

SA ECONOMIC INDICATORS AND ITS INFLUENCE ON THE RAND

FX FACT SHEET

INTRODUCTION

The Rand is one of the most volatile currencies in the world. The statement is partly due to the well-developed banking and financial systems allowing for swift reaction in the market when relevant market data is released. The following local indicators have market-moving ability and their influence is described below.

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THE RAND OVER TIME



Gross Domestic Product (GDP)

GDP reflects the rate at which the country's economic activity is growing and is the primary indicator as to the health of the economy. GDP is probably the most important indicator Ratings agencies monitor. GDP data is released on a quarterly basis with a quarter on quarter number as well as a year on year number. GDP has a large impact on the Rand in that the higher the GDP rate the more positive it is for the currency and vice versa.

Consumer Price Index (CPI)

Cash position can be viewed by region and/or by currency. Foreign currencies can be viewed based upon exchange rates or positions can be viewed in their native currency.

Producer Price Index (PPI)

Analyze total liquidity by incorporating desired investment and credit data from the Debt and Investment modules. A dedicated liquidity report aggregates and sums data in worksheet, graphical or interactive map forms.

Retail Sales Indicator

Retail sales reflect the purchases of finished goods and services by consumers and businesses showing the level of retail spending in the economy. The higher the retail sales rate the better for the economy. Good retail sales data will have a beneficial impact on the currency and vice versa poor numbers will have a negative impact.

Trade Balance

A country's trade balance is the calculation of its exports minus its imports. A trade surplus happens when the value of all exports exceeds the value of all imports. A trade deficit is when the value of all imports exceeds the value of all exports.

A trade surplus should have resulted in the currency strengthening as more foreign funds would be flowing into the country and conversely, a trade deficit should have caused the currency to weaken. There would also be an immediate reaction to the release of the data dependent on market expectations.

Current Account Balance

The current account balance is defined by the sum of the value of imports of goods and services plus the cost of foreign borrowings, minus the value of exports of goods and services. The Trade Balance would be a leading indicator for the Current Account.

A current account deficit is a result of more currency flows out of the country and therefore would be negative for the Rand and conversely the opposite would be true for a surplus.

Budget Balance

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Reserve Bank Monetary Policy Committee)

Bi-monthly interest rate decision by the SARB on the interest rate path for the country based mainly on the bank's mandate to manage inflation (CPI) expectations although the growth (GDP) outlook is also a factor.

Any change in the Repo rate has an impact on the currency whereby ideally a hike in rates is supposed to be positive due to expected investment flows into the country whereas a cut would be negative due to outflows. This is not always the case as higher rates are growth negative.

Secondary Data

Production data – Manufacturing and Gold

Purchasing Managers Index – PMI

Money Supply and Credit Extension

Employment Data (or Unemployment in South Africa's case)

All of the above will impact the Rand to a degree depending on how far away from market expectations the number is. These are not huge drivers for the currency.

Conclusion

In several ways, the global economic and political outlook is uniquely challenging today, with a new normality of volatility and uncertainty. Working with a complimentary expert third party provides a means of eliminating many of the key risks associated with exchange exposures, leading to enhanced finance management though demonstrably more dependable revenue forecasting, and actual performance.



Wichard Cliers – Head of Dealing

As head of the TreasuryONE dealing team, Wichard ensures that clients benefit from the Forex dealing team's expert currency and commodity trading skills. Not only is he passionate about the financial markets, but is also an avid cyclist, and added the 2019 Absa Cape Epic medal to his trophy cabinet.