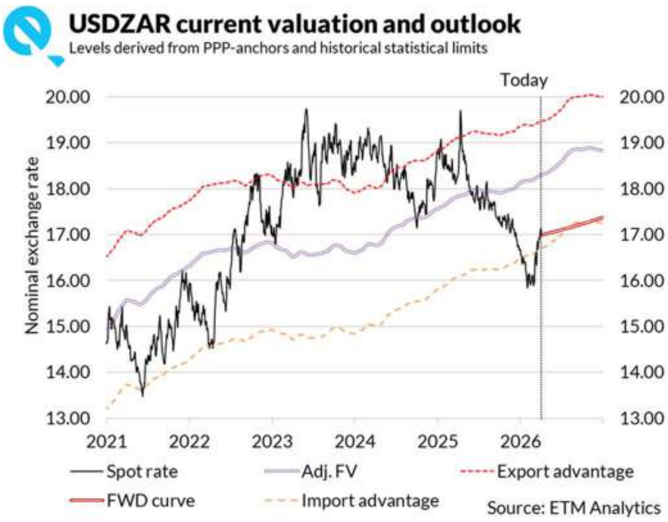
ZAR Service: FX positioning
April 2026

TreasuryONE Optimising Your Cash Flows

Summary of macroeconomic research views:

- **Inflation:** Headline consumer inflation slowed by more than expected from 3.5% y/y in January to 3.0% y/y in February, the lowest since June 2025 and in line with the SARB's new inflation target. Core inflation (excluding food and energy) decelerated to 3.0% y/y from 3.4% y/y in January. Disappointingly, elevated oil prices linked to the Middle East war are expected to feed into a surge in inflation from April, compounded with ZAR depreciation. CPI is expected to move above 4.0% in the coming months.
- **Repo rate:** The SARB held rates steady, choosing to wait for clearer signs on whether the Iran war will be short-lived or prolonged. The inflationary and market impacts will largely depend on the duration, with a quick resolution likely leading to only temporary price pressures and limited financial disruption.
- **Government Finances:** The year-to-date budget deficit stood at -R285.3bn compared to -R323.6bn in the 2024/25 fiscal year, pointing to an improved fiscal position. Recent external developments have partly unwound these gains, with bond yields moving higher and precious metal prices easing. Furthermore, the April reduction in the fuel levy will negatively impact government revenue. The overall impact of the conflict on the domestic fiscal outlook will ultimately hinge on how prolonged the war becomes.
- **GDP Growth:** Q4 GDP growth rose marginally to 0.4% from 0.3% in Q3. On an annual basis, the economy grew by 1.1% in 2025, up from 0.5% in 2024. Some structural gains in the economy, particularly in energy and transport and logistics, likely supported this modest improvement. However, meaningful progress toward large-scale job creation will require addressing a range of other binding constraints on economic activity with urgency.
- **Currency:** After strengthening against the USD over the past six months, the ZAR weakened over the course of March in a broad-based decline for emerging market currencies following the outbreak of war in the Middle East and a resultant increase in risk aversion. The ZAR lost 5.9% against the USD, 4.1% against the GBP, and 3.8% against the EUR, making it the worst-performing emerging-market currency. While buoyed gold prices provided support for SA's terms of trade early in the month, this support faded as gold prices fell while oil prices increased. Direction going forward will depend largely on developments in the Middle East.
- **Offshore conditions:** The escalation of the Middle East conflict drove oil prices higher, lifting inflation expectations and pushing global yields higher. Central banks grew more cautious, with expectations of delayed easing supporting higher yields in developed markets. The US dollar strengthened broadly on safe-haven demand and higher rate expectations. Other commodities also experienced significant pressure, particularly fertilisers and industrial metals, amplifying concerns about inflation risks. Overall, markets traded in a risk-off environment marked by higher volatility and stronger USD demand.

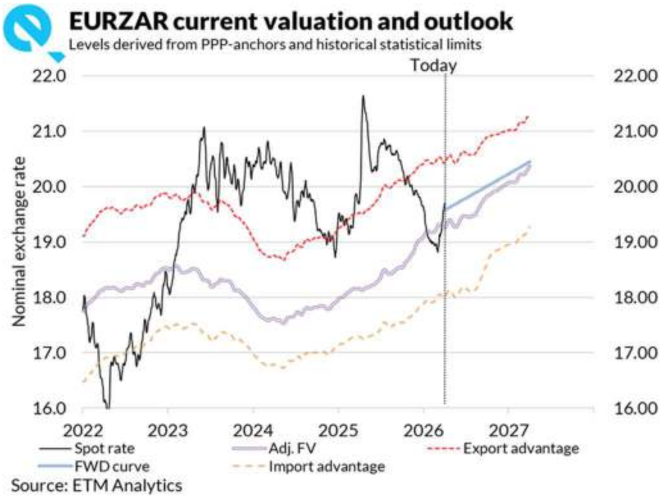
FX valuation indicators:



USD-ZAR: Following a strong ZAR rally between April 2025 and February 2026, in which the USD-ZAR moved from unsustainably overvalued to deeply undervalued, a fresh market correction has driven the pair slightly higher in the past month. The catalyst was risk-off sentiment stemming from the war around Iran and the closure of the Strait of Hormuz.

The situation in the Middle East remains extremely fluid and uncertain, and it is impossible to predict with any certainty how it will unfold. However, it is worth noting that even after the USD-ZAR's most recent jump higher, the pair remains in deeply undervalued territory.

That being said, recent market moves suggest that any material de-escalation of the Iran war could lead to a re-emergence of the USD-ZAR's downtrend, notwithstanding the pair's undervaluation. The reason for this is that South Africa's economic and fiscal fundamentals continue to improve, especially relative to the rest of the tradable emerging-market basket.Pulling the lens back slightly, however, the model suggest that there is currently an opportunity for importers to lock in value, while exporters would do well to bide their time.



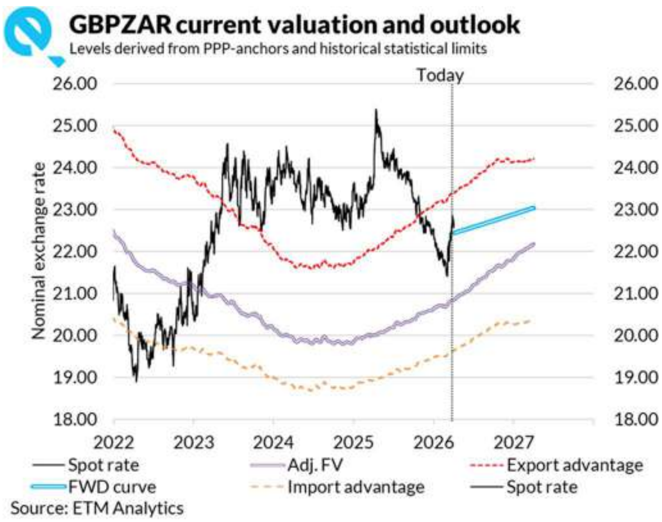
EUR-ZAR: The EUR-ZAR remains near its risk-adjusted fair value, even after it traded sharply higher over the past month. According to the model, there is thus no clear value for either importers or exporters at current levels, and the market remains headline-driven for the time being.

That is to say, any clear de-escalation of the Iran war, especially if it leads to the reopening of the Strait of Hormuz, would benefit the ZAR, while any escalation would lead to capital flight out of emerging markets such as South Africa.

In terms of interest rate differentials, market positioning suggests that the ECB is now expected to hike rates through 2026, with at least two 25bp rate increases currently priced in, with a strong chance of a third.

Similarly, the market has begun to price in rate hikes by the SARB, although any drop in oil prices would likely see this positioning reverse rather quickly.

Nevertheless, as things stand, the ZAR remains attractive from a carry trade perspective, but investors are likely to stick to the sidelines until the war comes to an end. This makes for a difficult trade environment, likely to be characterised by a high degree of volatility in the near term.

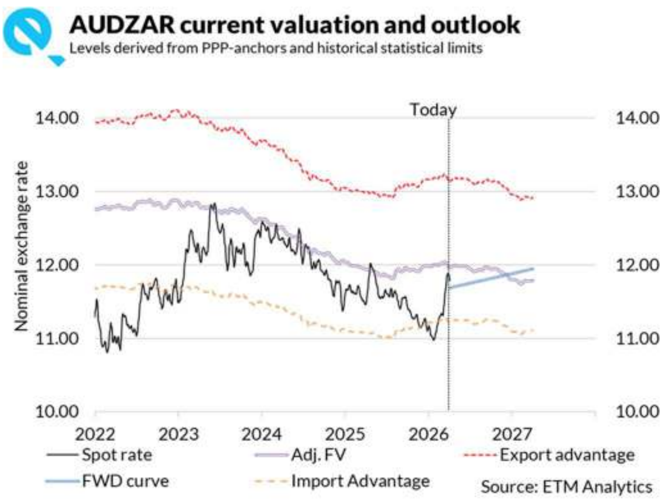


GBP-ZAR: After peaking at a record 25.50 in April 2025, the cross underwent a sustained correction through most of 2025, eventually bottoming near the 21.50 support level in late February 2026, its lowest since early 2023 and close to risk-adjusted fair value.

The earlier move had left the cross extended well above exporter advantage for much of 2023–2025, with the eventual break below 23.00 in October 2025 signalling a broader normalisation toward fair value. This adjustment was interrupted by the escalation in the Middle East, driving a short-term rebound.

Since then, GBP-ZAR has stabilised just below 22.50, hovering near the lower bound of exporter advantage, but with limited conviction in either direction. A more hawkish BoE, now with a 25bp hike priced by mid-2026, should provide some support to GBP.

At the same time, tightening expectations for the SARB should help stabilise the ZAR, limiting upside in the cross. Looking ahead, direction is likely to remain driven by geopolitical developments rather than domestic fundamentals.



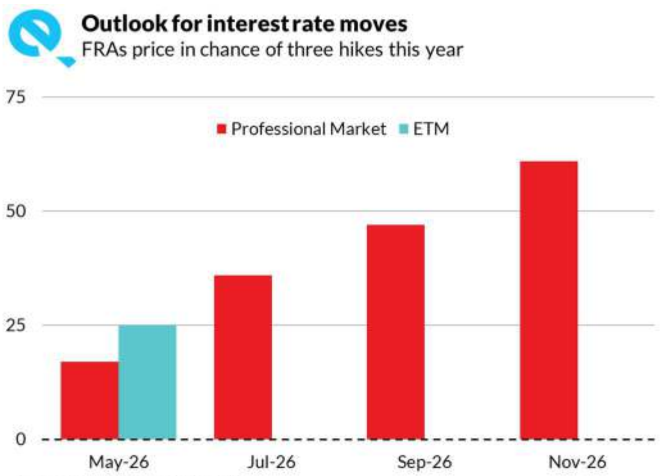
AUD-ZAR: The AUD-ZAR rebounded through March after starting the year deeply oversold near the 11.00 support level. A shift in global dynamics, driven by the escalation in the Middle East, higher energy prices, and rising risk aversion, weighed heavily on the ZAR, while relatively more hawkish RBA expectations versus SARB supported the AUD.

This divergence pushed AUD-ZAR higher, briefly testing the 12.00 resistance level and lifting it back toward risk-adjusted fair value.

However, the move has since faded, with the cross easing back toward the mid-11.60s, leaving it broadly aligned with fair value and offering limited advantage to either importers or exporters.

While the RBA's tightening bias should continue to underpin the AUD, rising inflation risks are also prompting a more hawkish repricing of the SARB, limiting further upside in the cross. Looking ahead, de-escalation in the Middle East would likely support the ZAR, while further escalation could trigger renewed EM outflows. In the interim, the cross is expected to hover around fair value, with elevated volatility and limited directional conviction amid investor caution.

Interest rate indicators:

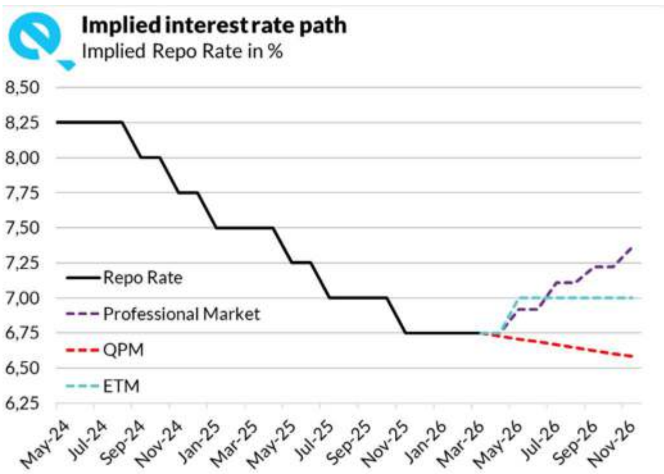


Source: Bloomberg, ETM Analytics

Last month's MPC meeting confirmed that, in line with key global central bank policies, the SARB's interest rate outlook has shifted. While the SARB did keep the repo rate unchanged at 6.75% at the meeting, as widely expected, Governor Kganyago was clear that a persistent oil shock resulting from the Iran war would lead to second-round inflation, warranting interest rate increases.

For now, the Bank remains moderately restrictive, keeping its GDP growth outlook unchanged and forecasting only slightly higher average inflation for 2026. Still, higher interest rates are likely to follow in May (a 25bp hike), at which point the Bank's inflation and growth forecasts are likely to be adjusted to better account for the impact of the war. Beyond that meeting, the interest rate path still remains uncertain and largely dependent on the duration of the Iran War.

Markets are currently fully pricing in two 25bp rate hikes for 2026, one likely by the July MPC meeting, followed by another at the September meeting. They are also pricing in a high likelihood of a third 25bp hike towards the end of the year.



Source: SARB, Bloomberg, ETM Analytics

From our perspective, we expect policymakers to hike rates at the May meeting. If the war continues until mid-year, another rate hike in July would be warranted, but it would likely mark the end of rate increases. However, if the war continues into the end of the year, further monetary tightening (i.e., a third rate hike) will likely be required to dampen second-round inflationary effects.

In such a scenario, it would be plausible to see a larger interest rate move, with the SARB considering a 50bp hike at some point.

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