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Is the rand getting stronger

The SA rand has seen significant gains against the US dollar recently due to both internal and external factors. As of May 16, 2024, it's trading at R18.23/USD. This rise is partly caused by decreased uncertainty in SA's currency and bond yields with the ANC-EFF coalition becoming less likely. Investors are questioning whether the rand's strength is genuine or if the US dollar is weakening. Below are some key factors to consider: One factor contributing to the rand's growth is the possibility of lower interest rates in the US. The Federal Reserve has hinted at cutting rates due to concerns about slowing economic growth and potential subdued inflation. Lower US interest rates make the dollar less attractive to investors, leading to a weaker dollar and making emerging market currencies like the rand more appealing. Other major economies showing signs of recovery have also seen their currencies strengthen. For example, the euro and pound are becoming more attractive to investors due to economic resilience in the Eurozone and UK. Additionally, the expanding US trade deficit is exerted downward pressure on the currency, while fiscal policies, including high government spending and debt levels, raise concerns about the long-term sustainability of the US economy. The weakening of the US dollar against global currencies like the rand can be attributed to a combination of domestic monetary policy shifts, global economic improvements, and specific fiscal challenges. As the US navigates these issues, its currency's performance will continue to be influenced by both internal and external factors. In contrast to last year, the performance of the US dollar has been marked by volatility and a general weakening trend against the rand and other currencies in 2024. Over the past decade, the US dollar has appreciated by 24.65% against the rand and 20.92% against the euro. However, recent developments have shifted this trend. Domestically, South Africa's political landscape has shown signs of stability, which has bolstered the rand. The reduced probability of an ANC-EFF coalition has been a key factor in this support. The rand's rise above 40% can be attributed to several factors: The emergence of the MK Patriotic Front and its impact on bond yields have created a more favourable outlook for the rand. However, the political landscape remains volatile, with ongoing events influencing the currency's value. Easing load shedding by Eskom has improved the business environment and investor sentiment. South Africa's economy has shown resilience, avoiding a recession with a modest GDP growth of 0.4% in Q1 2024. This stability has made the rand more robust against the dollar. The strengthening of the rand can be attributed to international monetary policy shifts, domestic political optimism, and improved economic conditions. Despite these favourable factors, our house view remains that South Africa's structural issues will continue to exert downward pressure on the rand in the long term. These fundamental challenges include persistent power shortages, high unemployment rates, and political instability. We expect the rand to weaken annually against the dollar despite short-term fluctuations. Given its current strength, we believe this is an opportune moment for investors to convert their ZAR holdings into hard currency. Converting ZAR to hard currency now allows for strategic positioning before the anticipated long-term depreciation. This conversion can provide a hedge against future declines and benefit from the relatively favourable exchange rate. The economy's strong foundation is being threatened by ongoing issues despite recent minor improvements. A closer look reveals that South Africa's economic problems remain unresolved, and celebrating short-term gains may be premature. We should consider addressing the root causes of our economic challenges rather than solely focusing on temporary benefits. The rand has faced significant downturns in 2023 and over the past two years, with a 9% drop against the US dollar last year being particularly concerning. However, there is some optimism that the upcoming elections may bring improvements to load shedding, which contributed significantly to the rand's decline. It's essential to monitor the developments ahead, especially considering the rand's historical performance. Historically, betting on the rand hasn't been wise, with it weakening against the US dollar in seven out of ten years over the past decade. The last three years have seen particularly severe losses due to various factors like load shedding and grey-listing by the Financial Action Task Force. Could 2024 be the year the rand recovers? Only time will tell. Historically, the rand has struggled against the US dollar, losing nearly 30% in the past decade. Emerging market trends suggest that more than half of emerging market currencies might gain against the dollar in 2024, although the rand and Turkish lira are expected to take longer to recover. Economic and political influences continue to weigh on the rand's performance, with load shedding and logistical issues at Transnet remaining significant challenges. However, potential improvements in these areas could benefit the rand through the carry trade, especially with expectations of a weaker US dollar and lower US interest rates. A Reuters poll suggested that over half of emerging market currencies may strengthen against the dollar in 2024, but both the Turkish lira and the South African rand are not expected to recover their losses soon. Several factors continue to pressure the rand, including ongoing load shedding, bottlenecks at Transnet, and the anticipation of a highly contested election. The South African Reserve Bank's monetary policy decisions hold significant influence over the potential recovery of the rand, with rising interest rates playing a crucial role in currency valuation and impacting inflation and investor sentiment. Since October, the MSCI International Emerging Market Currency Index has climbed by 4%, indicating anticipation of an interest rate cycle shift. However, Bloomberg's chart predicts a grim outlook for the rand against other emerging market currencies in 2023, ranking it fourth from the bottom out of 22 currencies. Load shedding and Transnet's logistical problems have hindered growth and investor sentiment, according to Investec chief economist Annabel Bishop. Despite signs of improvement at Eskom and Transnet, with reduced backlog at the Durban container port, load shedding remains a significant issue, with its end still five years away, as indicated by Eskom. Most of the negative news seems to have been factored into the rand's value, but growth prospects remain subdued, with the economy expected to expand by only 0.7% to 1.5% annually over the next two years. Forecasts for the rand in 2024 vary, with Nedbank predicting a rate of R18.21 against the USD, Investec predicting R17.60 in the final quarter of 2024, and Goldman Sachs projecting a strengthening rand to R14 against the dollar by 2026. However, potential challenges to this positive outlook include a stronger US dollar due to better-than-expected US economic growth and volatility leading up to the elections, which could impact the rand and revisit the R19/USD level seen in 2023. On a positive note, South Africa's improving current account deficit in the third quarter of 2023 is a rare bright spot for the local currency amid a challenging year. The health of the rand is closely tied to South Africa's overall economic performance, with concerns about a recession looming and influencing investor confidence. Given article text here The rand's current outlook is uncertain, with mixed signals indicating both caution and potential for improvement. Although South Africa faces challenges, historical trends suggest a possible recovery due to factors such as enhanced energy and logistics sectors, and a weaker US dollar. However, the outcome of upcoming elections and global economic trends will heavily influence the rand's trajectory. Factors like load shedding and logistical issues have contributed to the rand's weakening in recent years. Potential improvements in these areas, along with lower US interest rates and positive investor sentiment, could contribute to the rand's strengthening in 2024. However, predictions vary among financial institutions, with some forecasting a decline to R17.60 by the final quarter, while others predict a more optimistic view at R17.50/USD by mid-2024. Emerging market currencies generally benefit from lower US interest rates and a weaker US dollar, but domestic economic conditions and investor sentiment also play a significant role. The upcoming elections may lead to volatility in the rand's value due to political uncertainty and potential policy changes that could affect investor confidence and currency stability.

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