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Rand Insights For 2022



The weaker dollar helped the South African rand climb to R16.80 per US dollar as at the 26th of August 2022, its best level since August 17th, while domestic inflation data increased the likelihood that the Monetary Policy Committee will raise interest rates at its upcoming sessions.

Consumer price inflation in South Africa surged to 7.8% in July, beating the market's forecast of 7.7% and crossing the upper limit of the central bank's target range of 3-6% for the third consecutive month. The South African Reserve Bank raised the benchmark repo rate by 75 basis points more than expected at its meeting on July 22 in a bid to tame spiralling inflation and gave further hints about impending rounds of significant monetary tightening.

Generally, higher interest rates typically raise borrowing costs, lower disposable income, and restrict growth in consumer expenditure. Additionally, higher interest rates support the strengthening of the local currency, which thus lowers the competitiveness of exports and increases the cheapness of imports. However, these interest rate hikes have not come in favour of the rand, as the rand continued to slide past the once psychological support level of R15.50 per dollar throughout the majority of 2022, down from R14.89 per dollar the previous year.

The rand weakening is pushed by the risk-off sentiment of global investors due to geopolitical risks thus affecting emerging market currencies. The ongoing war between Russia and Ukraine, now in its sixth month, has had tremendous knock-on effects on many emerging market currencies and global financial markets at large. We anticipate these market disruptions will persist into the foreseeable future as there is no end in sight to this conflict.

Russia and Ukraine play a pivotal role in the global food and energy markets, exporting 70% of global sunflowers, accounting for a third of potassium fertiliser exports, 25% of global wheat exports, and 12% of crude oil shipments. Furthermore, Ukraine is home to a quarter of the world's super fertile chernozem (black) soil and exports enough food each year to feed about 400 million people.

In this current dispensation, global investors are dropping riskier assets in favour of safe-haven assets such as gold and hard currencies like the US dollar and the British pound. This has seen the rand considered a non-safe haven paying a heavy price. The US Fed and Bank of England along with many other global central banks, are on a drive to hike interest rates to arrest runaway inflation induced by supply chain bottlenecks, geopolitical risks etc. The immediate impact of higher interest rates is an increase in the value of the US dollar and the pound sterling as higher returns are offered to global investors thereby attracting more foreign capital.

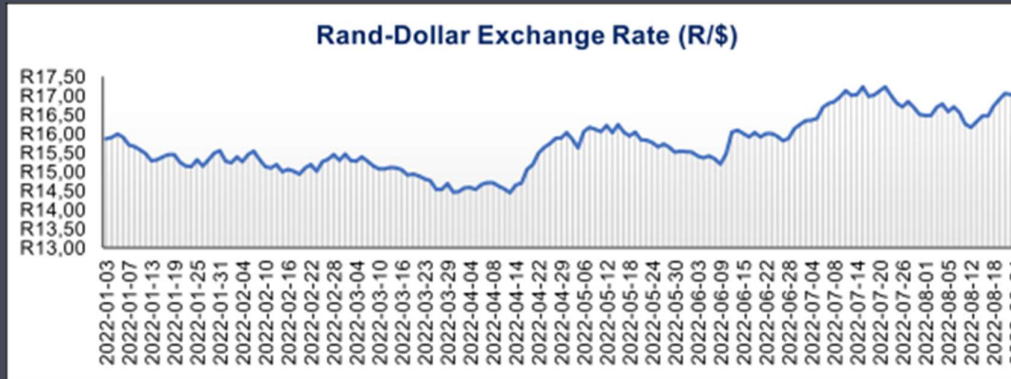
Because of the greatest Covid-19 wave in two years, which has hampered China's efforts to normalise its economy, the world's top consumer of raw resources and commodities is expected to slow down in 2022. It is anticipated that China's real growth for 2022 will plunge to 4.3%, down from over 7% in recent years, which has been boosted by accommodating policies. The slowdown in the Chinese economy has led the Chinese government to devalue its currency in an attempt to stimulate its export sector. This has led to other nations following suit by devaluing theirs in an attempt not to fall behind.

The severe load shedding and the catastrophic floods in KwaZulu-Natal, which severely damaged one of the nation's major transportation hubs, also contributed to the demise of the rand. As a result, it is anticipated that South Africa's economy will

perform poorly in the second quarter of 2022. Thus, among other macroeconomic variables, this decline in economic activity undoubtedly put upward pressure on the rand.

Figure 1 below depicts the rand-dollar movement from January to 24 August. The rand is currently trading at R16.86 to the dollar, at the time of writing this article, down 6.24% year to date from its starting price of R15.87.

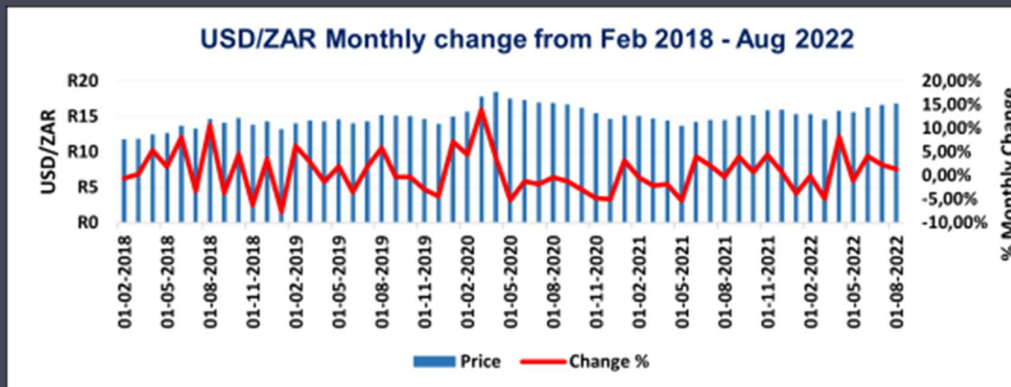
Figure 1



Source: Sarb

Figure 2 below shows the USD/rand movements since February 2018 to date. The rand was trading at approximately R11.79 in February 2018 and is currently trading at R16.87 in August 2022, a 43% decline.

Figure 2



Source: Investing.com

In conclusion, based on our macroeconomic forecasting models, and the far from ending conflict between Russia and Ukraine, the hawkish stance by central banks of the most industrialised economies, we concur with a number of analysts and Trading Economics global macro models that the rand will trade around R17.42 to the dollar at the end of this quarter.

In addition, we also anticipate that the rand will trade at about R18.77 in 12 months' time. Bear in mind that, historically, the rand once peaked at R19.35 in April 2020 before plunging to an average of R15.72 to date.

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