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# WHY IS THE RAND PROVING TO BE RESILIENT DESPITE GLOBAL TURMOIL?

By Renee Eagar, Certified Financial Planner and head of Brenthurst Claremont

One of the biggest mysteries of the war in Ukraine is the rand's surprising resilience at a time when all the odds appear to be stacked against it. Some three weeks into a war that has the potential to upset global security and markets, the local currency has held up really well, trading largely between R15.00 – R15.50 to the US dollar.

The relative strength of the rand should give South African investors a reason to celebrate, if you're looking to get your rands into offshore accounts or assets. Any opportunity to make the currency count in your favour is a good one.

The question you might well be asking is why the rand has held up so well and how long this could continue. With the rand, who really knows, but there are a few sparks of hope that some stability can be expected for a reasonable period. In short, now presents a good time to divert further funds offshore.

## IT'S NOT JUST ABOUT THE ZAR

While the Russian currency has all, but collapsed – potentially sparking an emerging market currency crisis – the euro was as much as 4% weaker against the US dollar at one point.

**THE RAND, HOWEVER, HAS HELD ITS OWN, ASSISTED BY SEVERAL FACTORS.**

As always, strong commodity prices buoy the currency and the war in Ukraine has led to gold topping \$2,000 an ounce, while palladium and platinum have been shooting out the lights. Even coal briefly spiked above \$400 from levels of \$220 – \$230 a week earlier.

Of course we've also had to contend with the price of oil jumping to new highs that threaten to accelerate the already alarming rate of consumer inflation.

Thankfully, being located at the bottom end of the continent removes any immediate danger of war and has presented South Africa as an alternative source for crucial supplies of resources such as coal.

All these factors have consolidated to support the rand at a time when we might have felt particularly vulnerable.

## RISKS GOING FORWARD

The recent strength doesn't mean it will be plain sailing going forward. Many risks remain for the rand, ranging from the ever-present danger posed by Covid to whether the US economy can maintain its momentum, considering its changing fiscal position.

**Political headwinds remain a constant threat to South Africa's stability, with clear action resulting from the Zondo Commission desperately needed in order to show that government is serious about eradicating corruption. Not to mention the current load shedding debacle.**

As shown by events in the Ukraine, unexpected geopolitical tensions will continue to be a threat to the rand, leaving SA at the mercy of many uncontrollable factors.

The so-called risk discount is one we must learn to live with and take advantage of when tensions and risks elsewhere give us a bit of a breather. For the time being that is the case, which is good news for investors looking to move money offshore.

## HOW TO TAKE ADVANTAGE

**Shares that typically perform well when the rand is strong are SA bonds, retail shares, banks and listed property.** Commodities, although viewed as a risky, cyclical asset class, but of which SA is a large producer, will benefit from the demand for commodities from a global perspective. This could make the rand stronger for longer especially on the backdrop of Covid constraints.

With the rand trading around the R16.40 level towards the end of November 2021, the timing for taking more money offshore at current levels is ideal. Not only is the rand strong, but the recent offshore correction in markets is most definitely perceived as a buying opportunity.

**The recent change of Regulation 28 which governs pensionable monies, from an offshore allowance perspective lifted from 30% to 45% as per the recent SA budget, also presents a great opportunity for investors to increase their portfolio holdings and further diversify their portfolios.**

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