

The forex roller coaster rider isn't over yet

By [Daniel Kibel](#)

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With the US elections still fresh in our minds, a Covid vaccine on the horizon and the South African economy still under significant strain, 2021 is going to be a revealing year. For anyone trading in forex at the moment, things are currently quite unclear. And with a lack of clarity comes volatility in the markets.



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Volatility can be both good and bad. It increases risk but can also increase profits for the brave and the shrewd. For anyone who's looking to make a lot of money, now might be a good time to hit the ground running. But they need to be mindful that they could just as soon lose everything they invest as have a sudden windfall in returns.

There are still a lot of open questions following the US elections. Joe Biden won both the popular vote and the Electoral College vote. But he didn't win the senate. That could pose challenges for him in terms of passing legislation. So, change following Donald Trump may be a slow process. And there is still a lot of uncertainty about what may come.

Over the last few weeks, since the US election results and the vaccine were announced, we've – curiously – seen the rand pick up. The British pound outperformed many other currencies but the dollar has suffered a bit. Gold is up – and generally the commodity traders turn to if they want to play it safe.

Now that we have the Democrats stepping into the White House, we've seen stock markets going up. And generally when stock markets go up, the dollar does go down. We are still in very uncertain times because of Covid, so what may happen next is anyone's guess at this stage.

Economic hurricane

I'm not extremely positive about the outlook for the rand following the recent ratings agency downgrades. Even when Covid goes away, the economy has still been hit by a hurricane. And with hurricanes, you generally only see the devastation when they're gone. There is more to recovery than just bringing the economy back from Covid. The alleged corruption, the lack of impetus to invest in South Africa and Moody's Investors' Service and Fitch Ratings downgrades of the country's debt further into junk status are cause for concern.

S&P Global was the only major ratings agency to give SA a reprieve, maintaining both its rating and stable outlook. But with Moody's now placing SA at two notches into junk and Fitch moving SA three notches below investment grade, the country's path back to investment grade is harder.

A junk rating directly affects the country's ability to borrow money – which is much-needed following the Covid crisis. Effectively, it could cost South Africa far more to borrow due to higher interest rates being imposed because of the junk rating. South Africa's government bonds are now seen as extremely high risk. And higher interest rates mean even more debt, which will affect the economy in the long-term.

It's been extremely interesting looking at the recent dollar-rand fluctuations. There is a potential long-term trade opportunity there. In an economy that is experiencing a lot of issues following Covid and downgrades, the rand-dollar is definitely one to watch. And in a year that has held many surprises, I have a feeling we're in for even more in 2021.

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