

Geopolitics will likely continue to increase the variability of the rand's performance over the year.

By Mosi Methula 14/01/25

Some might suggest a disappointing start to 2025, citing a volatile rand-greenback pair, a 2.4% decline in the JSE All Share Index, US equities beginning the year in the red with the S&P and Nasdaq down around 1.50% and 0.70% respectively, and the spot gold price down over 3% year-to-date.

The recent explosive US Jobs report (Non-Farm Payrolls) recorded an addition of 265,000 jobs to the American economy, exceeding estimates by over 100,000 and knocking down their unemployment rate to 4.10%. This report suggests a strong labor market, preceding increased consumer spending and, thus, a healthy economy. Although this did not halt the US Treasury selloff and rising yields, nor prevent the S&P from closing over 1.5% down from the previous day, the results led to revisions in the number of rate cuts expected for the rest of this fiscal year, with analysts expecting no changes to the federal funds rate in the upcoming US Federal Reserve's meeting between 28 and 29 January.

As markets await key economic indicators, including both the core and headline Consumer Price Index (CPI) to be released on Wednesday, insights into the US Fed's behavior for the year remain limited. However, with possible incoming tariffs following Trump's inauguration in 6 days, a strong job market report, and US inflation still hovering above the Fed's 2% target, conservative rate-cutting is expected over the coming quarters.

SA's equities market has been caught in the anxious tides of the anticipated US CPI figures, with the JSE closing at its lowest level on Monday since September last year. According to Moneyweb, Bloomberg sees a 3.3% core CPI increase as probable. However, more disappointing is that the implications of a less valuable dollar for the rand won't be clear anytime soon. In the Monetary Policy Committee (MPC) statement from November 2024, South African Reserve Bank (SARB) chair Lesetja Kganyago provided projected starting points for the USD/ZAR pair at 17.74 per US dollar for Q4 2024 and 17.96 for Q1 2025. If oil prices were 11% higher than the MPC's baseline price, the rand would weaken to a low of 19.54 to the dollar. Conversely, oil prices 4% below their baseline, would strengthen the rand to 16.02 per US dollar. Additionally, inflation is projected to stabilize at 4.6% in Q4 2025 through 2026, up from prior forecasts due to rising electricity and water prices.

Geopolitics will likely continue to increase the variability of the rand's performance over the year. Potential Trump tariffs, possible US sanctions, a looming US-China trade war and Moscow's influence will shape the global market landscape. As these uncertainties unravel and more arise, the rand and other emerging market currencies remain at the mercy of such global dynamics.