

STRATEGY NOTE:

SA BONDS AND RAND

IT IS TIME FOR EM'S TO TAKE A BREATH

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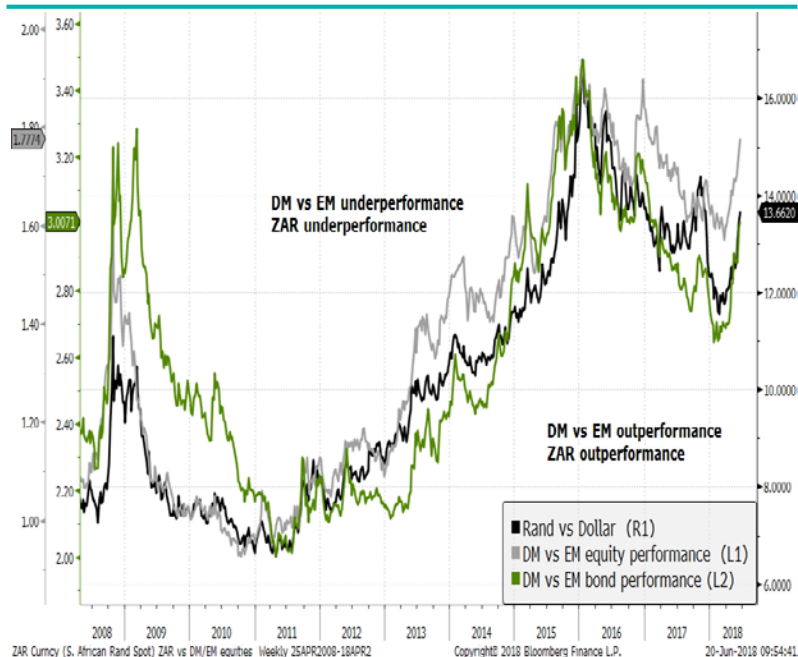
US10YR YIELD AND TERM PREMIUM, TESTING 30YR SUPPORT LINE



Source: Reuters, Nedbank CIB

- Evidence is building that the 30yr old bull trend in the US10yr will remain intact.
- This will be supportive for global bond yields but unfortunately the bear move within this bull channel usually triggers a recession. It was actually the rising real rate (bottom panel) that has historically done the damage to the economy.
- The rising real rate or term premium is also unfortunately not kind to risk assets and this will have a negative effect on the carry trade.
- We expect history to repeat itself over the coming months and quarters and we have a bullish outlook on the US10yr bond.

RAND AND DM OVER EM ASSET PERFORMANCE

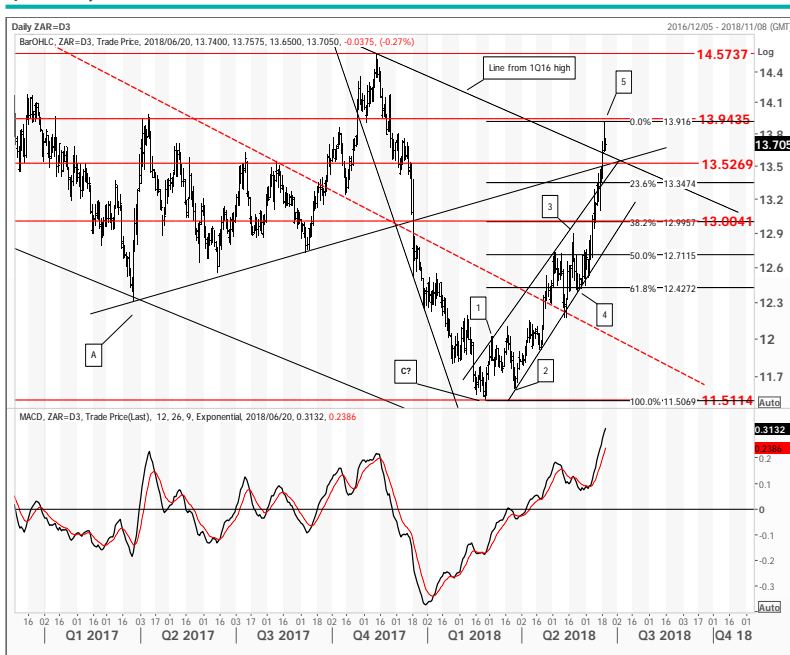


Source: Reuters Metastock

- The sensitivity of the rand to global flows is clearly visible on this chart.
- We believe the risk-on phase of the last two years is over, as the global financial conditions are tightening.
- In our opinion, the last two years was a correction in the DM/EM relative bull trend and not a trend reversal.
- We therefore favour DM assets over EM assets on 3-year view. The relatives have rallied strongly over the last 3 months and a correction phase is to be expected.

[illegible]

\$-RAND, REACHED A POTENTIAL TARGET LEVEL



- If the dollar index remains above 95 it will be an indication that the 5th wave is unfolding.
- On completion of this 5th wave the market should correct for several weeks. This will be supportive for EM currencies that have taken a beating lately. **But this is merely a pit stop and not a top in the US Dollar.**

- The 5th wave is now a 100% Fib extension of the distance from the start of the bull trend in 1Q18 to the top of wave 3. **This is a likely level from which we can expect a correction phase.**
- A break below the neckline at 13.52 will trigger a deeper correction to the 38.2% retracement level at 13.00 which is also the support line, this also coincides with our fair-value target in the short-term. For more on this please refer to "Rand: all about the "L" word – Liquidity"
- Although it is not our view, a break above 13.94 projects a further acceleration in the trend to 14.57 which is the 161.8% extension level.

RSA 10YR YIELD, TESTING AN IMPORTANT SUPPORT LINE



Source: Reuters, Nedbank CIB

- The RSA10yr yield tested the (blue) support line through the highs since the start of 2016, ignoring the blow-off in January 2016.
- The market is very oversold and a correction phase from this level is highly likely.
- **The long-term outlook on the back of this blue “flag” formation is not however bullish.**
- If our view on the rand vs DM/EM relative performance on page 1 is correct then EM’s are in a long-term structural decline vs Developed Markets. This suggests that eventually EM rates will sell off even further.
- **But we warn that is not the immediate outlook, we expect a strong rally from current levels.**

R186, REACHED A POTENTIAL TARGET LEVEL



Source: Reuters Metastock

- Yesterday the R186 tested the upper limit of the bear channel and the support line through the tops from early 2016 at 9.225%.
- Wave 5 as with the rand is a 100% extension of wave 1 to the top of 3.
- The 5-wave pattern is now most likely complete and the correction phase should last several weeks.
- **Target levels for this correction phase are 8.90%, our preferred target at 8.70% with an extended target at 8.55%.**