BRENTHURST
THE HOME OF WEALTH

THE POWER
OF INDEPENDENT ADVICE

www.bwm.co.za

IN THIS ISSUE

"A GREAT STALWART OF THE INDUSTRY HAS FALLEN."

The Brenthurst Team would like to extend their heartfelt condolences to Mike Schüssler's wife and family.

"There are some who bring a light to the world that even after they have gone the light remains"

JHB (HQ)	+27 (0) 11 799 8100
JHB (SANDTON)	+27 (0) 10 035 1391
PTA	+27 (0) 12 347 8240
CAPE TOWN	+27 (0) 21 418 1236
BELLVILLE	+27 (0) 21 914 9646
CLAREMONT	+27 (0) 21 100 3901
STELLENBOSCH	+27 (0) 21 882 8706
PAARL (VAL DE VIE)	+27 (0) 21 100 3901
MAURITIUS	+ 230 5843 5215

THE RAND IS UP TO ITS OLD TRICKS AGAIN...

By Mike Schüssler, Brenthurst Consulting Economist | 3rd May 2022

The question I probably get asked the most as an economist is: "Where will the rand be by Christmas or next year this time?"

Usually I will answer with another question: "Why do you want to know?" If you are going overseas for a holiday and want certainty, buy it now, or if you want to bet a little, buy half now and the other half later – is what I would normally advise.

But, of course, investments are a little more complex and longer term, so let me not skirt the answer here.

The rand, in my opinion, will remain broadly at R14,50 to R16,00 to the dollar for the next few quarters and after that will likely drop a little lower again to a new range, probably R15,50 to R17,50, or so, for 2023.

The reason for my estimate is mainly rooted in economic answers and the first two answers are actually intertwined.

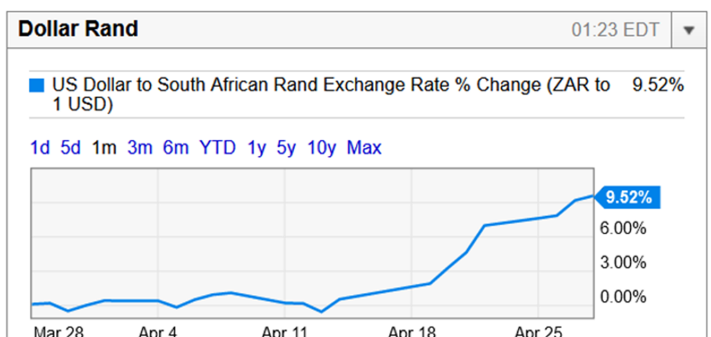
1. **The commodity cycle is still favourable for the rand – that is, commodity prices are somewhat higher than usual. The reason is partly due to the Federal Reserve Bank in the US which still has interest rates below inflation.**
    - Also, however, is the fact that global supply chain disruptions and the war in Ukraine have helped increase the prices of many commodities. Russia is the 2nd biggest platinum group metals (PGM) exporter in the world, and it is being removed, which should help SA. The same applies to coal and food prices.
    - However, some SA imports such as oil and wheat will cost the country more. This will reduce the Current Account Surplus, but it should remain strongly positive.

2. **Apart from commodity prices increasing, SA's agriculture and motor industries are also adding more to the export earnings which, of course, is also positive for the rand. This, despite problems at the harbours and with rail. For example, SA exports about 25% less coal today than 3 years ago, but earns three times more as the price has increased fourfold. However, the functional delivery problems will haunt SA in the next few years when commodity prices reverse again.**

3. For the first time in 18 years SA has a lower inflation rate than the world average, the USA and other countries. This will be in place for at least a few more months. I expect a 2-quarter period ahead for this, which will also help the currency.

4. SA reserves have been building up and while the level is better than before, it provides a small buffer for the rand, or at least helps traders move on to other markets they think will cave in far more easily.

But if I look 18 months ahead, then I believe the Federal Reserve will have increased the US interest rate to well above inflation and the USA will have seen slower growth, but lower inflation again. This will play against higher commodity prices, except if war is still ongoing and Russian products are still banned and agri-cultural exports from Ukraine and Russia fail to reach markets.



Source: YCharts 29 April 2022

The other fact here is that SA inflation trends are higher due to a host of problems at state-owned entities and local governments. As a result, water, lights and taxes continue to increase. This means the inflation advantage of 2022 will be nullified.

However, the biggest obstacle is that most fund managers and traders are very wary of SA politics. This will become more evident if SA does not honour budget promises (unlikely) or is unable to repair infrastructure such as harbors and rails – some will be fixed with the help of the private sector, but not all of it, and this will cost importers and exporters.

Politics surrounding the rand is highly toxic and unless there is a 180° turn in government attitude and dated thinking, then we can forget about a long-term reversal.

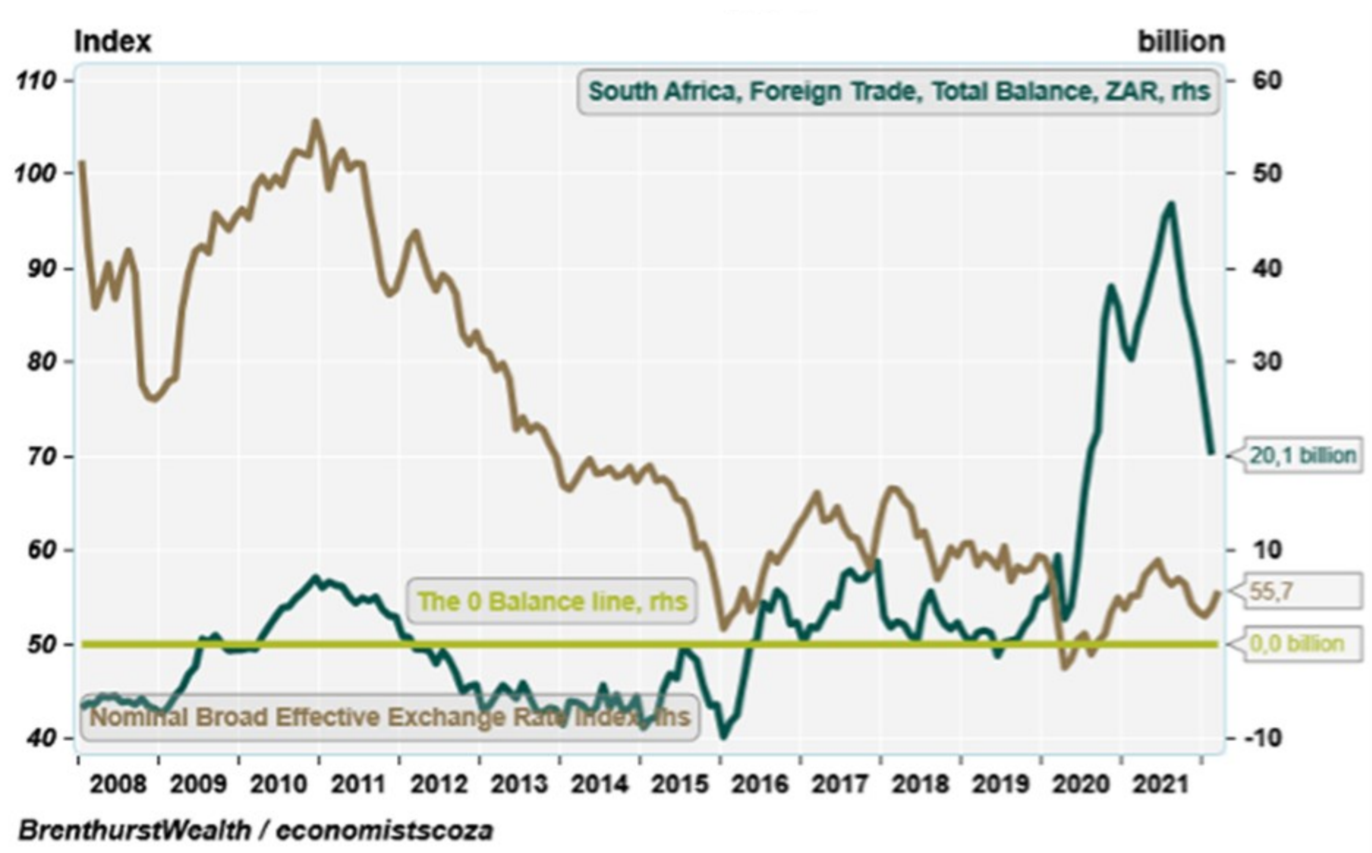
Moreover, 2024 may see ANC support dip below 50%, but coalition governments do not normally make great reformers and that may have to wait another decade. The ancient left-wing policies, which even ministers privately agree do not help anyone, will remain.

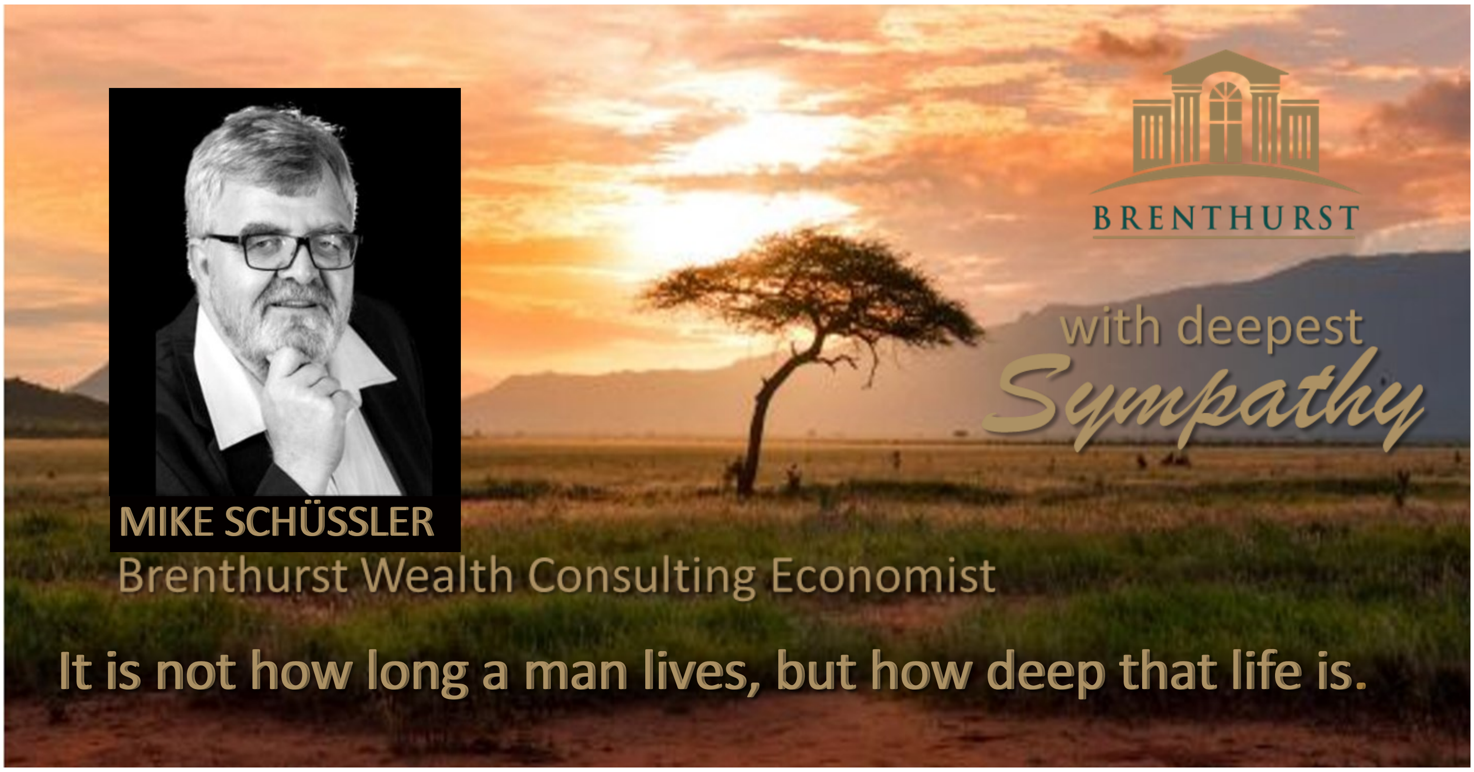
We will still be seen as a highly unequal, unemployed and ungoverned country (due to much disfunction, from the courts to the power utility), and that means that the risk of being invested in the rand for a long period is seen as negative. The reason why our long bonds have yields higher than many other countries who have previously defaulted, says something about our risk premium.

In other words, when the rand is R15,00 or less to the dollar (03 May 2022) **buy into other major currencies. Stay away from similar currencies like the rand, such as the Turkish lira, Brazilian real or Russian rouble. Buy US dollar and some Euro, etc. Maybe include a side bet on some other currencies, such as the Aussie dollar and Japanese yen.**

Use strength to diversify out of the rand so that you do not have to panic when the sudden decline occurs.

THE TRADE WEIGHTED RAND STAYS RELATIVELY STRONG WHEN THE TRADE BALANCE IS STRONGLY POSITIVE.





"A GREAT STALWART OF THE INDUSTRY HAS FALLEN."

As an independent economist, Mike Schüssler was in a class of his own. He wrote about complex economic realities, and economics in general, in a way that ordinary people could understand and relate to. His research was unparalleled, his insight highly regarded.

Brenthurst Wealth worked with Mike for decades. He was a popular speaker at our client events and more recently on webinars. As consulting economist to Brenthurst, he wrote reports of an exceptional standard that contributed to both our clients' and our team's understanding of economic issues and the impacts on investment decisions. Beyond his professional career, he was an extraordinary person. Sociable, entertaining and engaging on diverse topics. He will be greatly missed. Our condolences to his family and his team at Economists.co.za.