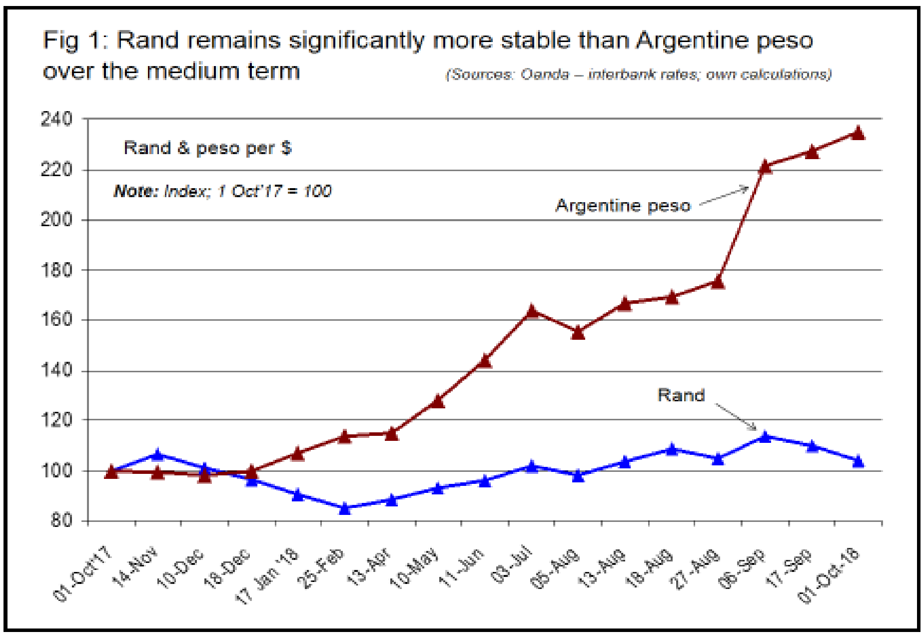
**Rand weakness – no reason for undue concern**

*By Dr Roelof Botha, Joint Managing Director, GOPA Group SA* *28 September 2018*

Nervous currency traders should preferably stay away from emerging market currencies, especially when geo-political tensions are on the rise, US stocks continue to surge and bond yield spreads are starting to narrow.

Add to this mix some policy uncertainty in a key emerging market like Turkey and rampant inflation in Argentina (the second largest economy in South America), as a result of food shortages, and a global currency trader's job becomes a nightmare.

It is clear from the trends in figure 1 that South Africa's currency performance over that past year is in a different league to that of Argentina's peso. The latter has shed 57% of its value against the US dollar since the 1st of October 2017, compared to a depreciation of the rand of merely 4%.




When viewed against the beginning of last year, the peso's woes are even worse, with a seven-quarter decline against the US dollar of 62% in its value, compared to a decline of only 3% in the value of the rand. To a large extent, this reflects the importance of investment grade status for a country's sovereign bonds.

The impressive regional disposition of Argentina's economy was not remotely sufficient to shield it from a dramatic currency depreciation. In 2017, Argentina had a GDP of more than $630 billion and enjoyed a *per capita* GDP at purchasing power parity (PPP) of more than $20,000 (only Chile and Uruguay are richer).

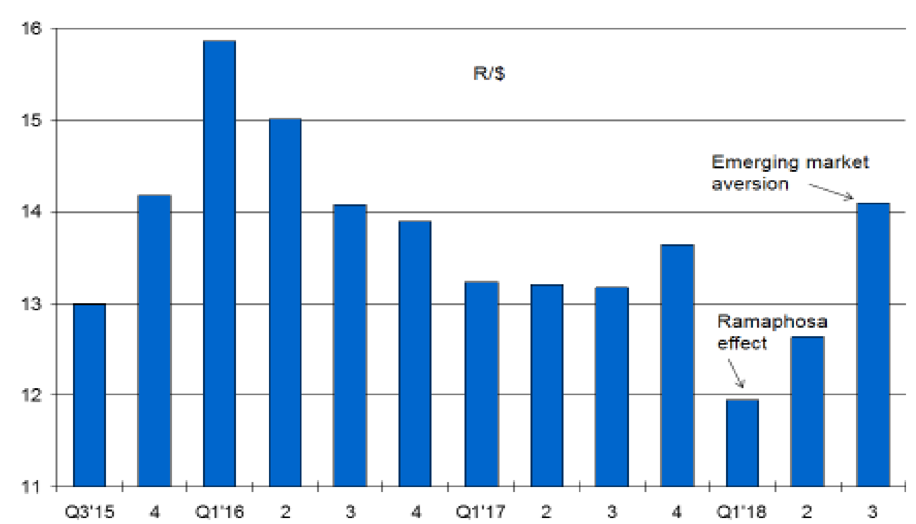
South Africa's Constitutional Review Committee (CRC) should take heed of Argentina's current economic dilemma, which is intrinsically related to a lack of food security, caused by a severe drought. Ample primary agricultural production, which provides the base for food production (the largest single category of household consumption expenditure in most countries) should be a non-negotiable strategic policy imperative in developing countries and should not be subjected to radical land reform that is ideologically driven.

Where land reform is regarded as necessary, any amendments to existing land tenure patterns should be approached with utmost caution and only after a due consultative process that does not jeopardise current and future food security through an undue emphasis on historical patterns of ownership. It is after all, not the land in itself, but the productive application of intellectual and working capital that unlocks the imbedded value (and attracts the necessary funding).

Returning to the exchange rate, it is certainly true that the rand has lost some of the glamour bestowed on the currency in the aftermath of Mr Cyril Ramaphosa's ANC elective Conference victory in December 2017.

Fig 2: Average quarterly Rand/$ exchange rate stronger than in early 2016

(Sources: SARB, own calculations)




Short-term volatility should not, however, be allowed to detract from the influence exerted on a currency by fundamental balance of payments flows and the fact that geo-political tensions are invariably characterised by ebbs and flows.

The main reason for the deprecation of the rand/$ exchange rate by 7.8% between 25 February and 11 June was a natural (and predictable) reaction to a reversal of the country's average quarterly trade balance (from a surplus of R16.2 billion last year to only R1.1 billion in 2018)

The subsequent sharp drop in the value of the rand between mid-June and early September was linked to the currency crises in Turkey and Argentina, which was (again predictably) reversed during the next four weeks, when the rand bounced back by more than 9% against the US dollar.