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# Why is the rand holding strong despite global uncertainty?

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In the face of ongoing global economic and political instability, the rand has surprisingly performed well. But what's behind this performance, and is it sustainable? We have had several media requests about this, and this note provides a summary of the topics discussed and key points for consideration.

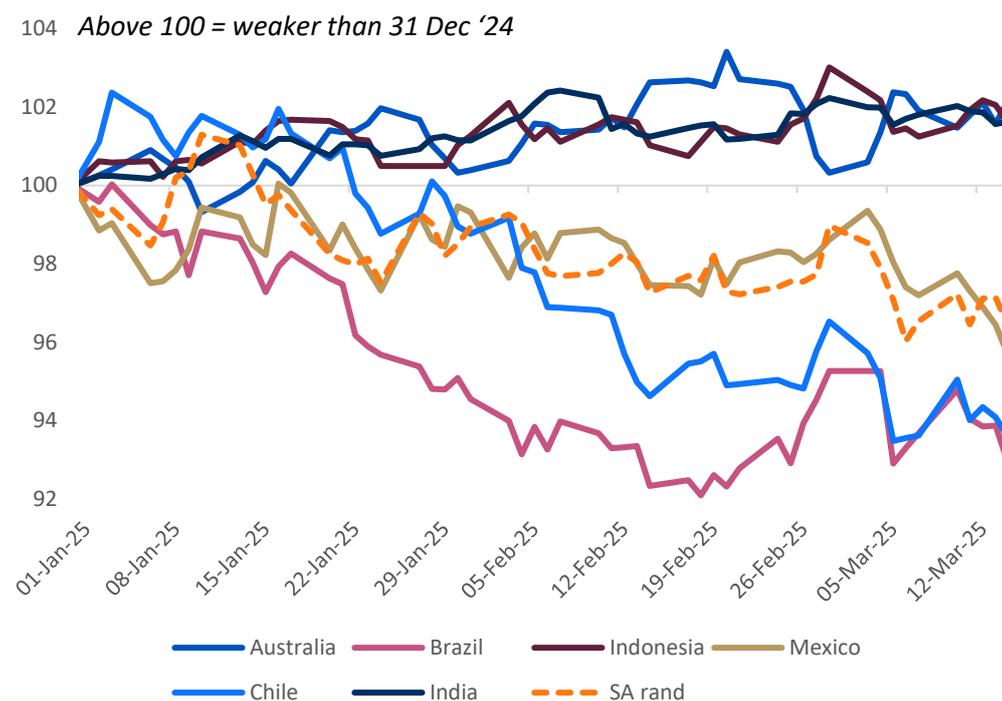
## Why is the rand performing so well despite global uncertainty?

**The rand's strength is part of a global trend.** Since the start of the year, many currencies, including most emerging market (EM) currencies have been doing better against the US dollar, and much of this can be attributed to what's known as a "weak dollar story." Global investors have been adjusting their expectations around US monetary policy amid heightened uncertainty about the strength of the US economy, which has caused the dollar to soften.

But while the rand looks strong, it's important to understand that this isn't necessarily a reflection of SA's economic health. In fact, SA's risk premium has been climbing steadily since mid-December, and recent surges in 10-year bond yields signal that investors remain cautious. SA's CDS spread – a measure of sovereign default risk – has also increased over this period (although it remains below pre-GNU highs). In short, the rand's strength is driven more by global market dynamics than by any strong local economic fundamentals.

On the domestic front, though, the somewhat better-than-expected current account deficit in Q4, as well as SA's monetary policy stance, could be offering some support to the rand. With a relatively high real interest rate, the rand remains an attractive currency for yield-seeking investors. Plus, the South African Reserve Bank (SARB) is expected to cut rates by less than the US Federal Reserve (US Fed), which could give the rand some short-term tailwinds. However, looking ahead, we anticipate that the rand may revert to a depreciating trend by 2026, driven by inflation, interest rate differentials, and external account pressures.

**Figure 1: Uncertainty about US growth has been bad for the dollar, helping most EM currencies**



Source: Refinitiv (as at 16 March 2025), BER

## THE LINK BETWEEN SA'S ECONOMIC PERFORMANCE AND GLOBAL CRISES

**SA has historically benefitted from certain global crises - particularly those that drive up commodity prices.** During periods of global uncertainty, investors flock to gold as a safe-haven asset, which in turn boosts SA's mining sector. This creates a positive feedback loop, increasing export revenues and generating higher tax receipts.

While its share of mining production has declined over the past few decades to just below 14% (using 2019 production weights as per Stats SA) gold plays a role in SA's economic resilience. The same would hold for sustained, high prices for any of SA's export commodities:

1. **Economic buffer:** High gold prices can help offset domestic challenges, such as political instability, budget shortfalls, or rising inflation. When prices are elevated, the revenue from gold exports acts as a cushion against these pressures.
2. **Investment and sentiment:** A strong gold sector improves foreign investor confidence in SA's economy, attracting capital and supporting overall economic growth. In recent weeks, SA's biggest gold miner, Harmony Gold, announced R3bn of investment in underground mines and surface gold.

However, while gold and commodities can bring short-term gains, long-term global instability (whether political or economic) is never ideal. Prolonged instability can erode trade, foreign investment, and capital flows, which are critical for sustained growth.

# Conclusion

**SA's economy remains in a delicate balance.** While global shifts - like the performance of the rand, gold prices, and geopolitical dynamics - can bring short-term gains (or sometimes pain), they also underscore the importance of sound policy and long-term growth strategies. Structural reforms, diversification of trade partners, and strategic investments in sectors beyond gold will be essential for ensuring that SA can weather future storms and build resilience in a rapidly changing global landscape.

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