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NEWSLETTER

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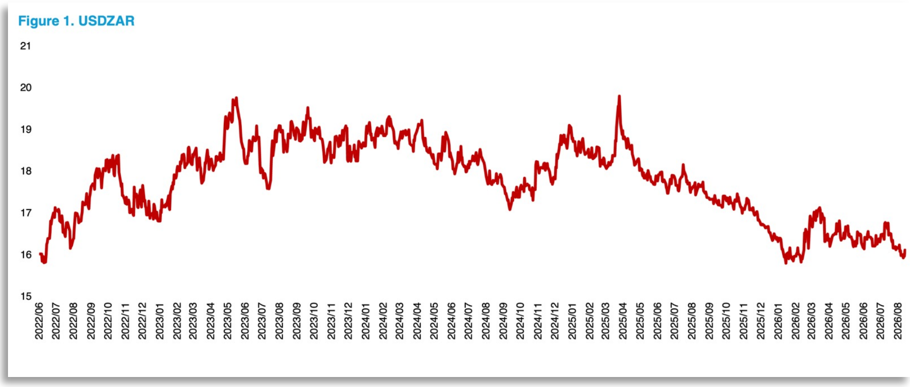
What is Driving the Strong Rand?

The South African rand has been one of several surprising financial market stories of 2026. Despite a backdrop of geopolitical conflict, concerns around elevated equity market valuations, upcoming elections and subdued domestic economic growth, the rand has remained remarkably resilient, briefly dropping to below R16 against the US dollar in August, and strengthening by 8.36% over the last 12 months.

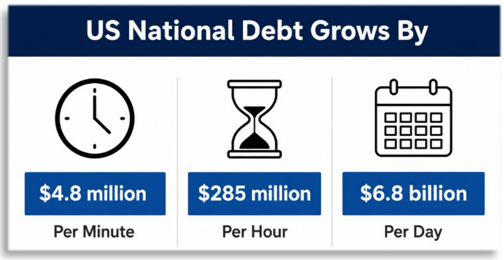


Source: Data.Gov

At first glance, this strength appears difficult to reconcile with South Africa's underlying economic challenges. However, the current rand performance reflects a combination of supportive global factors and domestic market dynamics. Importantly, many of these forces relate not only to the strength of the South African economy, but also to increasing structural pressure on the US dollar. These drivers of our local rand strength are outlined below.

A Growing US Debt Burden

The rapid expansion of US government debt, now surpassing US$40 trillion, represents an increasingly important backdrop to global currency markets. While the US dollar remains the world's dominant reserve currency and a critical safe-haven asset during periods of market stress, the scale of US fiscal deterioration raises longer-term questions about the sustainability of the country's debt trajectory.



Source: Peter G. Peterson Foundation

As a result, a broader shift in global attitudes towards the US economic and trade policies have become increasingly confrontational, encouraging some countries to reassess their economic and financial dependence on the United States. This matters for the rand because a structurally weaker dollar can provide meaningful support to emerging market currencies more broadly.

The Gold and Commodity Tailwind

South Africa has also benefited from an improving commodity environment, particularly the strong performance of gold. Rising gold prices improve South Africa's terms of trade and increase the value of the country's exports relative to its imports.

This has been particularly supportive for the rand over the past year. For a commodity-exporting economy such as South Africa, this represents an important source of currency support.

Rand Strength Continues

- Rand briefly strengthens below R16/$
- Up 8.36% over 12 months
- Emerging markets broadly supportive
- Dollar weakness remains a key driver

Dollar Under Pressure

- US debt exceeds US$40 trillion
- Treasury demand is declining
- Central banks increasing gold exposure
- Dollar remains expensive on long-term measures

Commodities & Carry Support

- Higher gold prices support exports
- Terms of trade have improved
- SA rates remain above US rates
- Positive carry supports the rand

Reasons for Caution

- SA growth remains subdued
- Debt-servicing costs remain high
- Fixed investment below 15% of GDP
- Further rand strength may be harder to justify

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A Structurally Weaker Dollar

The rand's strength should not be viewed purely as a South African success story. The US dollar itself appears stretched from a long-term valuation perspective.

The dollar remains expensive on long-term valuation measures, despite continuing to benefit from its status as the world's leading reserve currency and a preferred defensive asset during periods of severe global stress. In the absence of a major global financial crisis or significant increase in risk aversion, the dollar's elevated valuation leaves room for further weakness.

The broader emerging market environment has also been supportive, with the rand participating in a wider improvement across emerging market currencies rather than acting entirely in isolation.

Central Banks Are Reducing Their Treasury Exposure

Another structural development supporting this narrative is the changing behaviour of global central banks.

Official holdings of US Treasuries have been declining globally, with China in particular, having meaningfully reduced its Treasury holdings while simultaneously increasing its exposure to gold.

This shift does not imply that the US dollar is about to lose its reserve currency status. However, it does suggest that some of the structural support that has historically underpinned the dollar is gradually being reassessed. Reduced demand for US Treasuries, combined with increased demand for alternative reserve assets such as gold, creates a less favourable environment for sustained dollar strength.

Interest Rate Differentials Remain Supportive

The interest rate environment provides another important source of support for the rand.

South African interest rates remain above those in the United States, creating a positive interest rate differential. This makes the rand relatively attractive from a carry perspective, particularly for investors funding positions in low-yielding currencies.

Although the rand's carry attractiveness has declined somewhat from earlier in the year, it remains in the upper half of the global ranking and continues to offer a relatively attractive yield proposition compared with several major currencies. As long as South African interest rates remain meaningfully above those in the US, this differential should continue to provide an underlying source of support for the currency.

Reasons for Caution

While there are legitimate reasons for the rand's resilience, the outlook is not without risk.

The first concern is valuation. South Africa's terms of trade have improved, supported by higher gold & commodity prices, however the rand's appreciation has moved beyond what these factors alone would appear to justify.

More fundamentally, South Africa's weak economic growth remains a significant constraint. Growth momentum and investment momentum are expected to remain subdued, with economic growth unlikely to exceed 1.1% to 1.2% during 2026.

The country's fiscal position also remains a major structural weakness. Around 21% to 22% of tax revenue is now being directed towards servicing national debt, compared with approximately 13% previously. This significantly reduces the resources available for productive investment and infrastructure, placing additional pressure on an already capital-constrained economy.

This concern is reinforced by South Africa's low level of fixed investment, which remains below 15% of GDP. Sustainable economic growth ultimately requires substantially greater investment in productive capacity and infrastructure, with an investment ratio closer to 25% of GDP generally regarded as necessary to generate meaningfully stronger long-term growth.

The Bottom Line

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