

FOREX -
NOW IS THE TIME!

JANUARY 2021



GRAYSWAN



TANIA THERON
HEAD OF GRAYSWAN WEALTH

US DOLLAR WEAKNESS



Figure 1: Trade Weighted U.S. Dollar Index

In 2011, the US Dollar entered a strengthening cycle that peaked during the flight to safety brought on by COVID-19. At the peak of risk aversion in 2020, capital flowed to US Dollar denominated assets like cash and U.S. treasuries due to their safe-haven status. As outlooks improved for the global economy, investors started moving their investments to assets providing higher yields like emerging markets or economies that might perform better in the short run.

Investments flowed back into South Africa in the fourth quarter of 2020, as foreign investors started searching for yield. Although the SARB cut our interest rate during 2020, relative to other countries South African bond yields remained very attractive – at one point the most attractive of all emerging market bond yields.



EN AVANT

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

RAND VALUATIONS

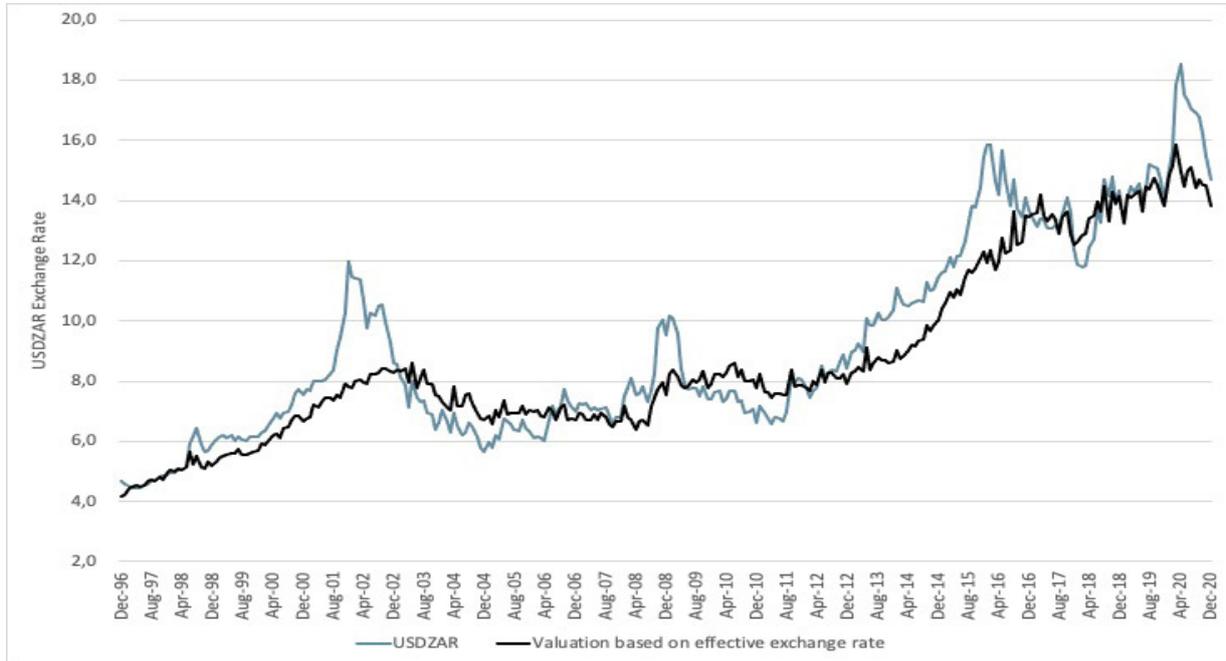


Figure 2: Rand compared to its historical valuations

One of the key valuation metrics used for the Rand is its real effective exchange rate as calculated by the Bank of International Settlements. A real effective exchange rate measures currencies against a basket of other currencies and is trade weighted. Central banks adjust monetary policy, which can affect interest rates in their respective countries. As a result, money flows could increase to the countries with higher rates as investors chase yield, thus strengthening that countries exchange rate. The real effective exchange rate is impacted primarily by changes in interest rate markets and has less to do with trade.

Figure 2 shows how the flight to safety trade at the start of the year caused the ZAR/USD to depreciate to a record high of 19.10.

As risk appetite returned the Rand strengthened back to pre-crisis levels.

LONG-TERM DEPRECIATION RATE

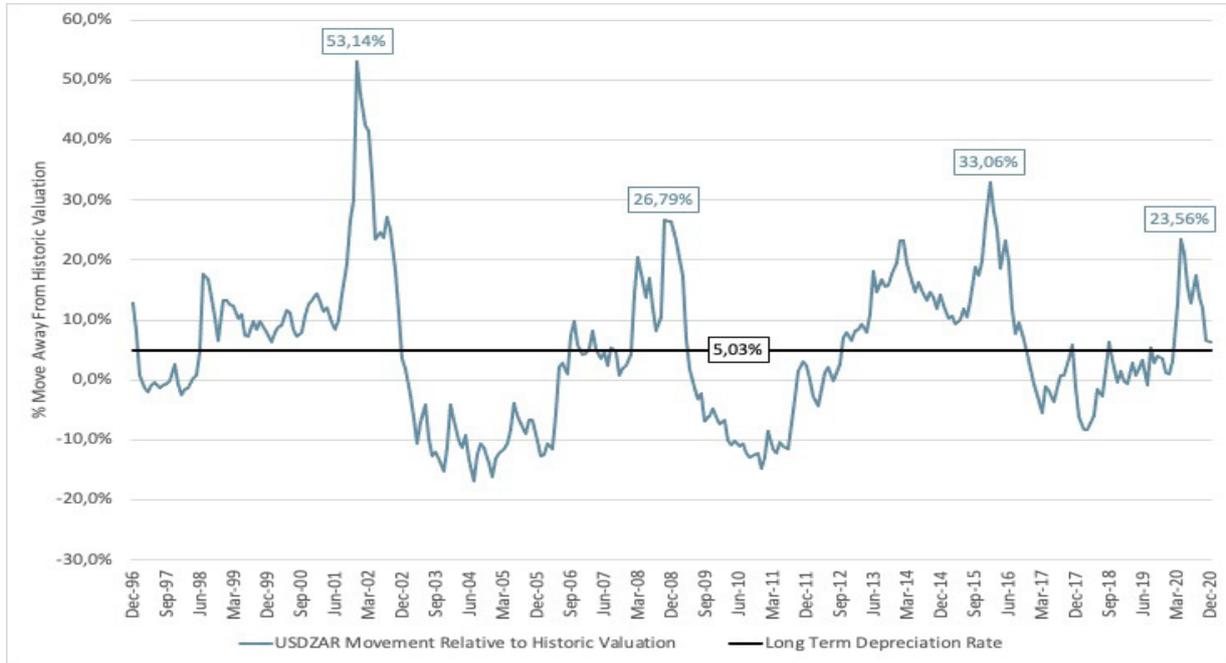


Figure 3: The recurrent pattern of the Rand

Historically the rate at which the Rand depreciates against the US Dollar is roughly 5% p.a. Figure 3, compares the severity of the movement in the Rand to its long-term depreciation rate.

Relative to its long term depreciation rate the Rand weakened by 23.6% during 2020, after which it returned to more reasonable levels.



1 YEAR IN THE LIFE OF THE USD/ZAR

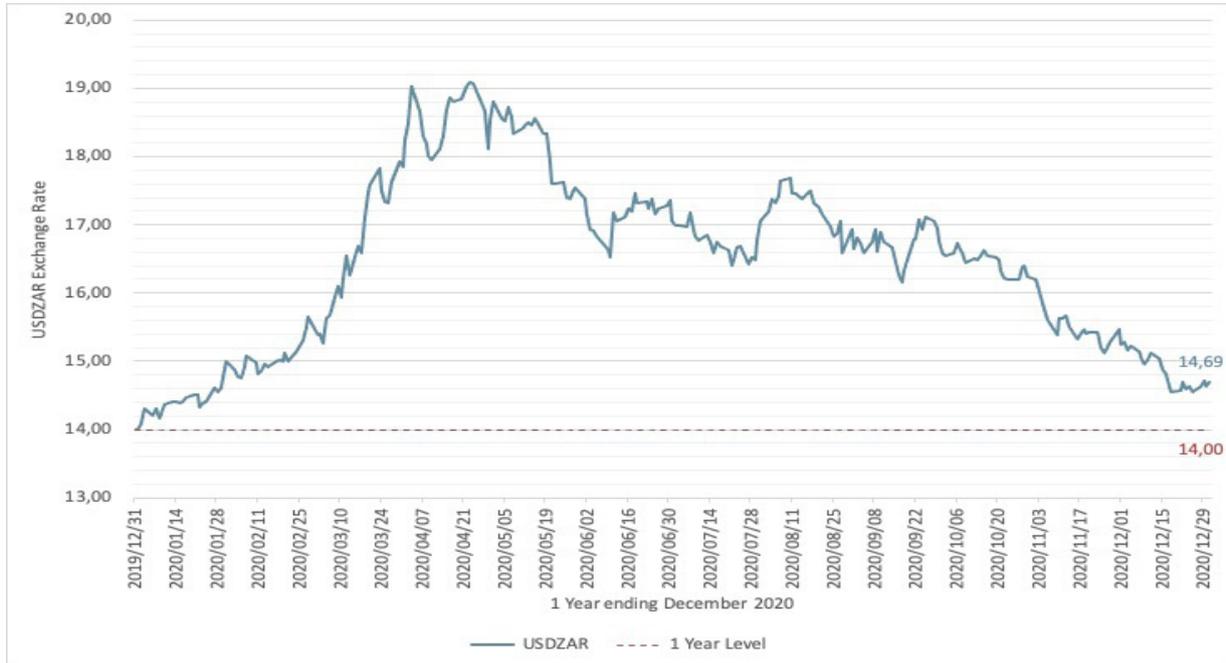


Figure 4: 1 Year performance

The USD/ZAR started the year at 14 and ending the year at the 14.69 level, ignoring the flight to safety spurred on by the COVID-19 pandemic and the subsequent Federal Reserve stimulus, the USD/ZAR performance has been in line with its long term depreciation rate. Over the course of the year, the Rand weakened by 4.9% to the US Dollar.

Further US Fiscal and Monetary stimulus packages could lead to more US Dollar weakness in the short term. Fundamentally the USD/ZAR is trading near fair value within a range of 15.00-16.00, meaning the Rand looks expensive below 15.00 and cheap above 16.00.

At current levels, the Rand is trading within the fair value range and is presenting an opportunity to further diversify investments by moving funds abroad.

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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