

Currency Performance Report

As at 31 May 2024



Global indices recovered during May 2024 following the decline in April 2024, while local markets ended the month flat. In May, the MSCI All-Country World Equity Index was up 4.47% and the Nasdaq Composite Index was up 6.98%. Similarly, the Dow Jones Industrial Average was up 2.58% while the S&P 500 Index increased by 4.96%.

Locally, the FTSE/JSE Shareholder Weighted All-Share Index closed 0.96% 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	2,76%	-2,32%	2,27%	-4,89%	-0,84%	-3,30%
Euro	1,66%	-1,75%	1,43%	-3,93%	-0,61%	-2,26%
British pound	2,03%	0,10%	2,43%	-3,57%	0,17%	-2,70%
Japanese yen	0,31%	-10,33%	-11,42%	-11,36%	-7,20%	-4,26%
Norwegian krone	6,08%	-3,17%	5,89%	-7,34%	-3,51%	-5,46%
Swiss franc	1,93%	-6,70%	0,95%	-0,10%	2,11%	-0,08%
Emerging Markets						
Argentine peso	-2,12%	-9,72%	-73,26%	-52,75%	-45,07%	-37,55%
Brazilian real	-0,97%	-7,48%	-3,56%	-0,17%	-5,64%	-8,15%
Chinese yuan	-0,02%	-1,98%	-1,80%	-4,19%	-0,95%	-1,46%
Mexican peso	0,84%	-0,23%	4,05%	5,49%	2,91%	-2,75%
Russian ruble	3,28%	0,29%	-9,99%	-6,59%	-6,20%	-9,04%
Turkish lira	0,56%	-8,55%	-35,60%	-35,92%	-28,95%	-23,91%
South African rand	-0,28%	-2,80%	4,88%	-9,98%	-4,96%	-5,60%

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 interest rate difference between the US and Japan continued to exert downward pressure on the yen, making the carry trade an attractive option. Seiji Adachi, a board member of the Bank of Japan (BOJ), suggested that the central bank might consider raising interest rates if significant declines in the currency result in additional inflation. BOJ Deputy Governor Shinichi Uchida also expressed optimism about overcoming deflation, noting that wage increases are expected to persist. The most recent data revealed that Tokyo's core inflation rate rose to 1.9% in May from 1.6% in April, below the BOJ's 2% target.

Norwegian krone

The recent strengthening of the krone has exceeded Norges Bank's projections. Anticipation that the Norges Bank will not reduce interest rates until December has spurred interest in purchasing the Norwegian krone compared to the Swedish krone. Interest rate developments in the United States, such as indications of a low



likelihood of hikes and a general easing of interest rate expectations, have favoured the krone ahead of the upcoming interest rate decision from Norges Bank scheduled for 20 June 2024.

US dollar

The US dollar Index was down 1.46% in May 2024. A subdued US inflation figure left room for the Federal Reserve to potentially lower interest rates later in the year. Core PCE prices, the preferred measure of underlying inflation for the Fed, increased by 0.2% in April 2024, falling short of market expectations of no change at 0.3%, marking the lowest change this year. Additionally, growth in personal spending and income decelerated in April.

Emerging market currency performance

Argentinian peso

In Argentina, where inflation has surged in recent months, the government decided to increase the denomination of its largest banknote by five pesos. The introduction of the new 10 000 peso notes, which hold five times the value of the previous largest bill, aims to streamline transactions, as stated by the central bank. Expected to enter circulation soon, the 10 000 peso note is valued at \$11 based on the official exchange rate.

Russian ruble

Russian ruble strengthened during May 2024, driven by several factors, including elevated interest rates, government forex interventions, and the implementation of capital controls. To counterbalance the shortfall in energy exports compared to federal budget projections, Moscow plans to sell RUB 6.3 billion worth of foreign exchange daily throughout May 2024 to prevent depreciation. Furthermore, the ruble received support from a presidential decree mandating that key exporters must sell a minimum of 80% of their foreign exchange earnings to Russian banks within 120 days of receipt, a policy slated to remain in effect until April 2025.

South African rand

The South African rand rebounded from losses following periods of decline. Traders are now contemplating the possibility of a business-friendly coalition emerging after disappointing outcomes for the African National Congress (ANC) in the elections on 29 May 2024. With four major political parties and at least eight others holding significant portions of the vote, investors speculate that a more constructive coalition could be between the ANC and the Democratic Alliance.

Additionally, South African Finance Minister Enoch Godongwana stated that despite the ANC's reduced majority, it remains the largest party and will ensure policy continuity. Meanwhile, expectations of sustained high interest rates continue to bolster the currency. The South African Reserve Bank (SARB) held interest rates at 8.25%, aligning with market expectations and maintaining its stance in the effort to combat persistent inflation pressures, the rate of inflation fell for a second straight month to 5.2% in April 2024.



Outlook

In the US, markets are pricing in approximately a 53% likelihood of a Federal Reserve rate cut in September 2024. Locally, acknowledging recent improvements, the SARB's policy statement noted that inflation risks are now generally balanced, a shift from March 2024 when risks were tilted towards the upside. Additionally, forecasts have been adjusted to anticipate that price pressures could stabilise at 4.5% in the second quarter of 2025, compared to the previous forecast which projected the end of 2025.

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