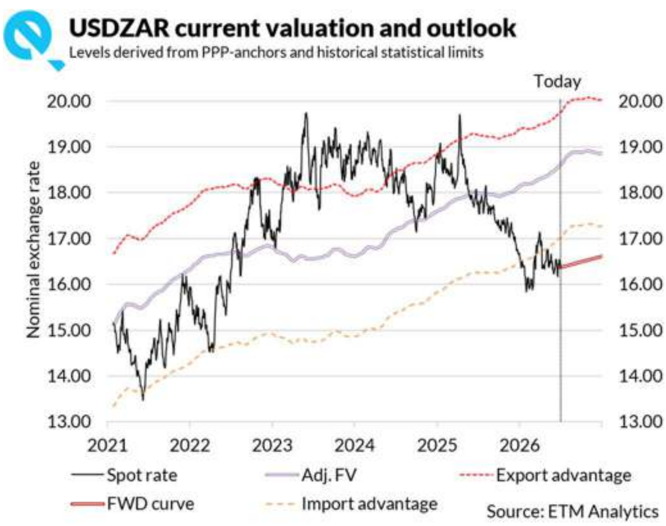
ZAR Service: FX positioning
July 2026

TreasuryONE Optimising Your Cash Flows

Summary of macroeconomic research views:

- **Inflation:** Headline CPI rose to 4.5% y/y in May from 4.0% y/y in April, driven largely by higher fuel prices, while core inflation edged up to 3.8%. However, easing oil prices following reduced tensions in the Middle East should see fuel inflation moderate from July, lowering the risk of inflation exceeding 5.0% and limiting broader second-round inflationary pressures.
- **Repo rate:** The SARB raised interest rates by 25bps in May, citing rising inflation risks from higher oil prices and second-round inflationary risks. While the war has ended, recent comments by SARB Governor suggest the SARB remains cautious and that persistent inflation expectations could delay further policy easing or, if they continue to rise, strengthen the case for tighter monetary policy.
- **Government Finances:** The ytd budget deficit (Apr-May 26) stood at -R78.2bn compared to -R74.7bn in the 2025/26 fiscal year, pointing to a slightly worse fiscal position. More broadly, SA's fiscal outlook is expected to deteriorate in the 2026/27 fiscal year, as the recent Middle East conflict likely weighed on economic activity and, in turn, tax revenue collection. Encouragingly, the recent Fitch credit rating upgrade should help contain government borrowing costs, partially offsetting the effects of the war in the Middle East.
- **GDP Growth:** Although GDP growth improved to 0.5% q/q in Q1 and 1.9% y/y, the recovery was driven largely by lower imports and stronger agricultural output rather than broad-based economic strength. Manufacturing remained weak, investment declined, and consumer spending slowed, suggesting growth prospects remain subdued and the longer-term trend of deindustrialisation persists.
- **Currency:** In mid-June, the US and Iran signed a 60-day truce agreement. Despite this, the ZAR came under pressure in June against the greenback, weakening by 1% against the USD. The ZAR performed more favourably against the EUR and GBP, appreciating by 1.1% and 0.5%, respectively.
- **Offshore conditions:** Geopolitical tensions in the Middle East eased following the announcement of a 60-day US-Iran truce, reducing concerns over disruptions to oil supplies through the Strait of Hormuz. Brent crude prices retraced much of their earlier war-related gains, helping to moderate global inflation concerns and improve broader risk sentiment. However, market attention shifted increasingly toward monetary policy after Federal Reserve Chair Kevin Warsh's hawkish debut prompted a significant repricing of US interest rate expectations. His emphasis on restoring inflation to target reinforced expectations that US interest rates could remain higher for longer, pushing Treasury yields higher and supporting broad US dollar strength. While lower oil prices reduced the need for additional policy tightening in many other major economies, central banks largely maintained a cautious, data-dependent stance amid lingering inflation risks and heightened uncertainty over the global growth outlook.

FX valuation indicators:

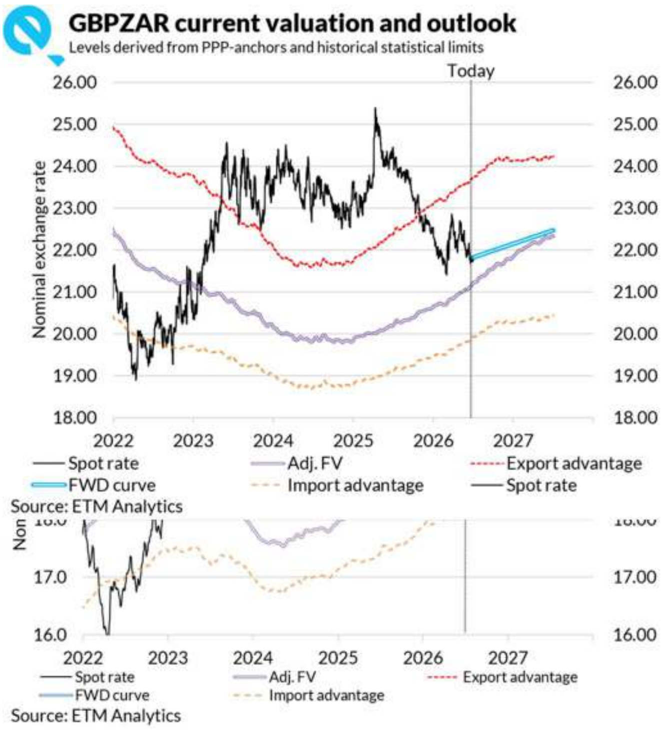


USD-ZAR: On a risk-adjusted basis, the ZAR remains significantly overvalued against the USD (USD-ZAR undervalued). Importers now have access to favourable forward rates, while exporters may prefer to hold off as long as possible.

While geopolitical risk declined significantly as the US and Iran entered a 60-day truce for further negotiations, the dominant driver of USD-ZAR movements was US monetary policy, following US Fed Chair Kevin Warsh's hawkish debut, which triggered a sharp repricing of US interest rate expectations.

His strong commitment to returning inflation to target reinforced the view that US interest rates are likely to remain higher for longer.

Over the month, according to US Fed fund futures, interest rate hike expectations were brought forward to December, whereas before the US-Iran 60-day truce, markets priced in a rate hike in January/March 2027. With the SARB reiterating its commitment to its 3% target, the interest rate differential between the US and



SA will likely remain relatively favourable, adding to ZAR resilience. The easing of tensions in the Middle East, especially the fall in oil to pre-war levels, will also provide support to the ZAR.

EUR-ZAR: The EUR-ZAR pair has extended its decline to around 18.55, moving deeper into undervalued territory (ZAR overvalued).

The ECB delivered its first hike since 2023 in June, raising the deposit rate to 2.25%, citing inflationary pressures stemming from the closure of the Strait of Hormuz.

Market pricing for a second hike has eased somewhat, from around 28bps at the end of May to roughly 18bps now.

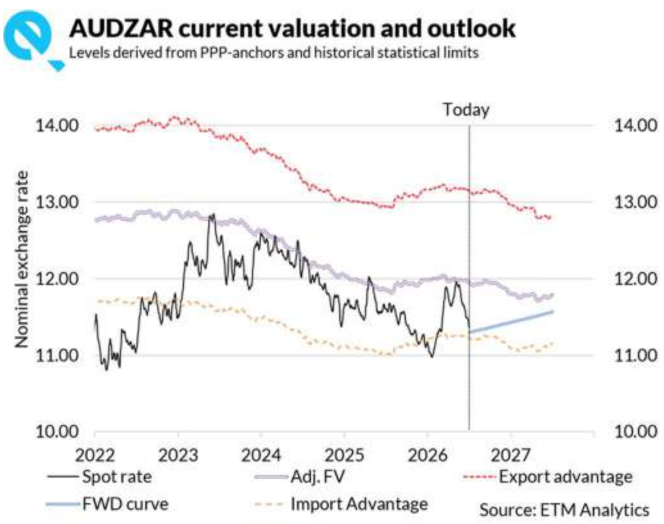
A US-Iran ceasefire has offered some relief, but the situation is volatile, and the binary nature of that conflict remains the dominant swing factor for global markets more broadly.

SA's own rate-hike pricing has remained broadly the same over the past month, offering limited impetus to the ZAR. With the EUR-ZAR now below fair value, SA importers may find some value emerging, provided the ZAR's recent strength holds. In the spot market, the pair looks set to test a key technical support level, the 2024 cyclical low at 18.5014, in the coming days. How the market handles this obstacle will be key in determining whether the ZAR's bull trend continues or reverses through Q3.

GBP-ZAR: The GBP-ZAR has extended its decline to around 21.65 but remains modestly above risk-adjusted fair value sitting closer to 21.00, leaving the pair overvalued (ZAR undervalued). Residual exporter value is less compelling than at the start of June.

Sterling has faced its own political turbulence, culminating in PM Keir Starmer's resignation on 22 June. The reaction was muted, given how much had already been priced in, although the likely succession by Andy Burnham introduces uncertainty around the UK's fiscal trajectory. This is not a fiscal crisis of the Truss variety, but political noise adds a headwind for sterling.

On the monetary policy front, the BoE kept rates unchanged in June, with market pricing for a rate hike this year having halved from around 30bps to roughly 18bps as the US-Iran ceasefire and consequent drop in oil prices eased inflation concerns. With the pair only slightly overvalued, exporters retain limited value, whilst importers may prefer to bide their time. Near-term direction will depend on the emerging UK political picture and the durability of the Middle East ceasefire.



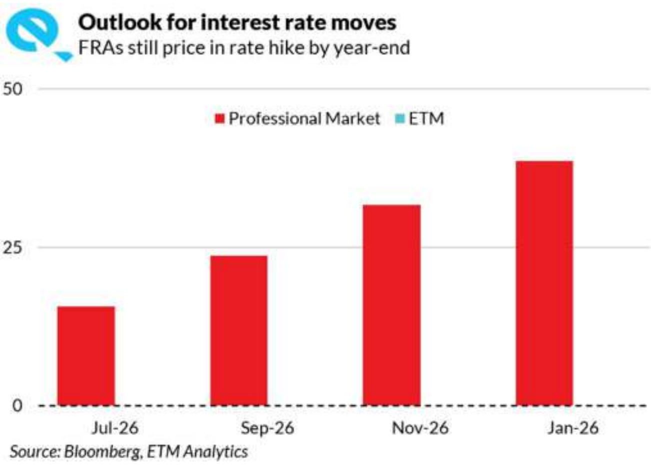
AUD-ZAR: After briefly recovering above the key 12.00 level and moving back towards its risk-adjusted fair value in early May, the AUD-ZAR cross has reversed sharply, breaking below its 50-, 100- and 200-day moving averages to trade back towards importer advantage.

The decline has been driven by broad AUD weakness and resilient ZAR performance, with the Australian dollar losing support as softer inflation and the RBA's June pause reduced expectations for further policy tightening.

By contrast, the rand has benefited from the SARB's May rate hike, expectations of one further increase by year-end and improved terms of trade following the sharp decline in oil prices after the US-Iran ceasefire, although weaker gold prices could temper some of that support.

While the cross is once again trading at levels that favour South African importers and appears inexpensive relative to its risk-adjusted fair value, the more hawkish SARB policy outlook could allow AUD-ZAR to remain below fair value for longer before gradually reverting over the medium term.

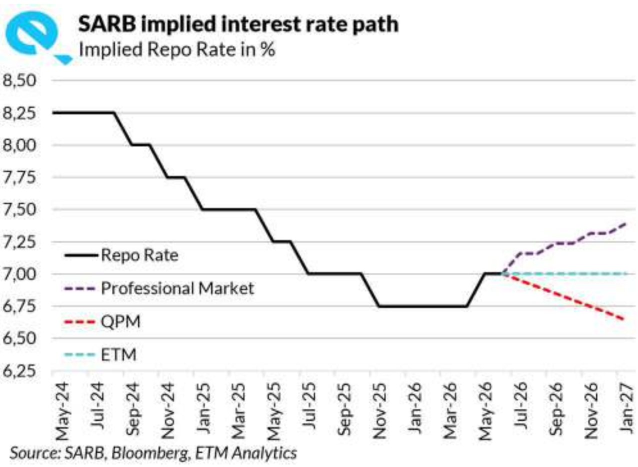
Interest rate indicators:



For the SARB, the balance of evidence argues for steady monetary policy over the next six to nine months, with the risk skew still pointing to the possibility of one additional hike. However, recent global market developments have seen the probability of additional hikes decrease notably over the last few weeks.

The SARB's reaction function has clearly turned more cautious and asymmetric since the Middle East shock, highlighted by the March policy communication that explicitly said cuts had been postponed, while the May MPC meeting delivered a 25 bp hike on rising oil, food and second-round-risk concerns.

However, June CPI undershot expectations enough for the market to reassess the probability of another immediate hike in July, especially given how the ZAR and global oil prices have performed recently.



One must remember, the SARB is now operating under a 3% point target with a ±1 pp tolerance band, which will play a critical factor given that inflation expectations are still elevated. Household inflation expectations are at 6%, according to the latest BER survey, and just this week, Governor Kganyago noted that policymakers "should be responding" to such a worrying development.

Looking at the markets, FRA rates have steadied following the most recent bout of ZAR appreciation and the retreat in oil prices, which will help ease concerns that the SARB will need to tighten policy further later this month. The 1X4 FRA currently stands at 6.14% and reflects 16bp of tightening expectations for this month's meeting. Further out, the market still has one more hike priced in by the November MPC meeting, with non-negligible risk of a January hike also still embedded.

Overall, therefore, it is difficult to call the outlook for the SARB with much certainty, However, risks of further rate hikes have subsided and the SARB may want to wait to see if inflation expectations respond to the stronger ZAR and lower oil prices, which will lead to a reversal of most of the fuel price increases seen since the US-Iran war began.

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