

What you need to know about Foreign Exchange



BRAAM BREDEKAMP	NOVEMBER	2020
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INVESTMENT CONSULTANT

The word “Forex” is a shortened version of the term “Foreign Exchange”, which refers to the conversion of one currency into another. The Forex market is one of the most actively traded markets in the world and has an average trading value of US\$ 5trillion per day.

It can further be described as a network of transacting parties – consisting of individuals, companies and central banks – buying and selling currency at an agreed price.

In this article we will look at the history of the South African Rand, some facts about our currency, how we assist our clients to transfer money offshore and what the Rand’s future trajectory might look like.



EN AVANT
A French ballet term describing a dance step requiring dancers to move **forward** and **onwards**.

SOME FACTS ABOUT THE RAND

Compared to other currencies like the American Dollar (USD), which became the monetary unit for the USA in 1785 and the British Pound (GBP), which is about 1,200 years old, the Rand is very young. The Rand came into existence in February 1961, replacing Pound Sterling at two Rands to one Pound. 1961 was also the year South Africa became a republic and left the Commonwealth of Nations.

The International Organization for Standardization (“ISO”) code of the South African Rand is the ZAR, which is an acronym for the Dutch words “Zuid-Afrikaanse Rand” and for many years the Rand was stronger than the American Dollar – from 1961 through to 1982. Today the Rand is a lot weaker and has traded between R12 to R19.20 to the Dollar between 2018 and July 2020. The Rand is also one of the most volatile and most traded currencies in the world.

When the Rand was first printed it was printed in two ways – one with English and one with Afrikaans writing. In 1990 the Rand was refreshed with images of the Big Five wildlife species. Today all new banknotes carry an image of the former President Nelson Mandela, and many people called these new notes the ‘Randela’. Today, the language on the front of all banknotes is English.

Inflation is climbing and many South Africans complain that their Rands don’t go very far. One of the popular ways to see how things have changed is to compare what a meal today would have cost you ‘way back when’. Today a Wimpy breakfast can set you back between R29 and R50. In 1983, things were a lot cheaper and you could get a Super Wimpy Grill, consisting of a Wimpy beef burger, eggs, chips and bacon for just R3,50! A cheese burger would set you back R2.30 in 1983, today you have to dig a little deeper into your pockets and pay R57.90!

“ 1983 PRICES ! ”

WIMPY HAMBURGER PATTIES are guaranteed 100% PURE BEEF with spices

- 1. Wimpy Pure Beef Hamburger R2,00 with french fried chips
- 2. Wimpy Kingsize Burger R3,15 with french fried chips
- 3. Wimpy Cheeseburger R2,30 with french fried chips
- 4. Wimpy Special Grill R3,25 Our pure beef Wimpy patty plus a Bender hamburger and a fried egg served with hamburger dressing, grilled tomato and french fried chips.
- 5. Wimpy Salad (especially for dinner) R2,90 Two pure beef Wimpy patties served with a variety of fresh salads in season.
- 6. Wimpy Pure Beef Hamburger R2,00 with french fried chips
- 7. Super Wimpy R2,80 A gigantic 120g beef Wimpy Hamburger patty served in a bun, french fried chips with hamburger dressing and garnish.
- 8. French Fried Chips 75c
- 9. Wimpy Cheese Eggburger R2,55 A Wimpy hamburger with a pineapple ring, french fried chips, hamburger dressing and garnish.
- 10. Super Wimpy Grill R3,50
- 11. Wimpy Hawaiian Burger R2,30 A Wimpy hamburger with a pineapple ring, french fried chips, hamburger dressing and garnish.
- 12. Bender Brunch R2,75
- 13. Shanty Brunch R2,90 A portion of creamed fish fillet served with french fried chips and garnish.
- 14. Curry and Rice R3,40 (when available) Beef curry served with sambals and chutney.
- 15. Shanty Salad R2,90
- 16. Steakburger R3,00 with french fried chips
- 17. Farmhouse Breakfast R2,70 Two eggs, crispy bacon, french fried chips and a slice of toast.
- 18. Toasted Sandwiches from 90c to order
- 19. South Seas Grill R3,30 2 pure beef Wimpy patties served with cheese pineapple ring, french fried chips, hamburger dressing and garnish.
- 20. Rump / Sirloin Steak R5,50 200g of top grade strip steak served with a fried egg, salad and french fried chips.

Hey kids!
Get in on the Wimpy Wiz Club and all the good things that go with it! **FREE! HERE! NOW!** Ask your Waiter for your entry form, and join today!

Have a nice day

ALL MENU PRICES EXCLUDE G.S.T.
WIMPY, SHANTY, BENDER & SHANTY/EGGS ARE REGISTERED TRADEMARKS



“October month is one of the peculiarly dangerous months to invest in stocks. The others are July, January, September, April, November, May, March, June, December, August and February.”
- Mark Twain

WHERE MIGHT THE RAND BE HEADED IN RELATION TO OTHER CURRENCIES?

When we look at the Rand in relation to other major currencies, there are a few interesting points to note.

Although the Rand has over the past decade been weakening by an average of 7% per year against the USD specifically, it won't necessarily hold that trajectory. Over the short term we believe that the Rand might strengthen against the USD to around \$/ZAR 15.50. The reason for this is that the USD is currently very expensive and may weaken in the short term, and thus the Rand should strengthen. Such brings an opportunity to move more monies offshore into USD.

Against the GBP and EUR, the Rand might strengthen by a smaller margin versus the USD over the short term, and then weaken again even past the current levels.

We believe there may well be a short term opportunity to move monies abroad at stronger Rand levels after which the Rand may depreciate further.

CAN GRAYSWAN ASSIST TO CONVERT RAND TO OFFSHORE CURRENCY?

Whatever your reason may be for wanting to transfer money offshore – whether it's to invest or have funds available for a holiday – **we can assist you.**

We have partnered with Investec to provide a user friendly and cost effective way to facilitate foreign exchange transactions. By utilizing their Corporate Cash Manager (CCM) and Forex systems we can even open offshore USD bank (settlement) account for our clients. Our costing is competitive and lower than the average Forex fees in the market.

You may or may not be aware of the limits to transferring money offshore: every individual South African citizen over the age of 18 years may transfer up to R1 million offshore without obtaining tax clearance from the South African Reserve Bank. If, however you want to transfer more than R1 million but less than R10 million (which is the maximum limit) you will need to provide us with a tax clearance certificate.

To summarise our process, we firstly open a local CCM account in the client's name. To do this, we must obtain a specific set of documents, after which your Rands can be deposited into the clients CCM account. Then we open the offshore account.

As soon as funds reflects in the local CCM account, we confirm the exchange rate with the client before booking the trade. Once the Rands have been converted to the specified currency, it will either be paid into your Investec offshore settlement account or a third party bank account that you have specified.



"To invest with success, you must be a long-term investor."
- Johan Clifton Bogle

INVESTMENT STRATEGY

Over the years moving monies across borders, has become seamless and uncomplicated (yes, even if we need to abide to Reserve Bank Regulations). The investment world in Forex is almost limitless. The options vary from exchange traded funds (ETFs), shares, unit trusts, commodities, bonds, digital currency, options, futures etc.

Our database of ETF's and funds already surpass 100 000 options. Once your funds has been converted to foreign currency we can assist you to construct a well-diversified offshore investment portfolio but this is meant for another article.

Please contact your GraySwan financial advisor if you wish to transfer funds offshore. We will gladly assist you throughout this process.



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MORE INFORMATION

If you have any question regarding our Research, Investment Consulting, Wealth Management, Reporting or Treasury Solutions services please contact us today.