

Strategies in flux: Trends shaping the South African foreign exchange intermediary sector

There is growing anticipation of a shift in the weakness of the South African Rand (ZAR).



Source: Supplied.

While volatility is likely to persist throughout the year, influenced by a delicate interplay of domestic and international factors, Kuda FX says that with the potential strengthening of the rand, there could emerge a more opportune moment for South African investors to consider diversifying their portfolios internationally, potentially making offshore investments more cost-effective.

The good trends

“A potential decrease in US interest rates creates a more favourable environment for emerging market currencies, including the ZAR,” says Stian Van Zyl, forex risk manager at Kuda FX.

“This, coupled with a global easing of inflationary pressures and a rise in risk appetite, may lead to increased demand for the ZAR. These factors, contingent on the stability of other geopolitical and economic variables, create a conducive environment for the ZAR to strengthen.”

Changes in US interest-rate expectations wield significant influence over the ZAR's volatility. Should US rates increase,

these may attract capital away from South Africa, while a decrease may enhance the appeal of higher-yielding assets, like the ZAR.

“The positive aspect lies in the ability to manage this volatility through strategic financial planning. Businesses and investors can employ hedging strategies to alleviate the impact of currency fluctuations, providing stability amidst the changing landscape of US interest-rate expectations,” Van Zyl adds.

The challenging trends

Ongoing economic challenges, including high unemployment rates, political uncertainty, almost one year on the FATF Greylist, load shedding and fiscal concerns, create a less favourable investment climate domestically.

“Simultaneously, South Africa’s reliance on commodity exports exposes the ZAR to global market dynamics, contributing to unpredictable currency fluctuations. Internationally, uncertainties in the global economy, trade tensions, and geopolitical events add further complexity, keeping the ZAR susceptible to rapid and unpredictable movements,” he says.

What to watch for

Exporters are advised to remain vigilant, while considering implementing hedging strategies to mitigate potential risks associated with currency fluctuations, while capitalising on the anticipated shift in the ZAR’s trajectory. With evolving economic conditions, including potential changes in global interest rates and inflation dynamics, exporters stand to benefit from proactive risk management.

“We agree that the ZAR may strengthen, making the cost of converting currency for offshore investments more favourable, and resulting in an opportune time for South African citizens to consider allocating a portion of their investments globally to capitalise on potential gains in international markets.”

Van Zyl adds that offshore investments provide exposure to a broader array of industries and geographies, enabling South African investors to tap into markets with innovative technologies, for example, that may be in their infancy domestically.



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“This exposure to cutting-edge sectors can be a catalyst for higher returns which can contribute to the overall resilience and growth of an investment portfolio, while spreading risk but also positioning investors to capitalise on global growth opportunities.”

Foreign exchange intermediaries, such as Kuda FX make it simple for individuals and businesses to invest offshore. A nuanced understanding of international markets, regulatory frameworks, and geopolitical factors makes all the difference.

“This is why engaging with experienced financial advisors or investment professionals can prove invaluable in navigating the complexities associated with cross-border investments,” Van Zyl says.

“Clients can open a foreign currency account in dollars, euros, pounds, and many other currencies. This option shields against the medium- to long-term weakening trends impacting the ZAR and provides exposure to offshore markets, while enabling clients to transact in a foreign currency.”

It’s crucial to consider that a balanced and well-thought-out investment strategy makes for the best outcome.

"As we step into 2024, we remain committed to empowering clients with the knowledge and tools needed to thrive in the ever-evolving currency landscape.

"Prudent decision-making leads to meaningful returns. As South Africans navigate the ever-changing global economic landscape, embracing offshore investments can be a pivotal step towards building a resilient and globally diversified portfolio," Van Zyl concludes.

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