

Quesetion 4

20903936

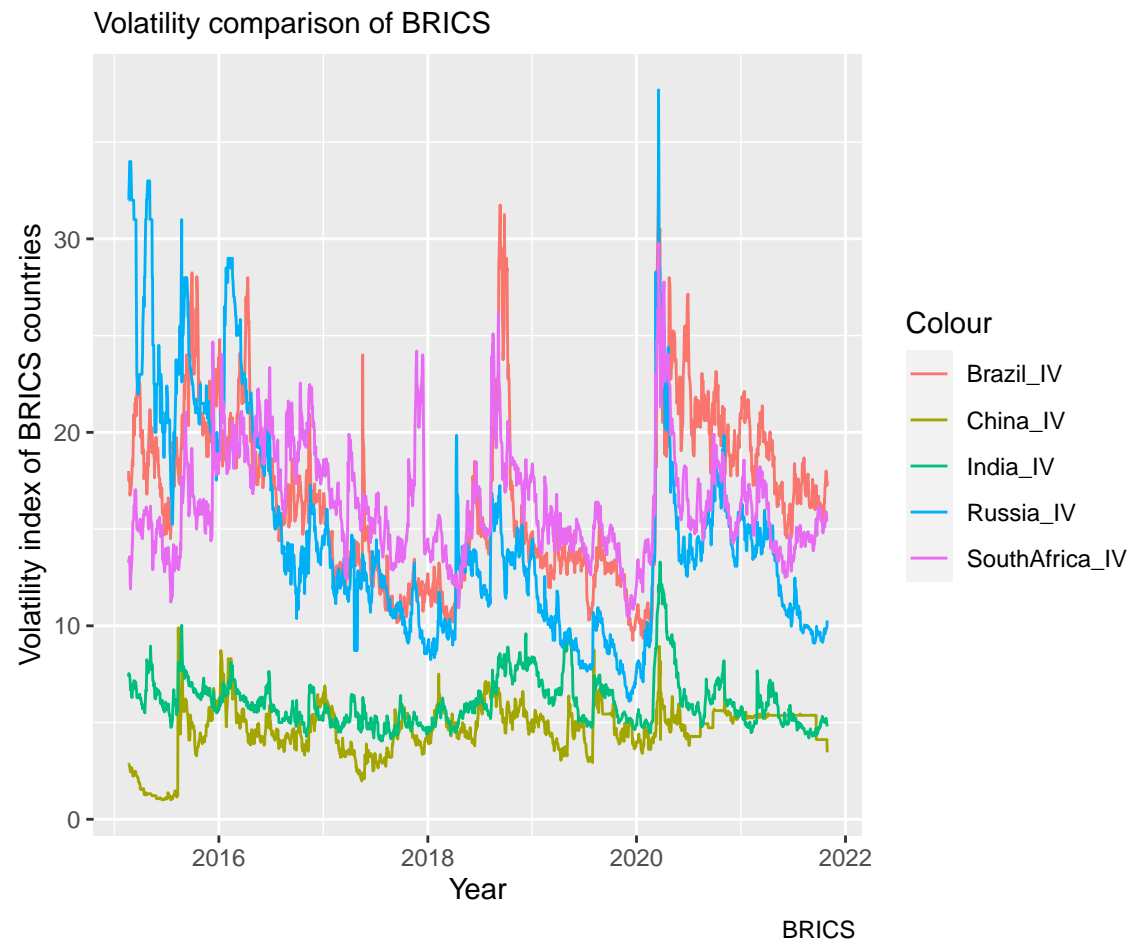
12/5/2021

Introduction

This brief report will aim to comment on the following statements using currency data.

- The South African rand (ZAR) has over the past few years been one of the most volatile currencies
- The ZAR has generally performed well during periods where G10 currency carry trades have been favorable and these currency valuations relatively cheap. Globally, it has been one of the currencies that most benefit during periods where the Dollar is comparatively strong, indicating a risk-on sentiment.

To compare the South African rand relative to other currencies, I used BRICS countries as a comparison. As can be seen above we can not really see much on the volatility, however we can see that Russia and India were depreciating at an alarming rate.

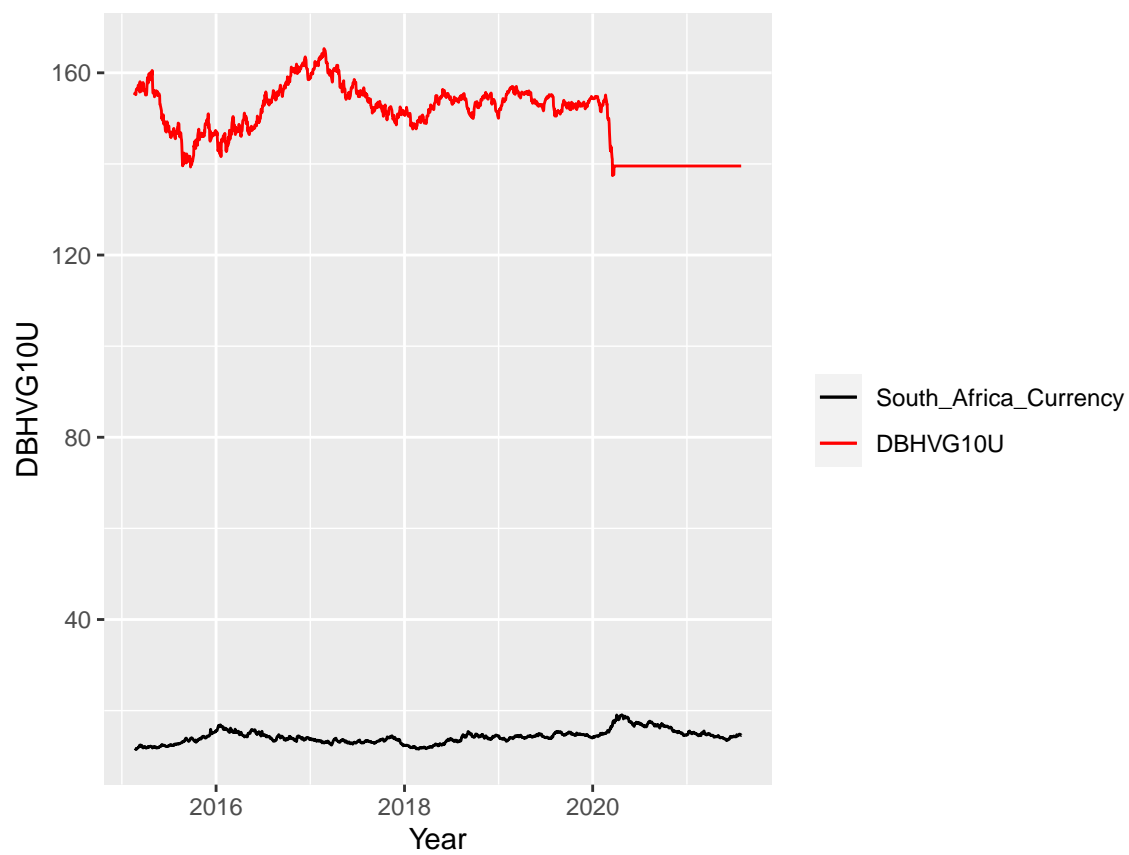


The above plot shows however that South Africa rand has been quite volatile over the last few years. This is due to various factors. For instance, in recent time Covid 19 has contributed to volatility. Furthermore, the July riots also contributed to recent volatility.

However, volatility prior to 2020 could be attributed to what is now known as the Zuma years. This is when state capture was occurring which add to the volatility in the market.

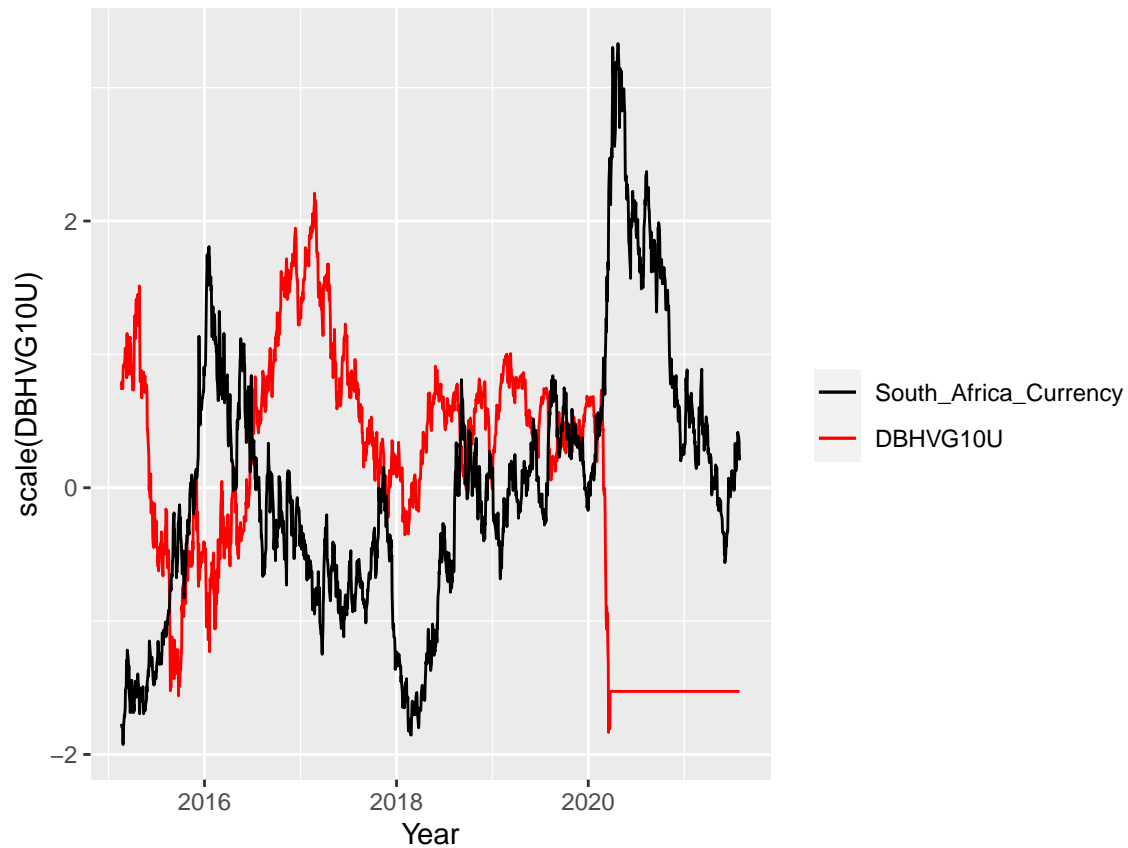
Returns Comparison

South_Africa_Currency and DBHVG10U



Returns Comparison

Scaled South_Africa_Currency and DBHVG10U



The charts above answers the second question. Here I tried to scale the time series returns so that we can see if indeed the South African Rand performs well during periods where G10 currency carry trades have been favorable. To be honest, the results above seem ambiguous. It almost looks like there is a negative correlation between the two series, but I can not be sure. Therefore I would almost conclude that these two series aren't related at all.