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DOLLAR VS RAND: DOLLAR OVERBOUGHT, OR ZAR OVERSOLD?

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SHOULD YOU BUY, HOLD OR SELL?
THE SIMPLE ANSWER – IN THE SHORT TERM, IT DOESN'T MATTER!

For years, this debate has been fiercely fought, with punters on both sides of the equation. Each side of the debate has its smart financial models, arguments, and technical and fundamental analysis to prove their credibility, at least at some stage in the below period.

US DOLLAR TO SA RAND
28 Apr 2023

But for all currency punters and watchmen of the financial markets, it is not new news that trying to predict the rand-dollar exchange rate in the short term, or for that matter, the rand against any other currency, is a fool's game.

You have a better chance of betting on Ireland winning the Rugby World Cup in France in 2023 than punting on the short-term future of the rand. It is close to impossible, as I said, especially over the shorter term.

IN THIS ISSUE

One of the main reasons why it is extremely difficult to accurately predict the rand's forecast against the major currencies globally is that the rand is a floating currency, meaning that the underlying value of the rand will be influenced by global economic events in foreign markets.

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Speaking of rugby, you would not be far off in comparing the rand to a team such as the Italians, perhaps, and the major currencies (dollar/euro/pound) to the likes of the mighty All Blacks or the force of the Boks. Both are vital role players in the bigger scheme of things, but there will always be one winner come the big stage.

The US economy proved to be somewhat stronger (than expected) in the first quarter of 2023. This implies that further interest rate hikes are on the cards from the Americans, which does not bode well for South Africa, as we seem to blindly follow in their footsteps. The labour market in the US economy remains resilient. It is very likely that rates might be increased by 0.50% increments in the next couple of Fed meetings, and rates will most likely remain higher for longer.

Even though US inflation started to gradually decrease from 9.10% in the second quarter of 2022 to roughly 6% in the first quarter of 2023, the Fed is not yet entirely happy with these numbers and would like to bring inflation down faster and more aggressively. The Fed will do whatever it deems necessary to bring inflation under control.

This means that, in all likelihood, the dollar could remain stronger for longer. But as mentioned, timing this in the short term is a fool's errand.

THE BIGGEST GLOBAL FACTORS INFLUENCING THE RAND-DOLLAR EXCHANGE RATE:

- US and local interest rates;
- Eskom and load shedding's impact on the SA economy;
- Grey listing of SA, to a certain extent; and
- SA's balance of payments.

One of the main reasons why it is extremely difficult to accurately predict the rand's forecast against the major currencies globally is that the rand is a floating currency, meaning that the underlying value of the rand will be influenced by global economic events in foreign markets. Hundreds of other aspects are also claiming their toll on the rand daily, which makes it impossible to predict the direction of the currency.

Rugby World Cup and currencies? How? Why?

It is 2023. Four years have passed since the Springboks became World Champions for the third time in history. 1995, 2007 and, once again, the memorable tournament in Japan in 2019, which the Boks won against all odds. A full 28 years since we lifted the holy grail of rugby – the coveted William Web Ellis Trophy – at Ellis Park in 1995, against the All Blacks.

Similarly, the All Blacks also managed to lift the trophy three times. The English Roses also had a single opportunity to claim bragging rights. Therefore, it is difficult to predict a winner in these tournaments. But keep in mind, there will always be one winner.

In all brutal honesty, 1995 was probably the only chance that roughly 99% of South Africans got to watch the Rugby World Cup live at a stadium because, ever since, all tournaments were played on foreign soil and, unfortunately, our exchange rate replicated the performance of the Italians in a Rugby World Cup since. Not much to write home about.

In 2007, the Boks travelled to Paris to claim the trophy back, and the rand/dollar and rand/euro traded at the following levels:

- **Dollar-rand: $1: R7.20**
- **Euro-rand: €1: R9.50**

A ticket getting you into the final at the time would have broken the bank at €200. Cheap, upper-stand seats behind the posts, but you are there to witness our moment of glory.

This means that a ticket would have cost you roughly R1 800 – R2 000. Fast forward 16 years, and we are once again heading to France, this time to defend our title as world champions. Should you wish to pack down in the stands this year, a ticket would come in at €200 yet again (which will obviously be more expensive than 16 years ago). You would have to cough up R3 900 – R4 500.

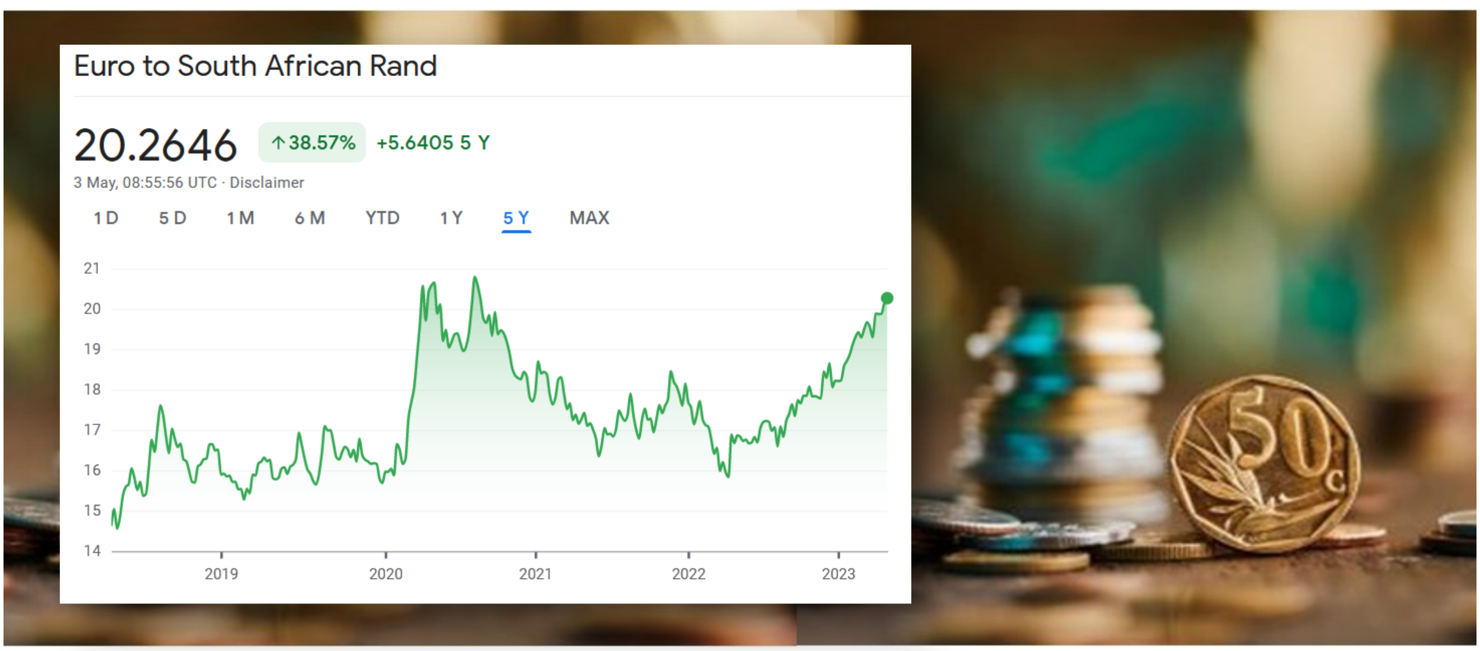
Let's adjust for annual inflation on these tickets over 16 years at a mere 4%, then the damage would be as follows: €375 at an exchange rate of around R20.20 to the euro, therefore, this ticket will set you back an estimated R7 575.

The reason I paint this picture, is to put in context the direct impact the devaluation of our currency will have on South African consumers of global products and services. Not every second South African will have the need or means to hop on a plane to watch the Rugby World Cup every four years, but the fact remains that we are worldwide consumers, especially of big-ticket items when it comes to the tech devices we so often use, the vehicles we drive, clothes we wear, etc. When faced with the decision to take capital offshore for long-term investment purposes, a small diversion in the rand to other currencies should not be a deterring factor, mostly for the reasons explained above.

THIS IS A VERY SIMPLE AND SHORT EXAMPLE OF WHY TIMING THE RAND IS CLOSE TO IMPOSSIBLE, BUT IN THE LONG RUN, THERE WILL ALWAYS BE ONE WINNER AND, EVEN MORE SO, A CERTAIN LOSER…

Here's why:

EURO TO SOUTH AFRICAN RAND



Come the Rugby World Cup 2023, there will once again be thousands of South Africans who would like to travel to Paris to watch the Green and Gold claim their stake, but unfortunately, most of them will be forced to watch this big event from the comfort of their living rooms or around the braai in their lapas, as more and more locals have, in global terms, become poorer over the last decade.

Do not expect less volatility from the rand in the short term, but most definitely do not expect these graphs above to change in trajectory going forward. The next World Cup in 2027 will be no different and no cheaper. Put your capital in a position to take you there, or at the very least, enable you to afford your life-style in South Africa

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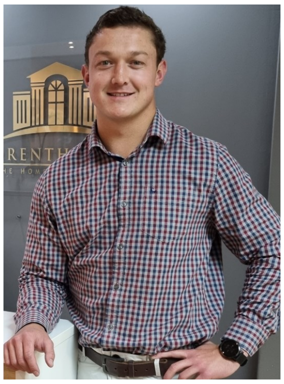

Ruan joined the Brenthurst Wealth Team in 2021 as an advisor/paraplanner and currently works under the direct supervision of Sonia du Plessis and André Basson in our Stellenbosch office.

He obtained his BCom (Financial Sciences) degree at the University of Pretoria in 2018. Consequently, he also enrolled with CIMA (Chartered Institute for Management Accountants) as a prospective CGMA candidate and will complete all the relevant CIMA exams. He is also currently studying towards his Diploma in Investment Management at the University of the Free State.

Ruan's previous experience includes "tax and advisory" at Crowe Tax and Advisory Services in Stellenbosch.

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