

## Emerging markets caught in dollar-crossfire

By Dr Roelof Botha, Joint Managing Director, GOPA Group SA

5 August 2019

Global currency markets just cannot seem to escape from regular bouts of panic, with the first week of August proving to be a case in point.

A little more than a year ago, the rand was trading at a level of around R13.30 to the US dollar (Oanda interbank rate) and then rapidly depreciated to a level of R15.40 in the wake of the financial instability in Argentina and Turkey.

Enter déjà vu. In recent weeks, the rand has been mostly firm against the dollar, strengthening to R13.89 on 20 July. On 5 August, the local currency had taken another beating and started the trading day on R14.75.

Although some sympathy exists for the frayed nerves of local currency traders, it is always useful to look at the global picture. Few emerging markets were left unscathed by the renewed bout of dollar strength and jitters surrounding the US-China trade war, as clearly illustrated by the data in the table. Even the Asian giants, China and India, took a severe hit during the first week of August.

---

### Emerging market currency depreciation vs. US dollar - 1 to 5 August

---

	% decline
South African Rand	3.6
Brazil Real	2.6
Chinese Yuan	1.3
Mexican Peso	1.2
Indian Rupee	1.1
Malaysian Ringgit	0.9

*Source: Oanda*

---

### Temporary capital flight

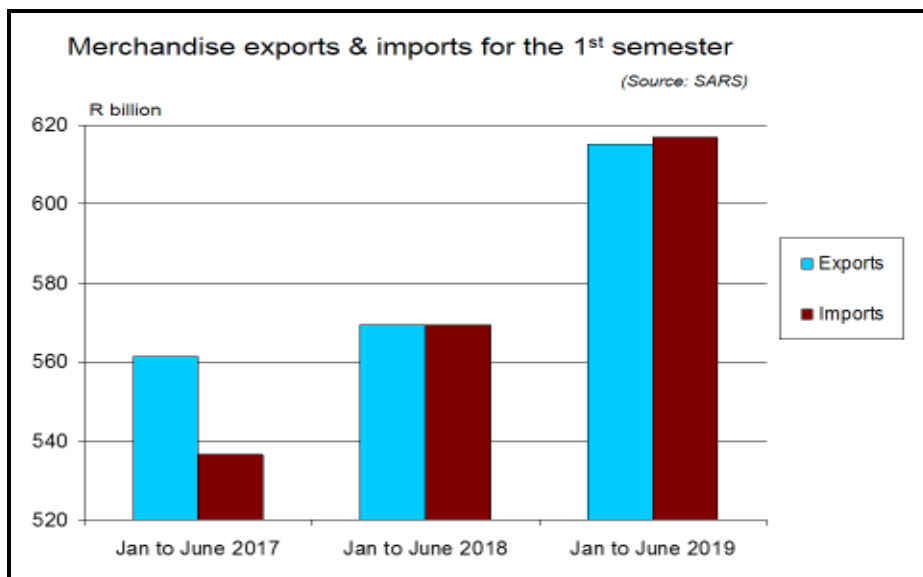
The core explanation for the current emerging market currency weakness against the dollar is related to fundamental economic indicators, namely the effect of temporary capital flight to so-called safe-haven investments, including gold and US bonds & equities.

In the case of the South African rand, the occurrence of volatility is often more pronounced, due to an environment of policy uncertainty and the on-going conflict within the ruling ANC. Even though President Ramaphosa has vowed to combat corruption and end state capture, he is still experiencing resistance from the so-called "Zupta-faction" in the ANC, as vividly demonstrated by the whitewashing of this faction's role in the fraudulent Vrede dairy project by the Public

Protector and confusing statements by senior ANC politicians over the mandate of the South African Reserve Bank (SARB).

Cynics who have been forecasting an imminent so-called “blow-out” of the rand should enjoy the current round of currency weakness while it lasts. An objective analysis, however, will confirm the temporary nature of each incident of rand depreciation and our exporters are obviously laughing all the way to the bank (depending on when they decide to cash in)!

The recovery of South Africa’s merchandise trade flows represents just one of an array of so-called “green shoots” that are becoming visible in the economy. Arguably the most encouraging feature of the trade trends during the first half of 2019 is the welcome increase in merchandise imports, which includes oil, vehicles and machinery as major sections.



Rising imports of these items invariably translate into a higher level of economic activity, traces of which are also evident in the domestic manufacturing sector. The Absa manufacturing purchasing managers’ index (PMI) increased to a level of 52.1 in July (the highest in three years), boosted by improvements in new sales orders and business activity in general.

Importantly, China will probably welcome the depreciation of the yuan/renminbi, as it provides some counter to the damaging effects of US trade tariffs, which were imposed as a result of intellectual property theft on a massive scale.

As a general rule, a depreciating currency is beneficial to an economy’s export earnings, whilst also stimulating the demand for locally manufactured goods. Nervous South Africans can nevertheless take heart from our bond yield, which virtually always guarantees an exchange rate recovery.