How the volatility of the rand influences forex for businesses and individuals

By Harry Scherzer

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It’s no secret that the rand is incredibly volatile. Anyone who listens to the currency reports at the end of a news bulletin can attest to the big swings (mostly in the wrong direction) any time there’s a major economic event at home and abroad.

Source: Supplied. Harry Scherzer is the CEO of FutureForex.

In fact, an IMF report found that, between 2010 and 2019, the only currencies that were more volatile were the Russian Rouble and Argentinian Peso. More recently, it was calculated that there was a 37% fluctuation in the currency’s value against the US dollar between February 2022 and February 2023.

Those fluctuations aren’t just interesting footnotes at the end of a financial news bulletin or on the side of a news site. They have very real impacts, affecting everything from how much we pay at the petrol pumps and grocery stores to the cost of our cellphone contracts and even that solar energy system you’re looking at in a bid to evade load shedding.

But it also has a direct impact on every foreign-exchange transaction made by businesses and individuals alike. For people and organisations who make those payments consistently, that volatility can be massively frustrating.

Fortunately, there are ways to mitigate against it and bring a little more certainty to the foreign transaction process.

The impact of big currency fluctuations

Before looking at how individuals and businesses can mitigate against big currency fluctuations, it’s worth taking a deeper dive into the impact of those fluctuations.

Let's start with individuals. If you're investing offshore, for example, a sudden weakening of the rand could mean that the amount you set aside for investment each month won't go as far. The same is true for people who've got offshore home loans (perhaps as an investment or with the aim of eventually moving to another country).

That means that you could end up paying thousands of rands more one month for a flat in London or Dublin than you did the previous month, all because of a diplomatic dispute on the other side of the planet.

For businesses, meanwhile, the impact of currency fluctuations can be even more significant. If you're an importer and the rand weakens dramatically, for example, you could end up paying significantly more for vital stock than you did the previous month. Business owners are then forced to either take a cut in their profits or pass on the costs to their customers.

It's also worth pointing out that while the rand is volatile, the general trend has been downward. In November 2013, for example, one dollar would set you back just over R10. Today, you're paying closer to R19. That means that, even with occasional recoveries, making international transactions has gotten more expensive and, if the trend holds, will keep doing so.

Mitigating against volatility

While there's nothing that any individual person (outside of a few top cabinet ministers) or business can do to prevent that slide, they can give themselves some protection against currency fluctuations.

An important part of that protection involves choosing the right international payment provider. And for most people and businesses that isn't their bank. Thanks to opaque pricing structures, their customers can end up paying much more than they should on every transaction, making every downward fluctuation that much more costly.

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But individuals and businesses should also ensure that their international payment provider has forward exchange cover as part of its offering. Simply put, forward exchange cover is a financial tool used to manage the risk of fluctuations in exchange rates.

In essence, the company making an international payment enters into a contract with the payment provider to exchange a specified amount of one currency for another at a specified exchange rate on a future date.

So, regardless of the currency fluctuations in between, the company knows exactly how much it'll pay for that transaction, providing much-needed certainty.

Given how powerful a tool forward exchange cover can be, it's incredibly underutilised in South Africa. A survey we ran earlier this year, which was aimed at importers and exporters, found that 61% never make use of it, while 21% only use it some of the time. That those numbers are so high suggests that there might be widespread ignorance around the availability and value of forward exchange cover.

Preparing for a year of enhanced volatility

Going into the rest of 2024, it'll also be more important than ever for businesses and individuals to find whatever protection against rand volatility they can get. In addition to the current forces driving that volatility, 2024 is a big election year. That's true not just for South Africa, but also for major economies such as the US and India. The outcomes of those polls will all impact the rand.

So, if you're planning on moving money internationally in the next few months, make sure that you've given yourself or your business as much cover as possible.

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