

Rand Note

30th September 2019

The domestic currency settles above R15.00/USD as global financial market risk aversion remains elevated, with the ongoing US-Sino trade conflict a chronic drag on global growth expectations, and so on EM currencies

- The rand has weakened to R15.21/USD, R16.63/EUR and R18.72/GBP today, from R15.16/USD, R16.58/EUR and R18.63/GBP at its close on Friday, continuing its weakening trend since mid-September as concerns over slowing global economic growth continue to trip risk sentiment, in an environment of a strong dollar.
- The rand continues to follow global events, ignoring the ANC's NEC meeting over the weekend where Finance Minister Mboweni presented National Treasury's economic growth plan to save South Africa from the declining growth trend it has been on since 2011, where GDP has fallen from 3.3%, to 0.8% y/y last year, and likely around 0.5% y/y this year.
- This year the domestic currency weakened materially against the US dollar from R13.24/USD in January to R15.21/USD today, while against the UK's pound it is at R18.72/GBP versus R17.35/GBP in January, a 12.9% depreciation against the USD and 7.3% depreciation against the GBP. The USD has strengthened by 6.7% against the GBP this year.
- US economic activity remains strong, with the Fed recently cautioning on expectations of further cuts in US interest rates as a result. US dollar strength is reflective of the flight to safe haven activity (US treasuries) as risk aversion has risen in global markets, but also of the attraction of US equities on the back of strong US economic activity.
- The initially trade-led conflict between the US and China shows little sign of ending, with the US now looking to limit US portfolio flows into China in another retaliation, through reportedly aiming to delist Chinese companies from US stock exchanges and/or limiting US citizens exposure to the Chinese market through government pension funds.



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- The US is continuing to attempt to force change from China ahead of US elections next year on the back of Trump's pre-election campaign to bring jobs back to America, with global trade volumes negatively impacted by the escalation in US led global trade protectionism.
- In South Africa, the ongoing slump in economic growth is getting top priority, with the President stating today "(a)lmost everyone I meet in the country, ... is deeply concerned about the state of the economy and the stubbornly high rates of unemployment. After a decade of low growth and deepening poverty, people are looking for signs of progress ...".



- President Ramaphosa's first weekly email to the nation continued "(t)hese concerns are real. This year, the economy will record growth that is lower than expected (and much lower than what we need). Government finances are stretched about as far as they can go, and several industries are looking at retrenching workers."

- Last year in September the President launched the Economic Stimulus and Recovery Plan (ESRP) which included focus on the need for government to spend on more productive economic areas, close unity with business, government and labour (the three spheres) and a greater focus on international norms used in successfully lifting economic growth.
- In his email today the President said “(b)uilding on the stimulus and recovery plan, government will finalise a clear economic growth strategy within the next few weeks. This strategy will draw on the many valuable contributions that have been made by South Africans on the discussion paper released by National Treasury.”
- He added “(s)everal parts of the growth strategy are already in place. These include how we can strengthen our reform programme, a revitalised industrial strategy in support of key growth sectors and the establishment of an Infrastructure Fund with a clear plan to revive infrastructure investment.”
- And “(m)uch work is underway to improve the ease and reduce the cost of doing business, as are efforts to restructure state owned enterprises and ensure that they perform better in meeting the country’s needs. A clear strategy to place Eskom on a sustainable path of recovery is also being finalised.”
- He additionally wrote “(o)n the first Monday morning of each month, the Deputy President and I meet with the leaders of business, labour and the community sector to review the implementation of measures agreed at last year’s Jobs Summit. Our continued focus is on job creation and how we can reduce the numbers of people who are unemployed.”
- The plans and activities from the President’s office, key Ministers and other key players have yet to translate into faster economic growth and so private sector investment. Globally the economy looks like it could weaken further, which would negatively impact SA’s export led growth. The rand has failed to gain so far today, as it continues to drift to the downside.





