

Decoder Series

ARTICLES

#7 OF 7

THE ANALYTICS CURRENCY DECODER

GNU AND RAMAPHORIA – HOPE VERSUS REALITY

21 NOVEMBER 2024

The USDZAR exchange rate has been a very informative instrument through which to view major political events that have unfolded in our country over the last 20 years. Knowledge of the fair value estimate, awareness of the mean-reversion characteristics of the fair value residual, and the ability to decompose the residual into an Emerging Market effect and a local South Africa-specific effect has provided valuable information with which sentiment and emotion surrounding these major political events can be quantified. Such is the power of the Analytics Currency Decoder.

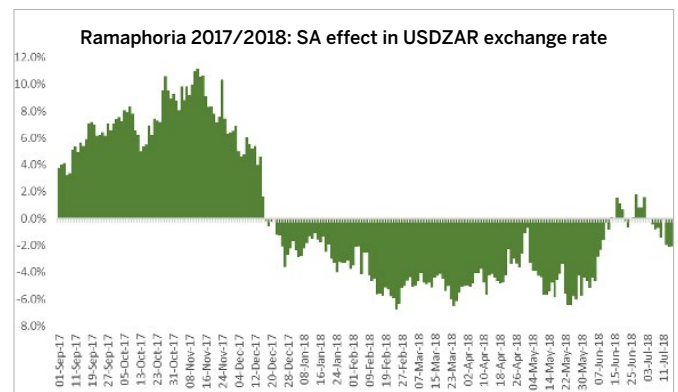
South Africa has recently been through a seismic shift in the political arena with the ANC losing its outright majority for the first time in the history of our democracy. The formation of a Government of National Unity (GNU) places the country's political landscape in uncharted territory. The USDZAR exchange rate has been very volatile as shifting sentiment has dominated the arrival of this new political dispensation in 2024.

On 20 February 2024, President Ramaphosa announced that the national elections would be held on 29 May 2024. On that day the USDZAR exchange rate closed at a level of R18.91 and the Analytics Currency Decoder estimated that the fair value for the exchange rate was at R17.84. The exchange rate was at a discount to fair value of 6.0%. Three days later, the exchange rate was at R19.31 before strengthening all the way down to R18.46 by 09 April. On election day, 29 May, the exchange rate closed at R18.40, with fair value estimated to be at R18.18. Some weakness appeared again and on 06 June the exchange rate closed at R18.97 before strengthening yet again all the way down to R17.96 on 19 June. Another bout of weakness then appeared and on 27 June the exchange rate closed at R18.47.

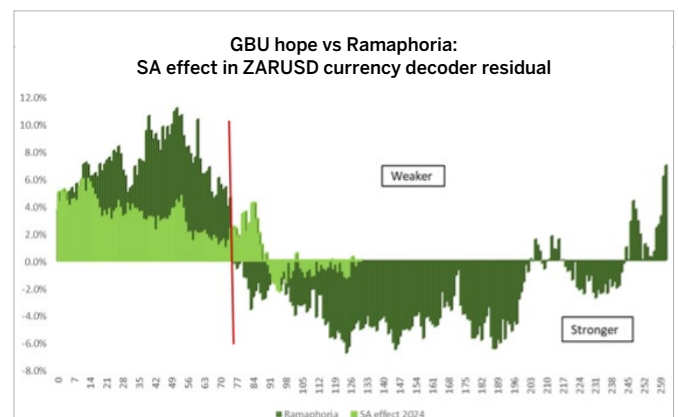
The politically-driven exchange rate volatility since the announcement of the national election date is reminiscent of the behaviour of the USDZAR exchange rate in the run up to, and following, the ANC Elective Conference in 2017. This event was dominated by a very strong effort by Jacob Zuma to retain control of the ANC that was countered by a very determined effort by Cyril Ramaphosa to defeat the Zuma faction. After the initial negativity of the Zuma-led effort to retain control of the ANC, the sentiment reversed as Cyril Ramaphosa triumphed and what followed was a very positive wave of sentiment that was dubbed "Ramaphoria" when the USDZAR exchange rate was strong relative to fair value against the US dollar.

In our recent series of articles on the Analytics Currency Decoder, the second article outlined how the Decoder can be used to decompose the fair value residual into an Emerging Markets effect and a country-specific South Africa effect.

The chart below shows in dark green the quantified SA-specific effect (according to the Analytics Currency Decoder) in the USDZAR exchange rate before, during and after the December 2017 ANC Elective Conference. The "Ramaphoria" period of time is clear (from 20 December 2017 to the final peak on 24 May 2018), where the SA-specific component of the strong USDZAR exchange rate was very positive and drove the currency to levels much stronger against the US dollar than fair value had estimated at the time. **Its subsequent, rapid reversal after 24 May 2018 is also clear as hope was dashed by the harsh reality that much needed structural reform remained a distant prospect.** On 24 May 2018, the exchange rate spot level was R12.42 and the fair value estimate was at R13.11. By 11 June 2018, the exchange rate has weakened past R13.11 to a level of R13.16.

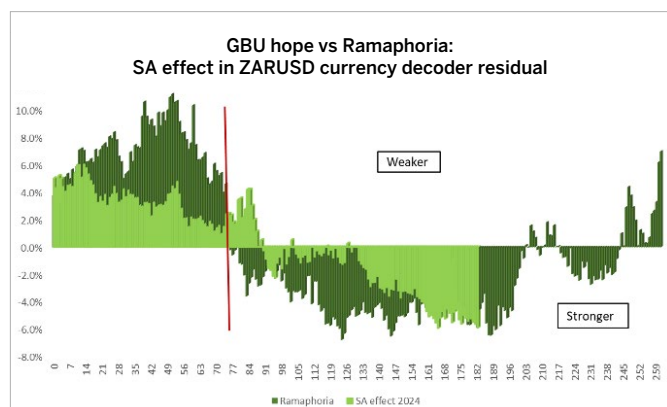


In the next chart, we have overlaid on the previous chart the SA-specific effect leading up to and after the 2024 national elections. The starting dates have been carefully chosen so that the date of the announcement of the Ramaphosa victory (20 December 2017) coincides with the date of the national elections on 29 May 2024 in the chart (the red line). In other words, the graphs in the chart both start 76 days before the actual event takes place.



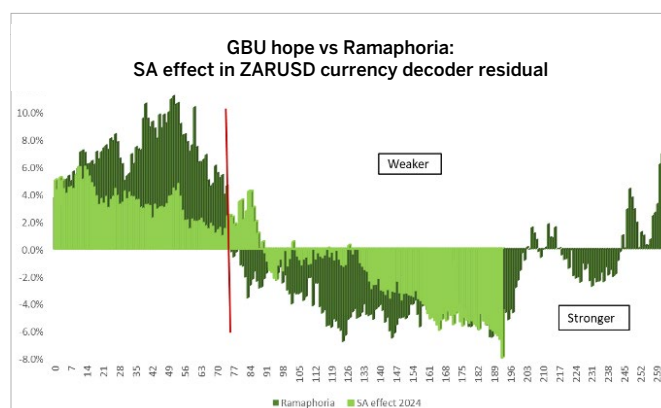
This chart highlights some interesting observations. Firstly, leading up to both events, the currency showed two distinctly different levels of sentiment. In 2017, the lead-up to the ANC Conference was dominated by negative sentiment with the currency characterized by locally-driven weakness (rising dark green bars). Seven years later, as we approached the 2024 national elections, the sentiment displayed by the exchange rate was positive (falling light green bars) as the currency strengthened on the back of seemingly positive expectations for the formation of a GNU.

Secondly, while the positive reaction in the exchange rate in December 2017 was immediate, the exchange rate initially weakened after the 2024 national elections before moving stronger and breaching fair value to the downside in the middle of June. **Thereafter the positive response in the exchange rate remained muted relative to Ramaphoria until the middle of August 2024.** The muted positive country-specific impact on the exchange rate then turned into a strong positive response and by 22 October, the country-specific effect had started to mirror that seen during the Ramaphoria period, as shown in the chart below.



In an earlier analysis, we had estimated that if the peak SA-specific sentiment during Ramaphoria was to be mirrored post the new GNU government, the exchange rate would reach a level of R16.91 to the US dollar. Towards the end of September, the USDZAR exchange rate briefly touched R17.02 on an intra-day basis.

The chart below shows the update as at 5 November 2024. The positive sentiment in the USDZAR exchange rate was an exact replica of that seen during the peak of the Ramaphoria phase in 2018. **But it was at this point that Ramaphoria started to fade in 2018.**



From the peak on 30 May 2018, the euphoria had faded away completely by 14 June 2018, two weeks later. We then estimated that if the recent GNU hope fades as quickly as Ramaphoria did, the exchange rate target would be R19.02.

By 18 November however, some divergence had been observed. **While Ramaphoria was fading rapidly six years ago, the current positive post-GNU sentiment in the USDZAR exchange rate appears to be holding up.** With the exchange rate currently at R18.12, the fair value estimate is higher at R18.68.

Possibly buoyed by the recent country outlook upgrade by Standard & Poors, the USDZAR exchange rate may also be sending a very positive signal about the future prospects of a GNU government. Initial signals from the USDZAR exchange rate suggest that the outlook for the new GNU government is much brighter than the outlook for Cyril Ramaphosa was in 2018.

Source: Dr Lance Vogel, Analytics

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Tel (Jhb): (011) 463 9600 | Tel (CT): (021) 936 9500

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