

## Currency Performance Report

As at 31 August 2023



Although the market showed strong momentum in June and July, August brought a shift, resulting in major indices providing negative returns. During August, the MSCI All-Country World Equity Index was down 2.39% and the Nasdaq Composite Index was down 2.05%. The Dow Jones Industrial Average was down 2.01% while the S&P 500 Index reduced by 1.59%.

Locally, the FTSE/JSE Shareholder Weighted All-Share Index closed 4.77% lower.

**Table 1: Currency returns vs US dollar**

| Currency Performance (USD Base) | 1 Month | Year to Date | 1 Year  | 3 Years | 5 Years | 10 Years |
|---------------------------------|---------|--------------|---------|---------|---------|----------|
| <b>Developed Markets</b>        |         |              |         |         |         |          |
| Australian dollar               | -3,50%  | -4,84%       | -5,37%  | -4,20%  | -2,06%  | -3,11%   |
| Euro                            | -1,39%  | 1,30%        | 8,27%   | -3,15%  | -1,34%  | -1,96%   |
| British pound                   | -1,26%  | 4,77%        | 8,76%   | -1,77%  | -0,45%  | -2,00%   |
| Japanese yen                    | -2,23%  | -9,91%       | -4,63%  | -10,06% | -5,27%  | -3,86%   |
| Norwegian krone                 | -4,74%  | -7,85%       | -7,90%  | -6,40%  | -4,63%  | -5,38%   |
| Swiss franc                     | -1,28%  | 4,68%        | 10,28%  | 0,76%   | 1,87%   | 0,52%    |
| <b>Emerging Markets</b>         |         |              |         |         |         |          |
| Argentine peso                  | -21,35% | -49,50%      | -60,39% | -40,39% | -36,23% | -33,78%  |
| Brazilian real                  | -4,65%  | 6,69%        | 3,39%   | 3,50%   | -3,92%  | -7,05%   |
| Chinese yuan                    | -1,59%  | -4,97%       | -4,80%  | -1,92%  | -1,20%  | -1,69%   |
| Mexican peso                    | -1,76%  | 14,37%       | 18,31%  | 8,72%   | 2,31%   | -2,38%   |
| Russian ruble                   | -4,61%  | -27,21%      | -37,58% | -8,29%  | -6,79%  | -10,06%  |
| Turkish lira                    | 0,92%   | -29,99%      | -31,95% | -34,95% | -24,52% | -22,67%  |
| South African rand              | -5,41%  | -9,89%       | -10,05% | -3,54%  | -4,89%  | -5,89%   |

Cumulative returns are shown for periods less than one year. Returns for periods greater than one year have been annualised.

Source: Sanlam Investments

## Developed market currency performance

### Norwegian krone

In line with market expectations, the Norges Bank increased interest rates by 25 bps to 4% during their August 2023 meeting, returning rates to levels last seen in 2008. Inflation in Norway has reduced but remains high and above the central bank's target. The Norges Bank governor, Ida Wolden Bache, said that the future policy rate would depend on economic developments and based on current expectations, the interest rate will most likely be raised again in September.

### British pound

The Bank of England governor, Andrew Bailey, announced that the central bank was nearing the end of its interest rate hiking cycle, despite persistent inflationary pressures. He also stated that inflation would reduce significantly by the end of 2023. In addition, Swati Dhingra, a Bank of England member, raised concerns that interest rates were at a level that could potentially be harmful to the economy.



## **US dollar**

The US Dollar Index recorded a 1.73% increase in August. Strong economic data provided the US Federal Reserve with the scope to remain hawkish for a prolonged period. A hawkish Federal Reserve Governor stated that US economic data suggests nothing “imminent” needs to be done in terms of monetary policy tightening. The members of the Federal Open Market Committee are in support of a patient approach and despite the recent positive developments on inflation, they would be ready to approve additional rate hikes if necessary.

## **Emerging market currency performance**

### **Argentine peso**

In August, the Central Bank of Argentina raised interest rates by 21%, pushing rates to 118%, in a bid to curb widespread sell-offs in parallel currency markets. The decision was made in response to Javier Milei unexpectedly becoming the leading candidate for the country’s next presidency. The central bank faces ongoing challenges as it grapples with annual inflation rates surpassing 100% and a declining peso, while bailout agreements with the IMF require the country to maintain positive real interest rates.

### **Turkish lira**

The Turkish lira once again traded at near record low levels as inflation in the country continued to surge. In August, the annual inflation rate increased for the second consecutive month to 58.9%, well above market forecasts of 55.9%. To reduce inflation pressures, the central bank raised the key interest rate by 750 bps in August, taking rates to 25%. In addition, the central bank changed its inflation forecasts to 65% for this year, 33% in 2024 and 15% in 2025.

### **South African rand**

The rand remains under the shadow of economic concerns stemming from persistent power cuts. Eskom, the power utility company, once again escalated power outages nationwide. The extended power disruptions have severely affected economic activity and contributed to the inflationary pressures experienced. Despite the constraints, in July, South Africa's annual inflation rate reduced to a two-year low of 4.7%, putting the headline CPI on track to reach the midpoint of the central bank's target range of 3% to 6%.

## **Outlook**

Market expectations suggest that the US Federal Reserve will not raise interest rates at its September meeting. However, some economists forecast one last rate hike in 2023.

Economists expect the South African Reserve Bank to leave the repo rate unchanged at the next meeting following the significant decline in inflation, with forecasts that a rate cutting cycle could begin next year.

# call us

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