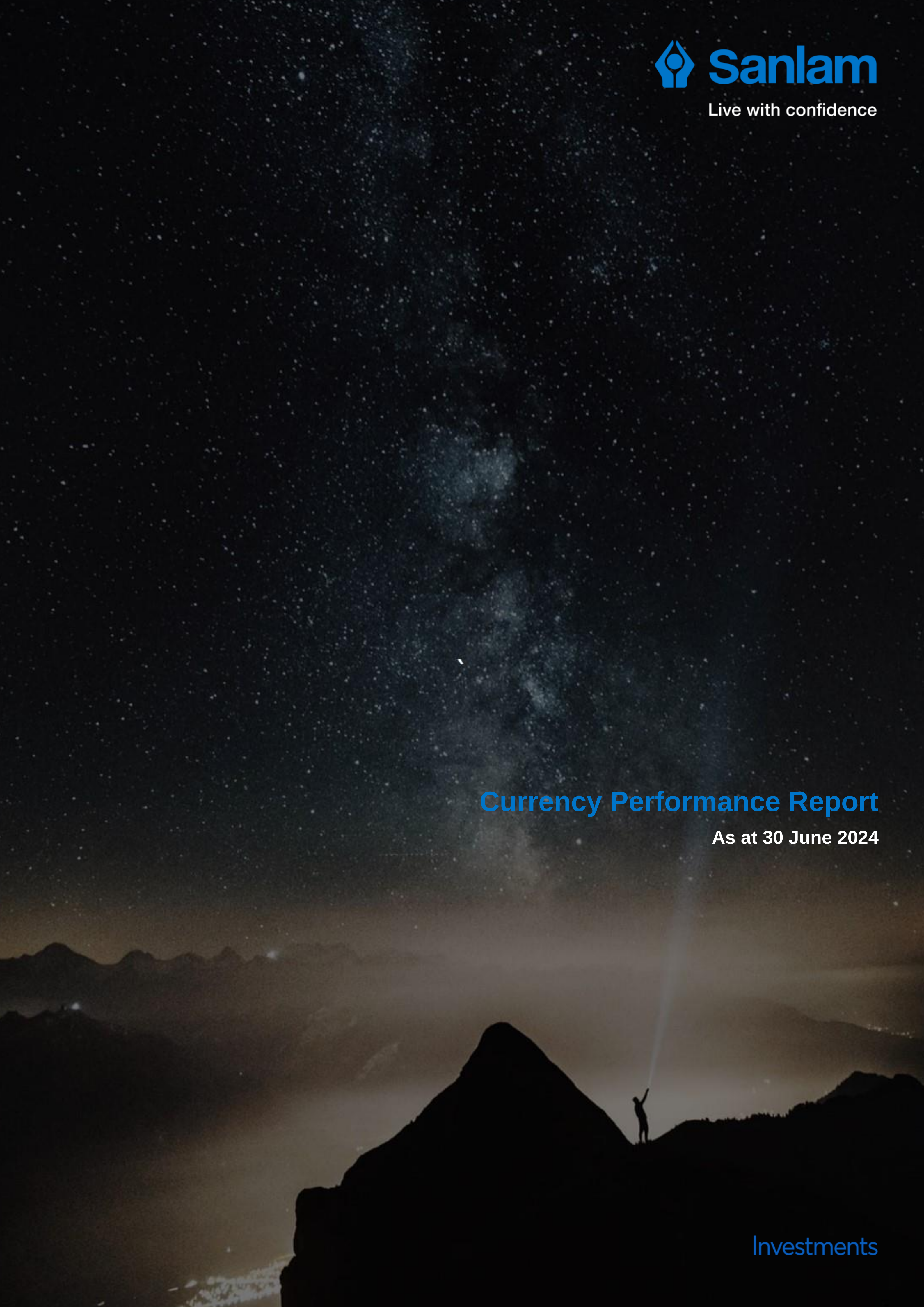

Sanlam

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Currency Performance Report

As at 30 June 2024

Investments

Global indices continued their upward trend during June, with local markets also experiencing gains. The MSCI World Equity Index rose by 2.03% and the Nasdaq Composite Index rose by 6.03%. Similarly, the Dow Jones Industrial Average gained 1.23% while the S&P 500 Index increased by 3.59%.

Locally, the FTSE/JSE Shareholder Weighted All-Share Index closed 4.08% higher.

Table 1: Currency returns vs US dollar

Currency Performance (USD Base)	1 Month	Year to Date	1 Year	3 Years	5 Years	10 Years
Developed Markets						
Australian dollar	0,23%	-2,10%	0,01%	-3,90%	-1,02%	-3,41%
Euro	-1,18%	-2,90%	-1,80%	-3,43%	-1,17%	-2,42%
British pound	-0,78%	-0,68%	-0,49%	-2,96%	-0,08%	-2,98%
Japanese yen	-2,19%	-12,29%	-10,27%	-11,76%	-7,67%	-4,51%
Norwegian krone	-1,85%	-4,96%	0,49%	-7,05%	-4,36%	-5,38%
Swiss franc	0,36%	-6,36%	-0,38%	0,81%	1,67%	-0,13%
Emerging Markets						
Argentine peso	-1,70%	-11,26%	-71,82%	-52,82%	-45,83%	-37,62%
Brazilian real	-6,23%	-13,24%	-13,83%	-3,95%	-7,19%	-8,85%
Chinese yuan	-0,35%	-2,33%	-0,22%	-3,87%	-1,13%	-1,57%
Mexican peso	-7,29%	-7,51%	-6,64%	2,61%	0,96%	-3,40%
Russian ruble	5,07%	5,38%	4,43%	-5,33%	-5,91%	-8,84%
Turkish lira	-1,27%	-9,71%	-20,21%	-35,58%	-29,24%	-23,93%
South African rand	3,43%	0,53%	3,53%	-7,60%	-4,99%	-5,22%

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

Japanese yen

The Japanese yen fell due to significant interest rate differences between Japan and the US. The Bank of Japan's lack of urgency in adjusting its monetary policy has impacted the yen, although speculation remains about a possible rate hike at the next policy meeting in late July. Finance Minister Shunichi Suzuki emphasised the government's close monitoring of currency movements, noting the complexity of factors influencing exchange rates. Additionally, a revised report indicated that Japan’s economy contracted at an annualised rate of 2.9% in the first quarter of 2024, worse than the estimated 1.8% decline.

Swiss franc

The Swiss National Bank reduced the key interest rate by 25 basis points for the second consecutive meeting, aligning with market expectations. Policymakers cited decreasing inflationary pressures and their objective of maintaining suitable monetary conditions. In May, Switzerland's inflation rate remained steady at 1.4%.

US dollar

The US dollar Index was up 1.14% in June. Federal Reserve Chairman, Jerome Powell noted that data from April - May indicated a return to a disinflationary trend following high inflation earlier in the year. At the European Central Bank Forum, Powell did not specify the timing of the first rate cut but observed a considerable improvement in the labour market balance, describing it as strong but appropriately easing. Powell cautioned that cutting rates prematurely could reignite inflation, potentially requiring sharp rate hikes, whereas delaying rate reductions for too long could risk weakening the economy to the point of causing a recession.

Emerging market currency performance

Mexican peso

The Mexican peso weakened due to political uncertainty, despite indications of a strong economy. Policy reforms by the Morena political party added pressure to the peso, leading to market volatility and the Bank of Mexico's efforts to manage inflation. Banxico Governor, Victoria Rodriguez Ceja suggested potential rate cuts, citing progress in inflation reduction. She noted that the peso's depreciation delayed easing policies but anticipated that future monetary policy meetings would focus on lowering rates.

Russian ruble

The Russian ruble strengthened as investors adapted to US sanctions on key financial systems, halting US dollar and euro trading on the Moscow Exchange. The Central Bank of Russia recently kept its key interest rate at 16% and indicated a potential increase at the next meeting. The ruble was further bolstered by significant capital controls from the Kremlin, which shielded the currency from low foreign exchange inflows. One such measure included extending the presidential decree until April 2025, requiring key exporters to sell at least 80% of their foreign exchange earnings to Russian banks within 120 days of receipt.

South African rand

The South African rand experienced considerable volatility in June following the national election results. The rand strengthened after indications that the ‘market-friendly’ Government of National Unity (GNU), which included ten other parties, would govern the country. The currency temporarily fell below R18/$ for the first time since July 2023 as Cyril Ramaphosa was sworn in for his second term as president. Simultaneously, the JSE All Share Index reached a record all-time high while government bond yields also declined significantly. However, after the cabinet announcement, the rand weekend to over R18.50/$ once again. This weakening was attributed to dollar strength rather than rand weakness. Investors remain cautious, recognising potential instability within the GNU. Meanwhile, South African Reserve Bank (SARB) Governor Lesetja Kganyago welcomed the reappointment of Finance Minister Enoch Godongwana. The governor also indicated that the SARB maintains its view that inflation will return to the midpoint of its 3% to 6% target range by the first half of 2025. Furthermore, he hinted at a tighter headline inflation policy target, suggesting that the current range of 3% to 6% was above that of the country’s’ peers and that South Africa should aim for lower inflation.

Outlook

Investors expect the US Federal Reserve to cut rates by September 2024, with greater certainty by November 2024. The Federal Open Market Committee noted progress in reducing inflation, with figures coming in lower than expected. However, higher interest rates for an extended period are likely to increase demand for the greenback and strengthen its value.

Locally, the SARB expects inflation to sustainably reach the midpoint of 4.5% by the first half of next year. Encouragingly, inflation is firmly on a downward trend, and interest rate cuts are anticipated. Before considering rate cuts, the SARB would likely want to review the outcome of the country’s elections and the potential effects on markets.

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