

# The Rand's out-performance since June 2024 is impressive, but can these gains be sustained well into 2025?

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## Introduction

In Article 4, we discussed that the perception of risk associated with South African assets had diminished since the National Election at the end of May 2024. In this Article, we show the cumulative gains in the Rand have been extended and whether these gains can be sustained.

The Rand will tend to weaken against the major currencies. This is simply because South Africa's rate of inflation is, on average, 2 to 4 percentage points above the inflation rate in the major developed economies.

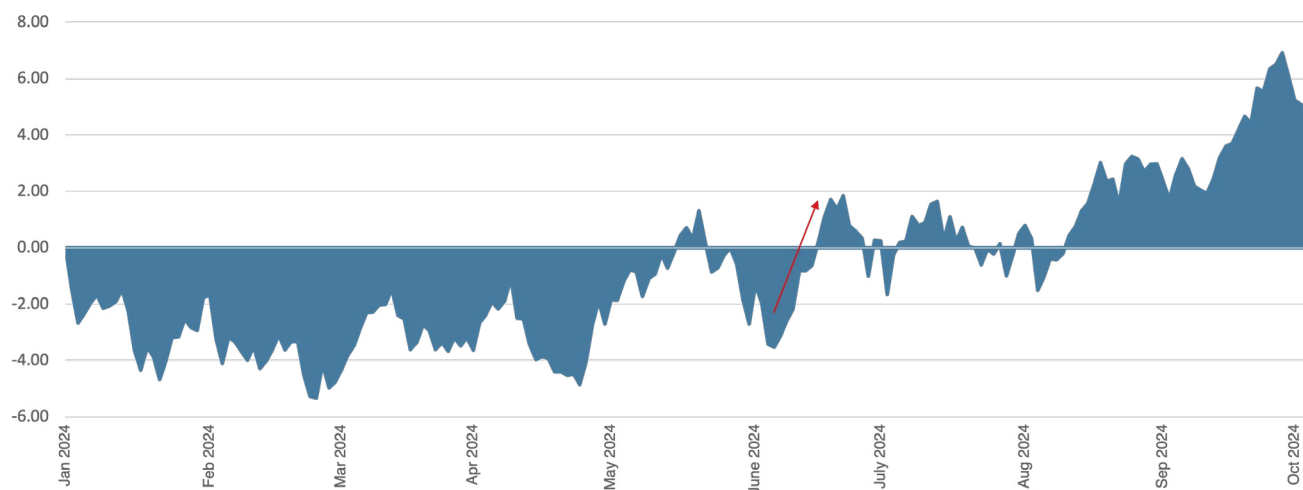
Unfortunately, while an annual currency depreciation of 2% to 4% sounds very manageable, the actual extent of the Rand's movements varies considerably, and can become significantly pronounced, especially to the downside. These phases of "disequilibrium" or bouts of pronounced weakness and/or strength are unpredictable and very disruptive, especially for the business community, but also within financial markets. Nevertheless, there is some benefit to analysing these periods of disequilibrium.

For example, many of these phases of pronounced disequilibrium are largely reversed in subsequent periods; although the stages of pronounced weakness tend to outweigh periods of sustained strength, both in terms of duration as well as magnitude.

This is largely reflected in Table 1, which outlines the cumulative gains and losses of the Rand against the US dollar over the past ten years. In that regard, it is especially evident that over the past ten years that the Rand has weakened 70% of the time and has strengthened only 30% of the time. This pronounced bias to the downside appears to have been induced by a self-reinforcing cycle of slowing economic growth, deteriorating credit ratings and a general lack of business and household confidence.

The analysis also highlights that the average decline in the value of the Rand (in times of weakness) against the US Dollar over the past 10 years has been -6.5%, which is more than the inflation differential between the United States and South Africa. Furthermore, one of the most severe bouts of weakness occurred in 2020 when the Rand weakened by a devastating -26.4% against the Dollar on a year-to-date basis. The Rand had started the year at R13.99/US Dollar and reached R18.99/US dollar by 23 April that year. This was the start of the COVID-19 pandemic and the Moody's credit rating downgrade which resulted in South Africa falling out of the global bond index (WGBI).

**Chart 1: SA Rand gain/loss against the US Dollar year-to-date**  
% gain/loss (cumulative since Jan 2024)



Source: Analytics Consulting FX Solutions, Macrobond

## The Government of National Unity has had a positive impact on SA economic sentiment, but that is not enough

Occasionally, the Rand experiences a phase of pronounced strength, as occurred in 2016/2017 (refer Appendix 1). However, in the past seven years the only noteworthy periods of Rand strength lasted for 45 days in 2019, 80 days in 2021 and that current period of out-performance which has lasted 40 days. In other words, extended Rand rallies are rare!

Given the rarity of prolonged Rand strength, the latest bout of the Rand's out-performance is worth exploring in more detail. During the first 4 four months of 2024 the Rand got progressively more undervalued for a variety of reasons, including the uncertainty associated with the looming National Election at the end of May 2024, reaching an inflection point just ahead of the National Election. However, once the outcome of the election was fully understood and the Government of National Unity was formed the Rand – together with South African bond and equity markets – started to strengthen. And has, mostly, continued to strengthen for the past 40 days.

This raises the question as to whether the Rand's out-performance can continue for an extended period as occurred in 2016/2017?

In short, although South Africa's economic sentiment has undoubtedly improved since the National Election, there are not yet enough variables in place to suggest continuing and significant out-performance of the Rand. Importantly, this does

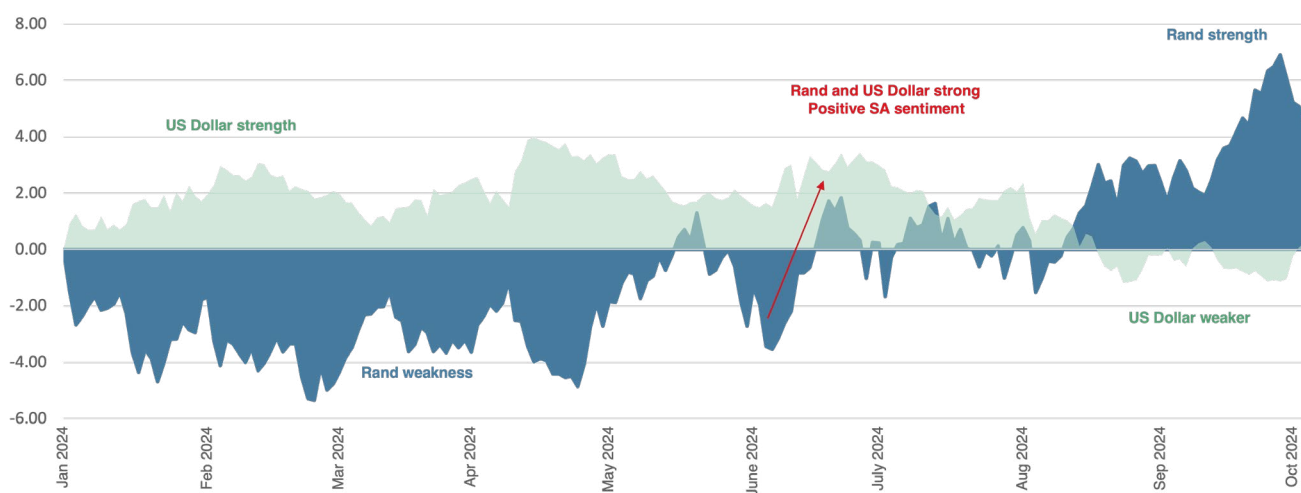
not mean that the Rand will automatically lapse back into a phase of under-performance. Instead, it could easily move largely sideways until the longer-term outlook for the South African economy is better understood.

**At this stage there are at least 3 reasons to suggest the Rand's rally will not be extended unless other economic variables start to improve.**

Firstly, as with the rally 2016/2017, the Rand is strengthening from a phase of being meaningfully undervalued and is being buoyed by a wave of positive sentiment. This does not infer an improvement in South Africa's economic fundamentals but rather a "relief rally" that reflects the fact that the country managed to avoid a far worse outcome. In other words, the improved sentiment stems from the avoidance of the downside rather than the initiation of a fundamental improvement.

Secondly, the Rand's strength has partly been a function of USD weakness as well as investors looking move money into undervalued emerging market assets. This is illustrated in the Chart 2, which reflects the cumulative gains of the US dollar versus the Euro offset against the performance of the Rand/US dollar over the same time.

**Chart 2: SA Rand gain/loss against the US Dollar and US Dollar gain/loss against the Euro year-to-date**  
% gain/loss (cumulative since Jan 2024)



Source: Analytics Consulting FX Solutions, Macrobond

Thirdly, the Rand appears to have benefited from the Reserve Bank's relatively conservative approach to monetary policy. More specifically, the Reserve Bank has kept interest rates elevated for an extended period even though the rate of inflation has been inside the target range of 3% to 6% for the past 15 consecutive months. Furthermore, when the Bank finally started their interest rate cutting cycle, they reduced the Repo rate by only 25bps even though their own forecast shows inflation moving well below 4% within the next few months. The Reserve Bank is expected to continue cutting interest rates well into 2025, which will tend to weaken the monetary policy support for the Rand.

### What more does the Rand need?

As mentioned earlier, for the Rand's out-performance to be sustained beyond the long-term historical trends, it is likely that other key economic variables need to improve that go well beyond a positive change in sentiment. These would include, for example, significantly higher economic growth, sustained job creation, an upward revision to South Africa's credit rating, a clear improvement in port and rail capacity, the successful prosecution of high profile corrupt public officials, and a willingness by corporate South Africa to undertake expansion capital expenditure.

**Table 1: Cumulative gains and losses of the Rand against the US dollar over the past 10 years**  
 % gain/loss (cumulative Jan – Dec each year)

YEAR	WEAKNESS				STRENGTH				NUMBER OF DAYS			
	1 AVERAGE	2 MAX	3 MIN	4 COUNT	5 AVERAGE	6 MAX	7 MIN	8 COUNT	9 TOTAL	10 WEAK %	11 STRONG %	12 LONGEST RALLY
2013/01/01	-11.8	-0.1	-19.1	260	0.0	0.0	0.0	1	261	100	0	1
2014/01/01	-3.7	0.0	-10.7	238	0.8	1.7	0.0	23	261	91	9	1
2015/01/01	-9.7	-0.1	-27.9	241	0.8	2.6	0.1	20	261	92	8	7
2016/01/01	-2.9	-0.1	-8.6	62	8.4	16.8	0.1	199	261	24	76	134
2017/01/02	-2.0	0.0	-5.7	43	3.9	11.2	0.0	217	260	17	83	124
2018/01/01	-10.1	0.0	-19.8	182	3.5	6.9	0.0	79	261	70	30	1
2019/01/01	-2.8	0.0	-6.8	143	2.4	8.3	0.0	118	261	55	45	45
2020/01/01	-14.5	-0.1	-26.4	262	0.0	0.0	0.0	0	262	100	0	0
2021/01/01	-3.3	0.0	-9.5	144	2.9	8.8	0.0	117	261	55	45	81
2022/01/03	-6.8	0.0	-13.4	153	4.6	10.4	0.1	107	260	59	41	0
2023/01/02	-8.0	-0.1	-14.1	251	0.5	1.3	0.1	9	260	97	3	4
2024/01/01	-2.5	0.0	-5.3	129	2.2	6.9	0.0	71	200	65	36	40
<b>AVERAGE</b>	<b>-6.5</b>	<b>0.0</b>	<b>-13.9</b>	<b>176</b>	<b>2.5</b>	<b>6.2</b>	<b>0.0</b>	<b>80</b>	<b>256</b>	<b>69</b>	<b>31</b>	<b>37</b>

Source: Analytics Consulting FX Solutions, Macrobond

## Conclusion

Unfortunately, while an analysis of the Rand's performance over the past 10 years is interesting and offers some additional insights into the vagaries of South Africa's currency market, it (understandably) does not provide a clear guideline regarding the Rand's likely performance of the next year. Instead, it appears evident that sustained Rand strength, especially from the current level, is going to require a more fundamental improvement in South Africa's economic prospects, and that merely avoiding a "far worse political outcome" is not a strong foundation for prolonged Rand strength.

Fortunately, South Africa's monetary and fiscal authorities together with a range of key departments, such as electricity and transport are actively looking to implement sound economic policy to improve the country economic prospects. The extent to which these initiatives are successful will play a significant role in shaping the outlook for the Rand. While we remain hopefully that these measures will yield significant success and eventually attract substantial foreign investment, this is far from assured, which means the Rand remains vulnerable to a renewed phase of economic disappointments.

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Source: Analytics Consulting FX Solutions

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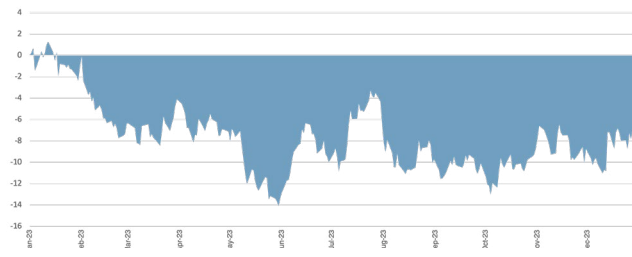
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# Appendix Charts

## SA Rand cumulative gain/loss against the US Dollar past 10 years

2023



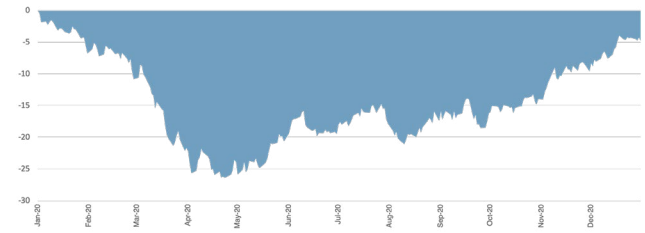
2022



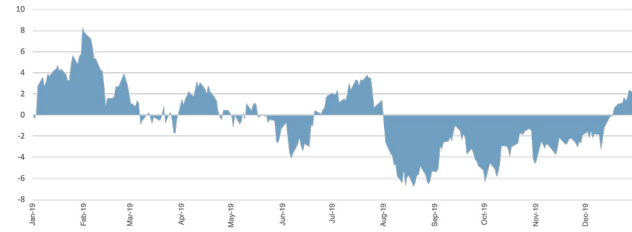
2021



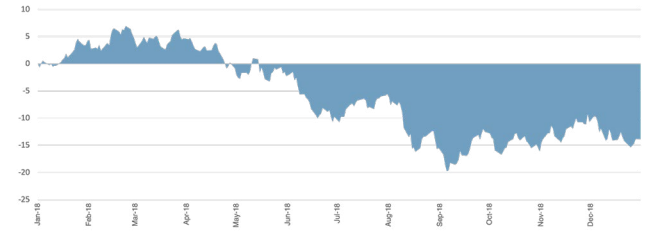
2020



2019



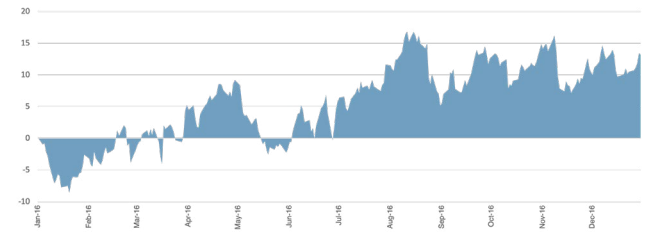
2018



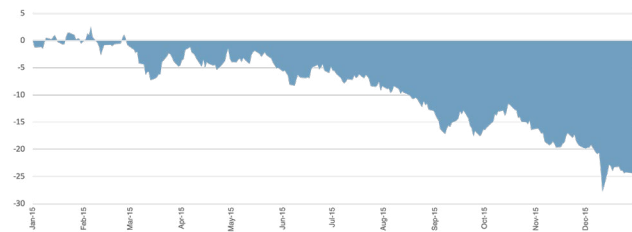
2017



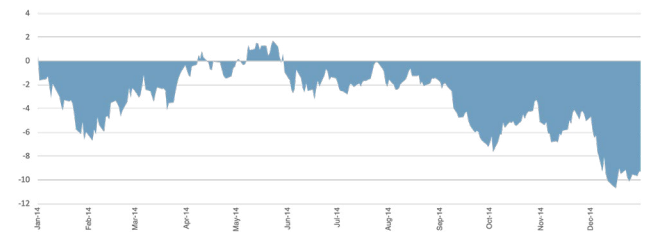
2016



2015



2014



2013

