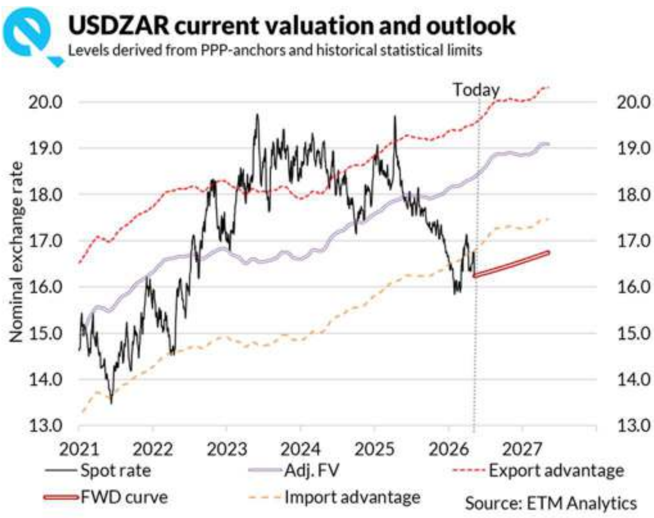
ZAR Service: FX positioning
May 2026

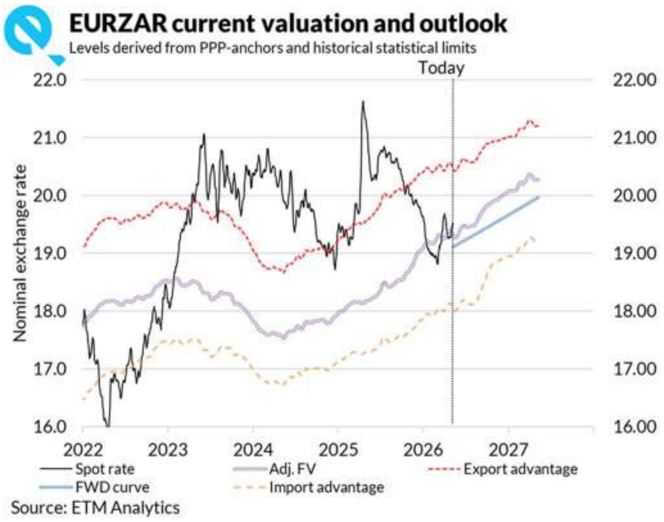
Summary of macroeconomic research views:

- **Inflation:** Headline CPI edged higher to 3.1% y/y in March from +3.0% y/y in February. Recent fuel price increases resulting from the Iran war will fully reflect in April's CPI reading, likely pushing headline CPI above the 4.0% mark with a further increase in May also expected, while food inflation could rise on the back of higher fuel and fertiliser costs.
- **Repo rate:** The SARB held rates steady, choosing to wait for clearer signs on whether the Iran war will be short-lived or prolonged. Since then, the SARB has signalled a clear bias towards acting early on inflation risks, emphasising the dangers of delayed policy responses. Kganyago argued that late action risks embedding price instability.
- **Government Finances:** March's figures marked the end of the 2025/26 fiscal year, with the overall budget deficit narrowing slightly to -R330.9bn from -R334.9bn previously. However, the gross borrowing requirement worsened notably, widening to -R545.1bn from -R397.5bn in the prior year. Despite some external support, persistent structural challenges continue to drive reliance on debt financing. Fiscal indicators will likely come under further pressure, partly because of the ongoing Iran conflict.
- **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, 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:** A US–Iran ceasefire brokered in April and its extension improved risk sentiment, supporting emerging market currencies like the ZAR as safe-haven demand for the dollar eased. After coming under pressure in March, the ZAR strengthened by 1.7% against the USD in April and just 0.1% against the EUR. Conversely, the ZAR lost 1% against the GBP.
- **Offshore conditions:** In April, offshore conditions remained volatile but less so than in March, driven by Middle East developments with a fragile ceasefire in place for much of the month, but the Strait of Hormuz standoff was ongoing. The VIX declined overall in April. Oil prices eased during the month before rising to around $108/bbl at month-end. These developments continued to underpin inflation risks, keeping global yields relatively high. Central banks broadly adopted a wait-and-see stance amid heightened uncertainty, while expectations for rate cuts into 2027 were scaled back. The US dollar traded in a more mixed pattern, strengthening during periods of escalation but softening on signs of de-escalation, mirroring shifts in global risk sentiment.

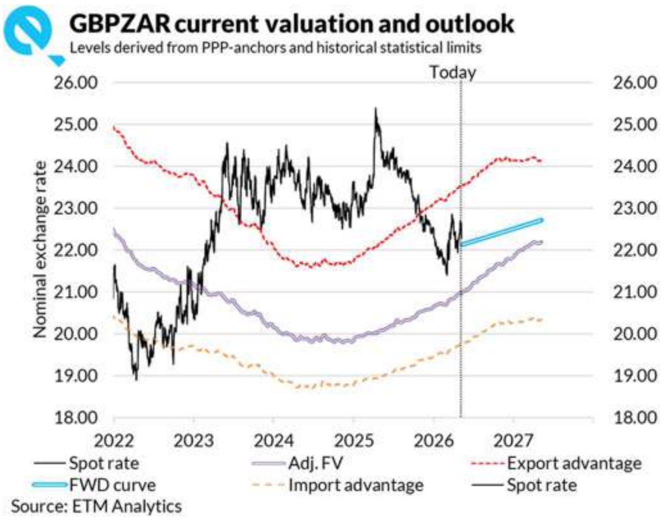
FX valuation indicators:



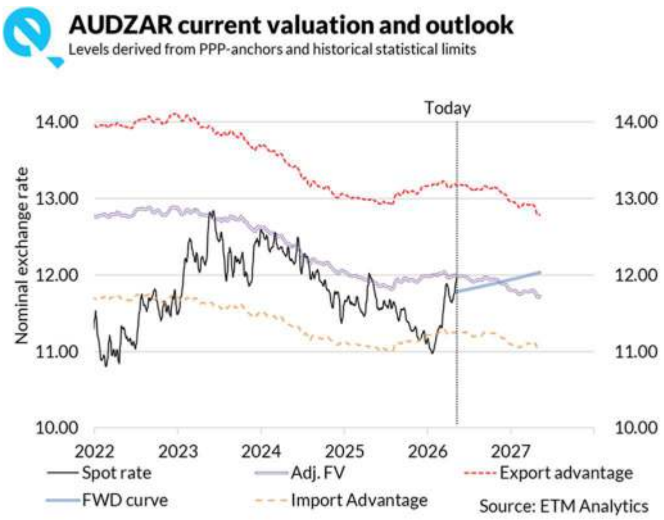
USD-ZAR: On a risk-adjusted basis, the ZAR remains deep in overvalued territory against the USD (USD-ZAR undervalued), though slightly less so than at the beginning of the year. The model suggests that importers will enjoy a period of advantage even with a moderate weakening of the ZAR against the USD priced in over the remainder of the year. Movements in the pair continue to be driven by developments surrounding the Strait of Hormuz, which is feeding through into inflation and interest rate expectations. Supporting the USD are expectations that interest rates will remain higher for longer, as reflected in Fed fund futures. Regarding domestic interest rates, the FRA market is pricing in at least two, and possibly three, 25bp rate hikes in 2026. Domestically, a prolonged war, with likely intensifying effects on inflation, interest rates, economic growth and government revenue collections, will partly negate the effects of a more constructive macro backdrop, as structural reforms are underway under the GNU government. This, in turn, will somewhat weigh on the ZAR's resilience. Overall, the ZAR will remain volatile until there is a definite end to the war and is biased weaker, reflecting its sensitivity to elevated oil prices and global risk sentiment



EUR-ZAR: The pair is trading around 19.35 at the time of writing, roughly in line with risk-adjusted fair value following the significant ZAR appreciation seen since August last year. Looking ahead, the model suggests spot fair value should rise along the forward curve, reflecting a shifting policy landscape. The ECB currently holds its benchmark rate at 2%, but markets now price two 25bp hikes this year as inflation concerns resurface following the Iran conflict and Strait of Hormuz closure. The SARB faces similar pressures, with the FRA market pricing at least two, potentially three, 25bp hikes in 2026. This marks a dramatic reversal from the easing expectations that prevailed before recent geopolitical developments. Despite trading at fair value, the pair's direction remains highly uncertain given ongoing Middle East tensions. However, the ZAR has demonstrated notable resilience through the war shock, suggesting bulls could take charge should hostilities end quickly. South Africa's reform momentum under the GNU remains positive, whilst structural demand for precious metals continues to support the currency through elevated gold prices. With both central banks now on potential hiking paths and geopolitical risks dominating, there is no compelling value for either exporters or importers at current levels. The near-term outlook thus depends less on domestic fundamentals than on how the Iran situation unfolds.



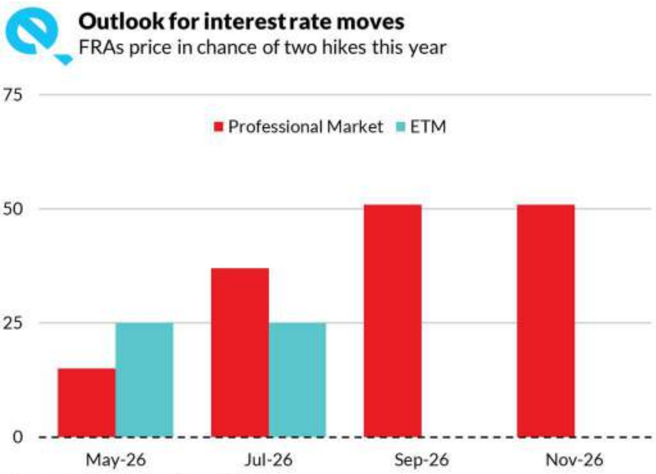
GBP-ZAR: After surging to record highs above 25.00 in April 2025, deep in exporter advantage territory, the GBP-ZAR cross has corrected significantly and is now trading in the low-to-mid 22.30s, approaching its risk-adjusted fair value while struggling to find strong conviction around the key 22.00 level. The sharp pullback has shifted the cross into a more balanced, relatively importer-friendly zone compared with last year's extremes, offering local importers noticeably cheaper ZAR costs on UK exposures, while leaving exporters converting GBP revenues at far less attractive levels. A hawkish repricing of BoE policy, with a 25bp hike now expected as soon as July and potential follow-through later in 2026, continues to lend underlying support to sterling. On the SARB side, there is growing bets of a May hike and possibly further tightening by year-end to guard against second-round inflation risks. With both central banks showing tighter biases, the near-term direction of GBP-ZAR will likely remain heavily influenced by Middle East developments, and the resulting impact on oil prices and ZAR strength. Overall, the cross sits near fair value with limited conviction, suggesting range-bound trading ahead unless geopolitics deliver a clear catalyst.



AUD-ZAR: After testing the 11.00 handle in early 2026 and briefly entering importer advantage territory, the AUD-ZAR cross has recovered and is now trading near its risk-adjusted fair value. The cross has struggled for clear direction recently, oscillating around fair value following an earlier rebound driven by Middle East tensions, higher energy prices, and relatively hawkish RBA expectations. This leaves the cross broadly balanced, offering limited outright advantage to either South African importers or exporters. RBA cash rate futures now price a full 25bp hike by the September meeting, supporting the AUD, while the SARB's March hold has given way to growing expectations of a May hike and further tightening by year-end to combat inflation risks. With both central banks showing tighter biases, the AUD-ZAR is likely to remain range-bound around fair value. Geopolitical developments in the

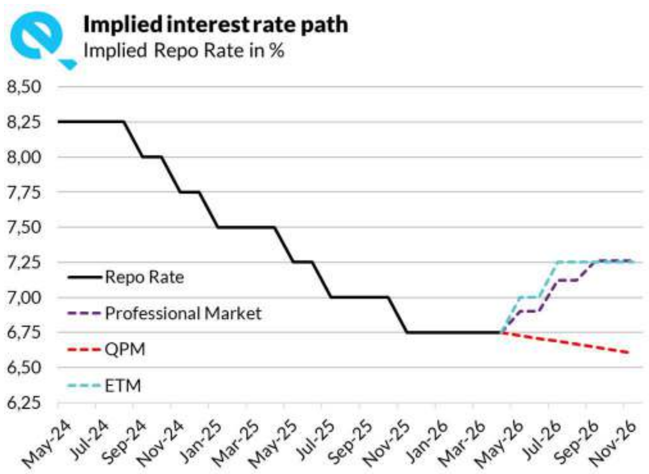
Middle East, particularly peace talks and any reopening of the Strait of Hormuz, will continue to dominate ZAR performance and the cross.

Interest rate indicators:



Source: Bloomberg, ETM Analytics

Recent market pricing and updated rate-path indicators suggest a more gradual tightening cycle than was expected in April. However, interpreting FRA spreads over JIBAR requires some care at present. JIBAR has itself begun drifting higher in anticipation of a near-term rate move, which compresses the observed FRA-JIBAR spread and can make hike expectations appear more subdued than they actually are. Adjusting for this creep, the 1x4 FRA spread of approximately 26.5bps above JIBAR, alongside the JIBAR drift itself, together indicate that a May rate hike remains priced in by the market. Beyond May, a further hike is largely expected by September, although the overall cycle now appears more gradual and back-loaded relative to earlier expectations of a more front-loaded tightening path.



Source: SARB, Bloomberg, ETM Analytics

The implied repo path also reflects a growing divergence between the SARB's QPM outlook (which remains unchanged from the March MPC meeting) and market expectations of tightening, with the professional market pricing the repo rate closer to 7.25% by late 2026. Overall, the message from the curves is that inflation and policy reaction risks remain present, but are viewed as less immediate than seen in recent weeks, with any hiking cycle potentially shallower and more front-loaded than previously anticipated. In practical terms, the base case shifts from continued tightening from May through to the end of the year toward a "wait-and-see" MPC approach, with conditional rate hikes expected thereafter, depending on how inflation persistence and external risks evolve. From our perspective, we expect policymakers to hike rates at the May meeting if the war continues until then. Another rate hike in July may be warranted, but it depends on the timing of the end of the conflict, given that recent developments suggest it is within sight.

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