

Part B: The performance of the rand

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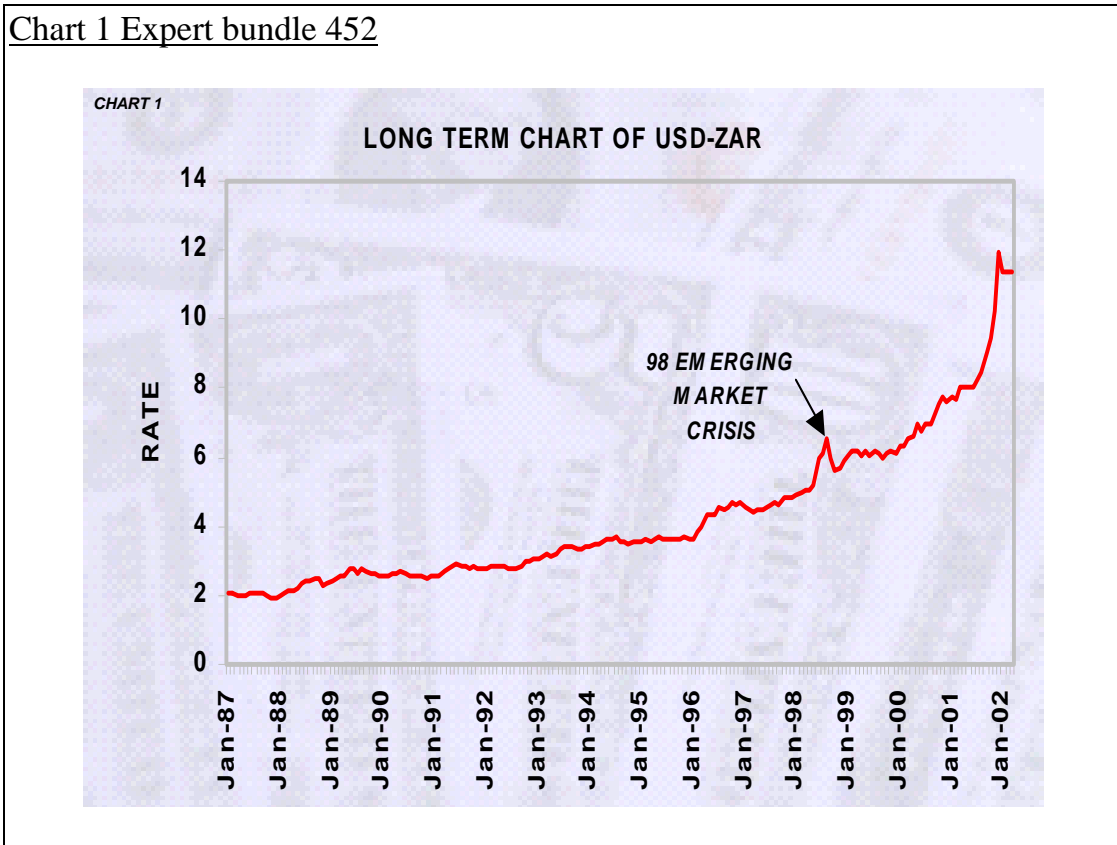
B The performance of the rand

The history of the rand

1

- 1.1 In the long term, the rand has moved in one general movement in favour of weakness as against the US dollar.¹

Chart 1 Expert bundle 452



¹ Glynos Expert bundle 423

1.2 The general experience during the past twenty years with the floating exchange rate system, specifically with regard to the fluctuation in the exchange rate, was the following:

- The exchange rate often fluctuated quite a lot over the short term, but followed a more rational path over the long term.
- The depreciation process never followed a smooth path and has been described as a “staircase” adjustment process, with a periodic run down a flight of stairs to a new level. The exchange rate of the rand against the US dollar tended to remain relatively stable for periods of up to two years, to be followed by a rather steep downward adjustment over a short period of time to a new (lower) level.
- In the circumstances, markets at times over-reacted. Market interest rates rose to extremely high levels, and the rand depreciated by more than the inflation differential – hence the need for a period of consolidation and stabilisation after every sharp depreciation of the rand.²

Highlights of the performance of the rand before 2001 were:-

1.2.1 Most of the rand’s history incorporated a dual exchange rate system. The financial rand acted as a shock absorber

² Stals Expert bundle 170, 171

for the commercial rand traded at a significant discount of between 15% and 55% to the commercial rand over the thirty years that this mechanism was in place.

- 1.2.2 On different occasions during the 1970's the commercial rand was fixed to the US dollar or to the British pound and fluctuated in line with the value of these currencies. In September 1975, specifically, government devalued the rand against the pound by 18%.
- 1.2.3 In the late 1970's the commercial rand was allowed to float freely against all currencies and in 1980 hit its highest level ever of USD1.35 to the rand.
- 1.2.4 During the debt standstill crisis in the 1980's both the commercial and financial rands plummeted, with the rand losing over 30% of its real trade weighted value in a matter of months. The only comparable decline of such magnitude in the real effective exchange rate of the rand was witnessed in November and December 2001.
- 1.2.5 For a period of eleven months after the abolition of the dual exchange rate system on 10 March 1995 the unified rand was stable at around R 3.60 to the US dollar.

- 1.2.6 1996 marked a “sell-off” of the rand with the rand losing 20% of its value reaching R 4.50 against the US dollar by June 1996.
- 1.2.7 Around September/October 1997, the world witnessed the start of the so-called Asian crisis. The contagion arising from this crisis hit all emerging markets in May 1998 and the rand was materially affected, as with currencies of many other developing countries.
- 1.2.8 Having declined by over 20% in real terms in 1998, the rand regained some of its composure through 1999, trading in a broad band between R 5.50 and R 6.40 to the US dollar during that year.
- 1.2.9 The long slide in the rand began with the rand trading at R 6.12 at the turn of the new millennium.³
- 1.3 Over the twenty-one month period from the beginning of 2000 to 11 September 2001 the rand maintained an almost consistent and fairly well-defined declining trend against the US dollar.

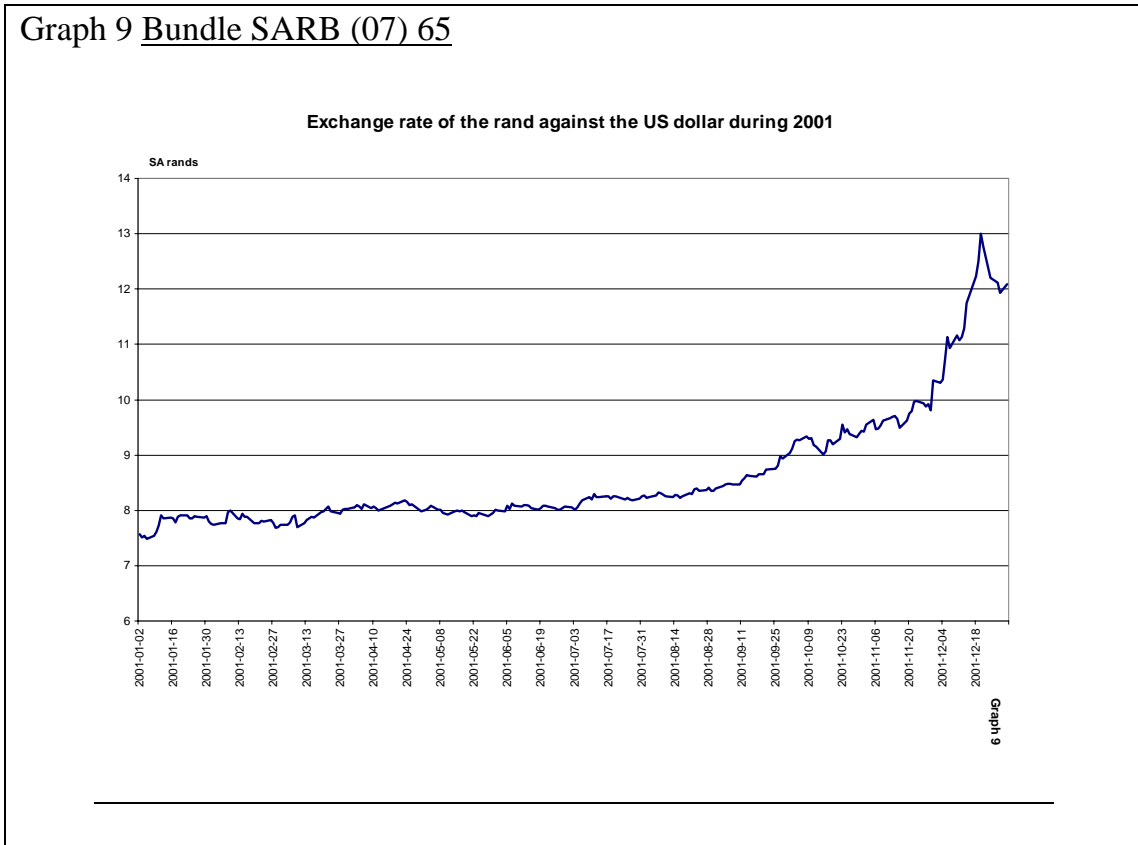
³ Jamine [Expert bundle 297 – 300, 303, 304, 307- 312](#)

The rand in 2001

2

2.1 The decline of the rand is illustrated in the graph below, which shows the exchange rate of the rand against the US dollar during the year 2001:

Graph 9 Bundle SARB (07) 65



The extent of the pace of depreciation of the rand during the period July 2001 to December 2001 is illustrated in the graph below. The term “big figure” is used to refer to the figure before the decimal, i.e. from R 8.00

to R 9.00. These “big figure” movements represent declines of approximately 12.5%, 11% and 40% respectively.⁴

Diagram 15 Expert bundle 125(a)



2.2 During the year 2001, the rand recorded the following exchange rates against the US dollar during the year:

- moving from around R 7.60⁵ to the US dollar at the beginning of the year, the rand depreciated to over R 8.00 for the first time ever during the second quarter;⁶

⁴ Gouws Record 129, 130

⁵ Mboweni Bundle SARB (07) 283

⁶ Jamine Expert bundle 317

- the pace of depreciation increased with the rand R 8.52 to the US dollar on 11 September, R 9.03 at the end of September and R 9.44 at the end of October;
- by the end of November 2001 the rand had fallen to R 10.27 to the US dollar;⁷
- the rapid depreciation reached its crescendo with the rand hitting a new all-time low of R 13.84 to the US dollar on 21 December 2001;⁸
- for the period 1 January to 31 August 2001 the rand depreciated by 10.7% or an average of 1.3% per month, while from 1 September to 31 December 2001, the rand weakened by 42% - an average of 10.5% per month.⁹

The rand against the dollar compared to other currencies

3

3.1 The weakness of the rand against the US dollar during 2001 compared to other comparable countries is illustrated in the

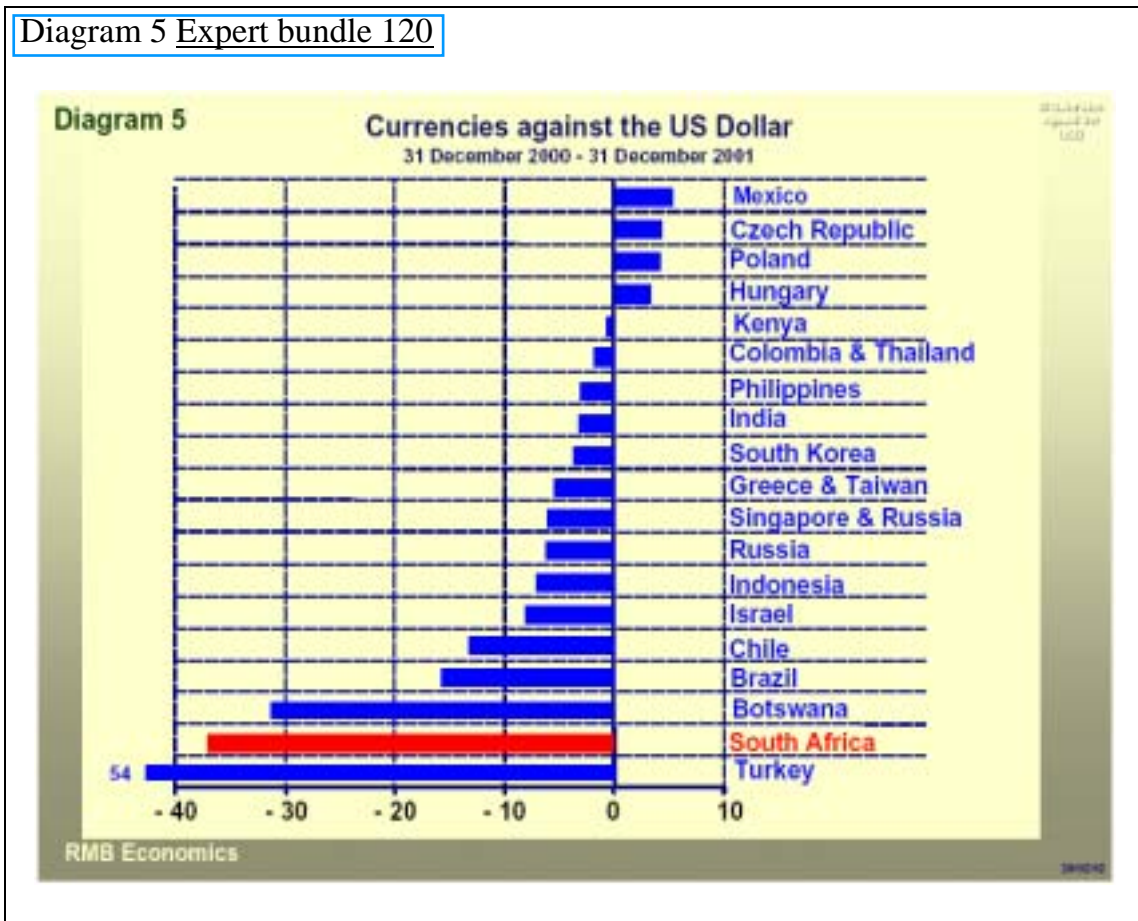
⁷ Jamine Expert bundle 336

⁸ Mboweni Bundle SARB (07) 30

⁹ See Part K § 8

diagram below, indicating that South Africa had become, towards the end of 2001, somewhat of a special case¹⁰:

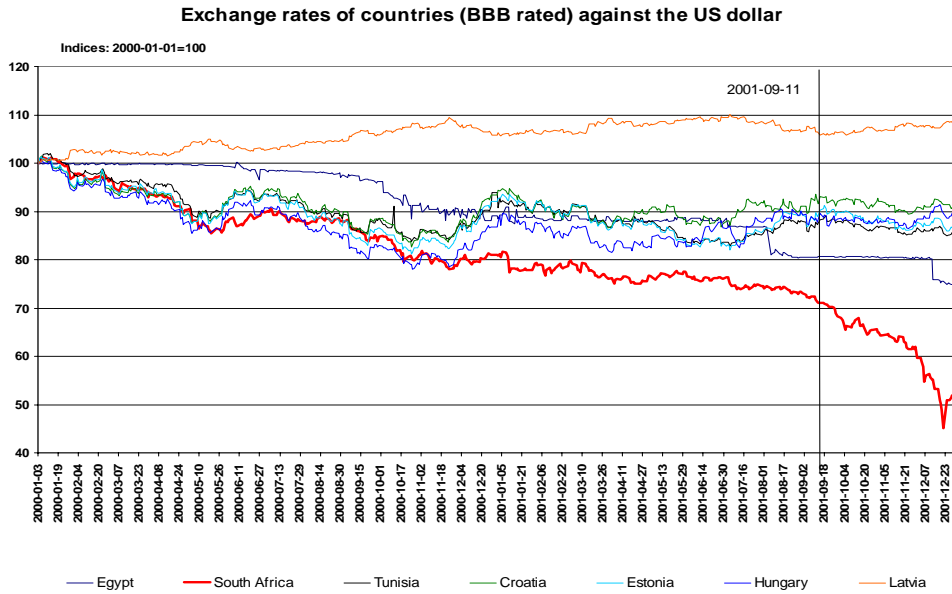
Diagram 5 Expert bundle 120



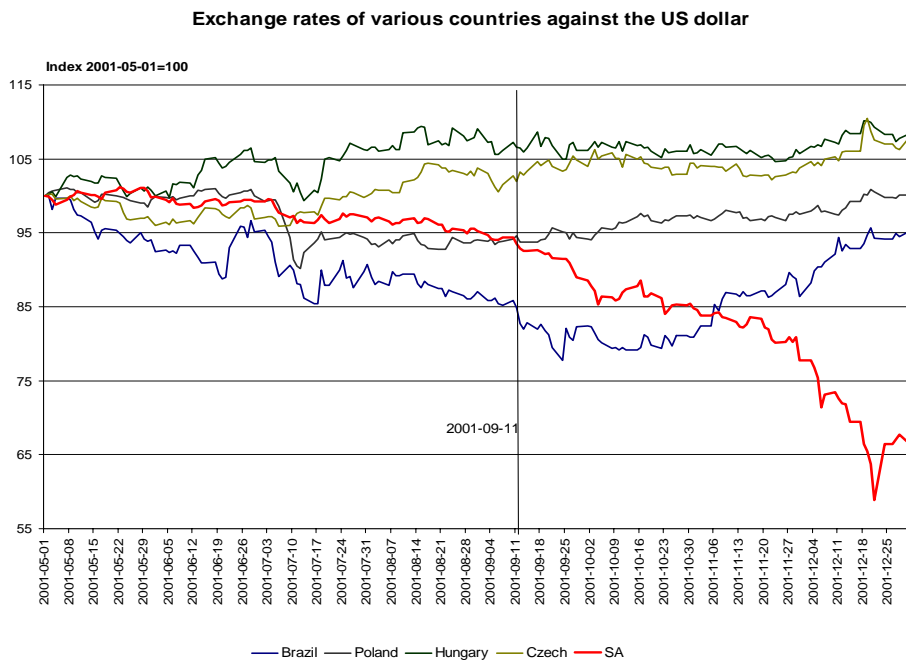
The graphs below show the rand's performance relative to the exchange rates of similarly rated countries and against those of other emerging-market economies, the thick red line indicating the South African rand:

¹⁰ Gouws Expert Bundle 114

Graphs 11& 12 Bundle SARB (07) 68-69



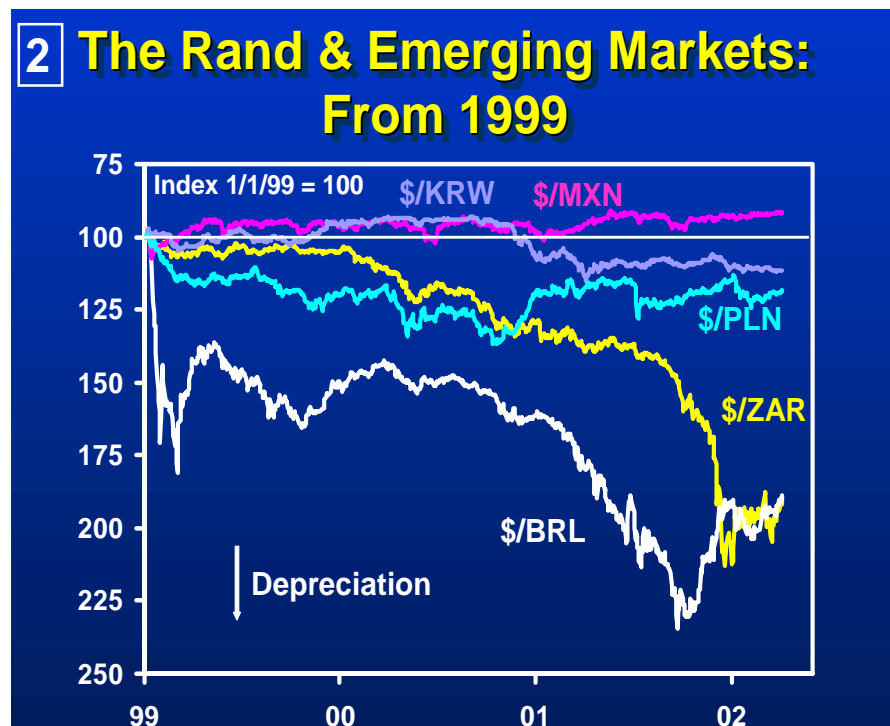
Graph 11



Graph 12

3.2 If one measures the rand against four other emerging market currencies: the Brazilian real, the Korean won, the Polish zloty and the Mexican peso, one finds that from 1999 until late 2001 there was not much difference in the value of the rand and those currencies, save that the Brazilian real was weaker.

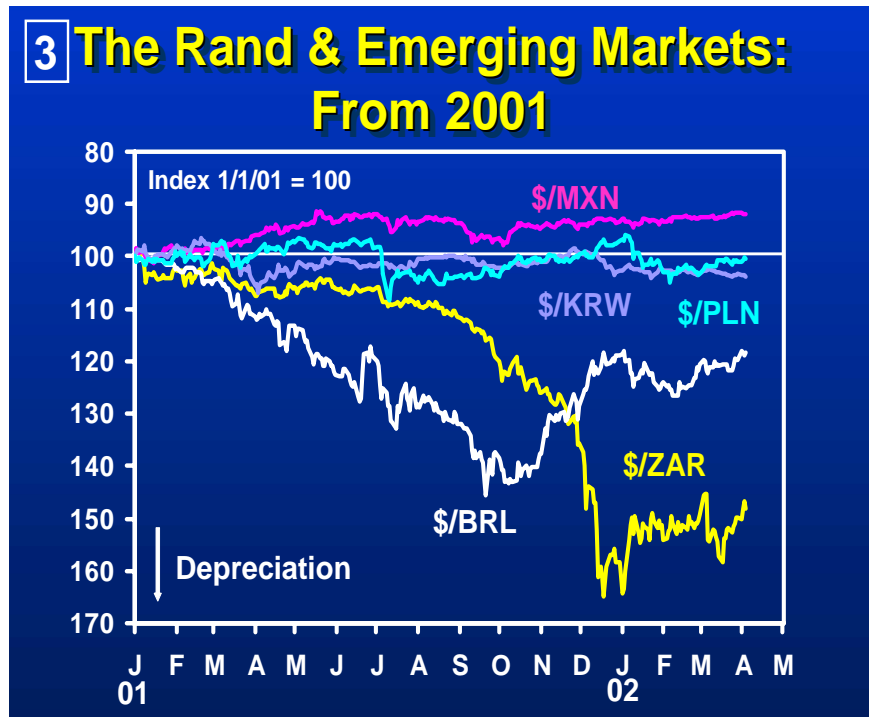
Slide 2, O'Neill Bundle 3



In 2001 the rand held its own against the Korean won, the Polish zloty and the Mexican peso until September/October 2001 but

then plunged in value. In December 2001 the rand became even weaker than the Brazilian real.¹¹

Slide 3 O'Neill Bundle 4

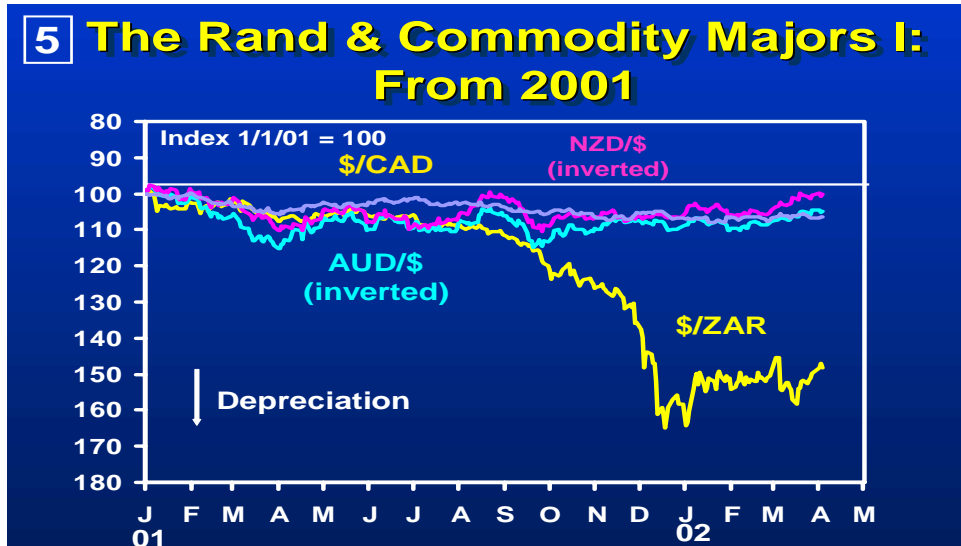


3.3 Similarly, until about September/October 2001, the rand performed as well as other commodity currencies, such as the Australian dollar, the Canadian dollar, the New Zealand dollar, the Norwegian krone and the Swedish krone. “[It] was October last

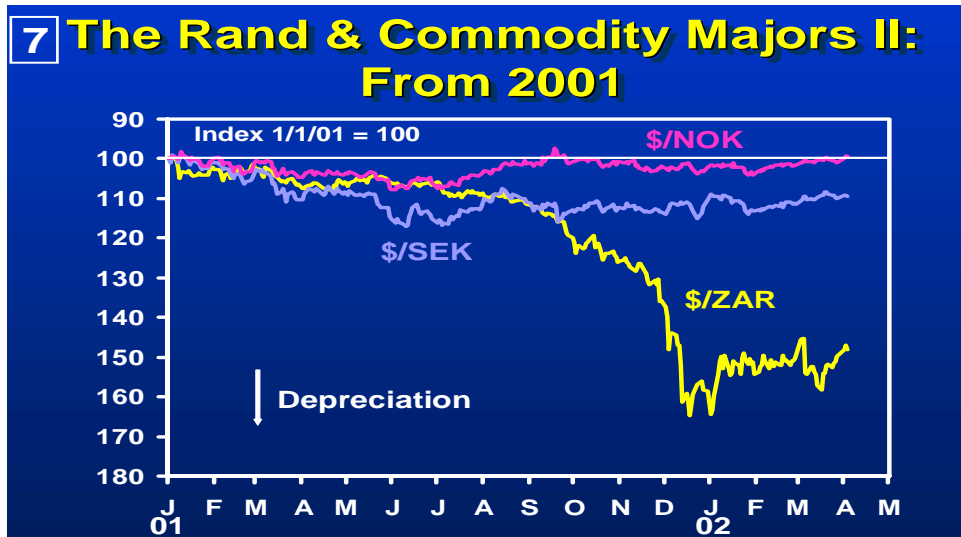
¹¹ Evidence of Dr TJ O'Neill, Global Head of Economic Research, Goldman Sachs, Record 1464

year something seemed to happen...which caused the rand to actually under-perform those commodity majors...relative to the [US] dollar.”¹²

Slide 5 O’Neill Bundle 6



Slide 7 O’Neill Bundle 8



¹²

Evidence of O’Neill, [Record 1467-8](#)

3.4 Dr O'Neill testified that in his opinion one should not spend too much time blaming one specific currency for its decline against the US dollar. In the past three years many currencies weakened against the US dollar, some of which have had weak growth, some had very strong growth, some had current account surpluses, some had current account deficits, and so on. Generally speaking, until late 2001 there was nothing that interesting from an international perspective about the rand's weakness. Given that other important currencies also weakened against the US dollar, there was not much that South Africa could do about it because it had nothing to do with South Africa.¹³

The rand against the euro

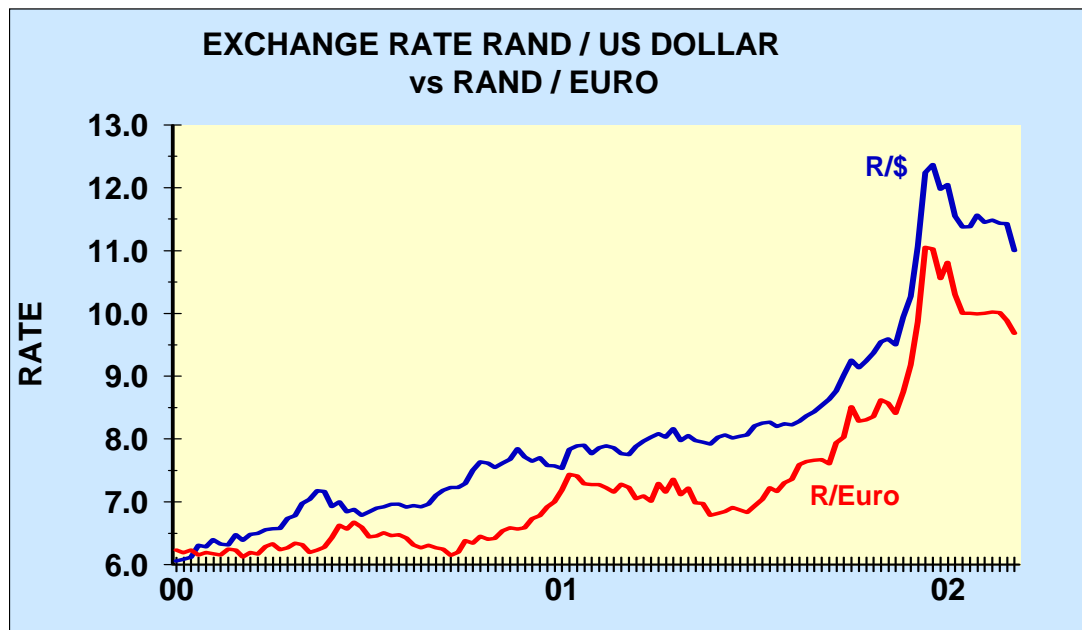
4

4.1 The performance of the rand is usually illustrated against the US dollar. Although the rand/euro exchange rate was no worse in early September 2000 than it had been when the euro was introduced, between September 2000 and November 2000, the rand suddenly began declining against all currencies, especially

¹³ Evidence of O'Neill, Record 1466-1469

the euro. This was at a time when the euro began strengthening against the US dollar.¹⁴ This is illustrated in the graph below:

Chart 20 Expert bundle 369



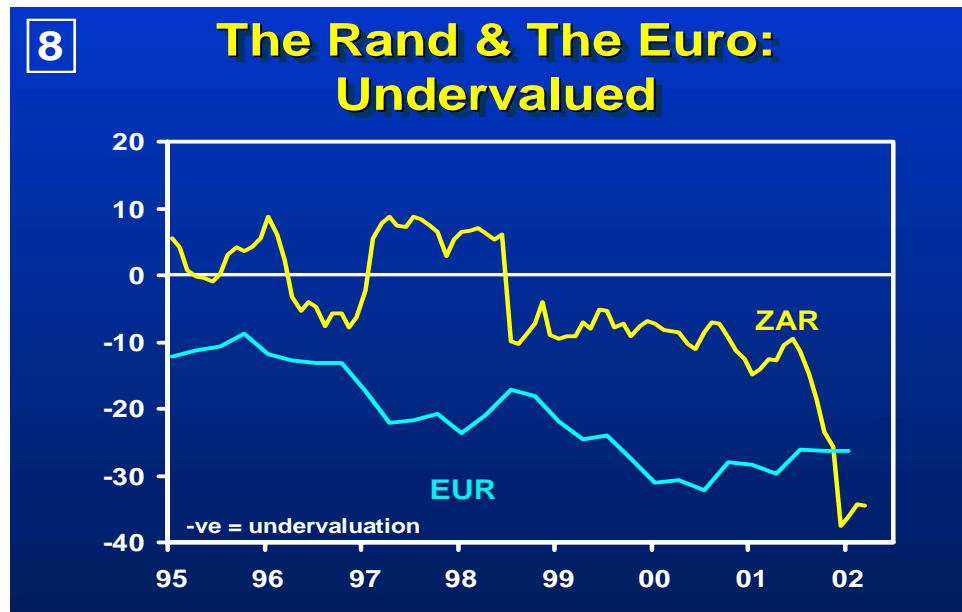
4.2 Goldman Sachs adopts a methodology to estimate the fair value of an exchange rate. Fair value is defined as the inflation adjusted exchange rate (often called purchasing power parity (PPP)) which is then adjusted for relative productivity. Conceptually, a country with stronger productivity should see its real currency appreciate relative to other currencies and a country with weak productivity should see its currency depreciate. Until late 2001, according to

¹⁴

Jammine Expert bundle 316

the fair value model, the Euro was more undervalued than the rand.

Slide 8, O'Neill Bundle 9



4.3 It may be that as Europe is a major trading partner of South Africa, the euro's persistent weakness relative to fair value has contributed to the rand's weakness.¹⁵

¹⁵ Evidence of O'Neill, Record 1470-1