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ECONOMIC COMMENTARY

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YOUR WEEKLY ECONOMIC UPDATE

7 September 2021

AS THE WORLD SLOWS DOWN, THE RAND STRENGTHENS

More and more data from major economies in the Northern Hemisphere is showing that economic recoveries have started to lose steam. This is evident from both survey and hard-activity data that were released during the Northern Hemisphere's summer break. Manufacturing indicators, business surveys, and consumer confidence dipped, whilst consumer spending in the United States (US), United Kingdom (UK), and even China slowed. What this means is that the pace of recovery during the second half of 2021 will be modest at best. It also seems as though prices have peaked in most countries but, because of the lingering effect of the pandemic, might stick around longer than expected. Central banks might, therefore, be reluctant to tighten monetary policy at the rate we initially thought they would.

Considering how rapid some of the rebounds in economic activity have been, it is no real surprise to see a slowdown now that many of the major economies are at, or close to, their pre-pandemic levels. But what seems to be contributing most to this slowdown are persisting supply-chain constraints and the impact of the Delta variant on consumption and manufacturing. In South-East Asia, the Delta variant has led to further factory closures. This, in turn, triggered renewed problems in global supply chains and contributed to inflation. Inflation, consequently, is having its toll on demand by reducing the purchasing power of consumers.

In the US, higher inflation and supply-chain problems weighed heavily on the motor vehicle industry, causing unit sales to fall 11.5% month-on-month. In fact, only 13.1 million units were sold in August, a level that is unprecedented outside of recessions. The Delta variant has not only kept unemployed individuals from taking up one of the millions of job opportunities in the US, but it has also kept consumers from spending as they usually do. This, in turn, reduced the number of new vacancies available. In the latest employment report, only 235 000 new jobs were created, much lower than the expected 720 000. The report also showed that more than 5.6 million Americans said they were unable to work owing to the pandemic, up from 5.2 million in the previous month.

Closer to home, the rand is at it again. From early August, the rand depreciated from levels around R14.30 to levels around R15.30, in just more than two weeks, but then did an abrupt turn around, racing back to the R14.30 levels where it is currently trading at. The recent volatility is owing to all the uncertainty in the global marketplace, some of which we touched on above.

We still maintain that any level below R14.50 is a good long-term level when you are considering investing offshore. But to give you some more guidance, we have updated our ZAR/USD model. Our model considers the long-term purchasing power of the rand and adjusts for periods of extreme volatility since 1980. Periods of extreme volatility include the period during which the Rubicon speech was made in the 1980s and the more recent coronavirus pandemic. What this model then shows us, based on history, is if the rand is cheap, fair, or expensive. What we have found is that this indicator is very good at showing long-term trends in the rand. That is why we are not too concerned when the rand races to R19-levels because we know that these are unsustainable. Currently, the rand is considered cheap between R11.99 and R13.30 (definitely buy dollars), fair between R14.12 and R15.97 (buy dollars), and expensive between R17.01 and R19.77 (do not buy dollars unless you must). Because of the volatile nature of our currency, we discourage customers from trying to time the rand and wait for it to strengthen even more. If the rand is fair, take your money offshore. The rand has a nasty habit of depreciating rapidly but taking its time to recover. Also, while you are waiting for the rand to play along, you are losing out on potential growth in your investment.