

commitment to the transactions) that the statement of 14 October 2001 was issued.¹⁰⁴

32.3 Importers and Exporters / Leads and lags

32.3.1 To enable the main bankers of major corporates to cope with the flow of foreign currencies, a system was devised whereby the funds were administered by the banks as part of their nostro¹⁰⁵ account balance pending conversion. To assist in identifying those funds separate sub accounts in the name of the customer were opened in the bank's nostro accounts (shadow) administration. Those accounts are known as the Customer Foreign Currency (CFC) accounts. In March 1998 the exchange control requirement to repatriate foreign currency earnings in respect of the export of goods and services within 30 days was extended to 180 days from date of shipment or date of service rendered. In September 1998 the CFC account system was amended to allow the retention of foreign currency earnings in respect of the export of goods to 180 from the date on which such funds were first credited to the CFC account.¹⁰⁶

32.3.2 An exporter who anticipates a more favourable exchange rate delays converting export proceeds in the foreign

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Mboweni, Bundle SARB (7) 40-42; McCauley, Expert Bundle 58

currency (eg US dollars) into the domestic currency (eg rands) (“lags”) its payment. An importer who fears a worse exchange rate can accelerate payments for imports by buying the foreign currency forward (“leads”).

32.3.3 According to the Reserve Bank, in the second quarter of 2001, the total exports of goods and services from South Africa, at a seasonally adjusted annualised rate, amounted to some R328 billion, with imports of goods and services amounting to almost the same. Even if a small portion of those amounts was involved in leads and lags, it could have had a noticeable effect on the exchange rate. Importers and exporters are thus in a position where they can legitimately take sizeable positions by virtue of their views on the rand’s prospects. They have the same impact on the rand as pure speculative activity.¹⁰⁷

32.3.4 The Reserve Bank draws the inference that exporters were lagging the repatriation of foreign currency (albeit possibly within the 180 day period) from the fact that there was a gradual increase in the forex balances of South African corporates in their CFC accounts as at:

¹⁰⁵ A nostro account is the foreign currency account of a local bank with an overseas bank.
¹⁰⁶ Bruce-Brand Bundle SARB (6) 19-20
¹⁰⁷ Mboweni Bundle SARB (7) 39-40

31 December 1998	USD 995m
31 December 2000	USD 1 981m
31 December 2001	USD 2 625m. ¹⁰⁸

32.3.5 Mr McCauley expressed the opinion that while it may not on the face of it appear to be so, a type of portfolio shift occurs in the financing of imports and exports (leads and lags): every month of lead in payment and lag in receipts represents an outflow of $\frac{1}{12}$ of trade. The leads and lags phenomenon makes the distinction between goods and financial services seem artificial in practice.¹⁰⁹

32.3.6 Dr Abedian expressed the view in his evidence that while there might have been good technical reasons for extending the period of repatriation from 30 days to 180 days, exporters no doubt find it profitable to retain their earnings for as long as possible. With the continuous weakening of the currency in recent years, it has become common knowledge that any delay in repatriation is likely to make currency gains over and above the trade profit. It is important to note that had it not been for the predictable one-way direction of the currency value, exporters would

¹⁰⁸ Mboweni Bundle SARB (7) 40

¹⁰⁹ McCauley Record 48, Expert bundle 49

normally choose to “take cover” for their CFC holdings so as to hedge against any potential appreciation of the rand. Expenses involved in such hedging would have forced them to retain their hard currency deposits only on an as-needed-basis and no longer. However, in view of the downward trend of the value of the rand, CFC accounts have become profitable operations for exporters and they have every reason to accumulate deposits in such accounts.¹¹⁰

32.3.7 The probability that importers would hedge their purchases of foreign currency (lead) and exporter would delay repatriating their rands from off-shore (lags) is supported by the analysis done by Mr Glynos in this table:

Table 1 Expert Bundle 453

Table 1				
Forward points on the ZAR relative to the spot rate				
	Column 1	Column 2	Column 3	Column 4
	Spot rate on 01/01/2000	Forward rate as of 01/03/2000	Forward rate as of 01/06/2000	Forward rate as of 01/12/2000
Forward points as of 01/01/2000 (Bid)	6.1425			
3 month forward points	795	6.222		
6 month forward points	1480		6.2905	
12 month forward points	2850			6.4275
Actual spot rate on respective dates		6.34	6.975	7.6175
Difference		0.1180	0.6845	1.1900
% terms		1.90%	9.80%	15.60%
	Spot rate on 01/01/2001	Forward rate as of 01/03/2001	Forward rate as of 01/06/2001	Forward rate as of 01/12/2001
Forward points as of 01/01/2001 (Bid)	7.5625			
3 month forward points	790	7.6415		
6 month forward points	1480		7.7105	
12 month forward points	3280			7.8905
Actual spot rate on respective dates		7.715	8.0225	10.255
Difference		0.7350	0.3100	2.3645
% terms		0.90%	3.90%	23.10%
	Spot rate on 01/06/2001	Forward rate as of 01/09/2001	Forward rate as of 01/03/2002	
Forward points as of 01/06/2001 (Bid)	8.0225			
3 month forward points	1370	8.1595		
6 month forward points	2680		8.2905	
12 month forward points	5090			
Actual spot rate on respective dates		8.4526	11.38	
Difference		0.2931	3.0895	
% terms		3.50%	27.10%	

In each case the actual spot rate on the forward date was higher than the forward rate. Take, for example, the twelve month forward points:

For the year 2000:

<u>Spot rate on</u>	<u>Forward rate</u>	<u>Actual spot</u> <u>rate on</u>	<u>Percentage</u>
<u>01/01/2000</u>	<u>on 01/12/2000</u>	<u>01/12/2000</u>	<u>Difference</u>
6.1425	6.4275	7.6175	15.60%

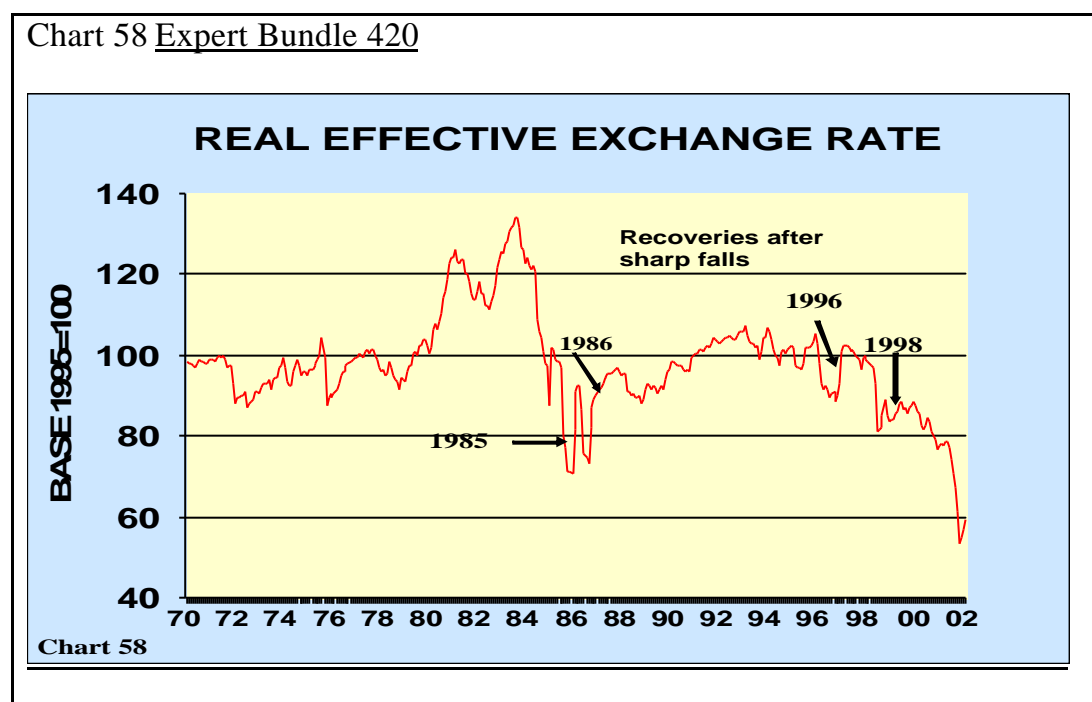
For the year 2001:

<u>Spot rate on</u>	<u>Forward rate</u>	<u>Actual spot</u> <u>rate on</u>	<u>Percentage</u>
<u>01/01/2001</u>	<u>on 01/12/2001</u>	<u>01/12/2001</u>	<u>Difference</u>
7.5625	7.8095	10.255	23.10% ¹¹¹

- 33 Another fairly common way of speculating involves “short-selling”. This amounts to a market participant selling a currency which he does not own, in anticipation that when delivery needs to take place, the currency can be bought in the market at a lower price, basing his judgment on the expected future development of the price of the currency.¹¹²
- 34 Another type of speculator is the offshore investor who has bought South African Government bonds and wishes to hedge his currency exposure and so sells rand forward.¹¹³
- 35 Dr Jammie is of the view that the leads and lags phenomenon was exacerbated by panic by importers and glee by exporters who deliberately held off repatriating dollars for as long as possible. He sees in an asymmetric trend for a protracted period of time in which the demand for dollars by importers is abnormally low while at the same

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time the supply of dollars by exporters is abnormally low. That is why the rand has tended to overshoot and then recover in its downward slump during sell offs such as those seen in 1985, 1986, 1996, 1998 and 2001:



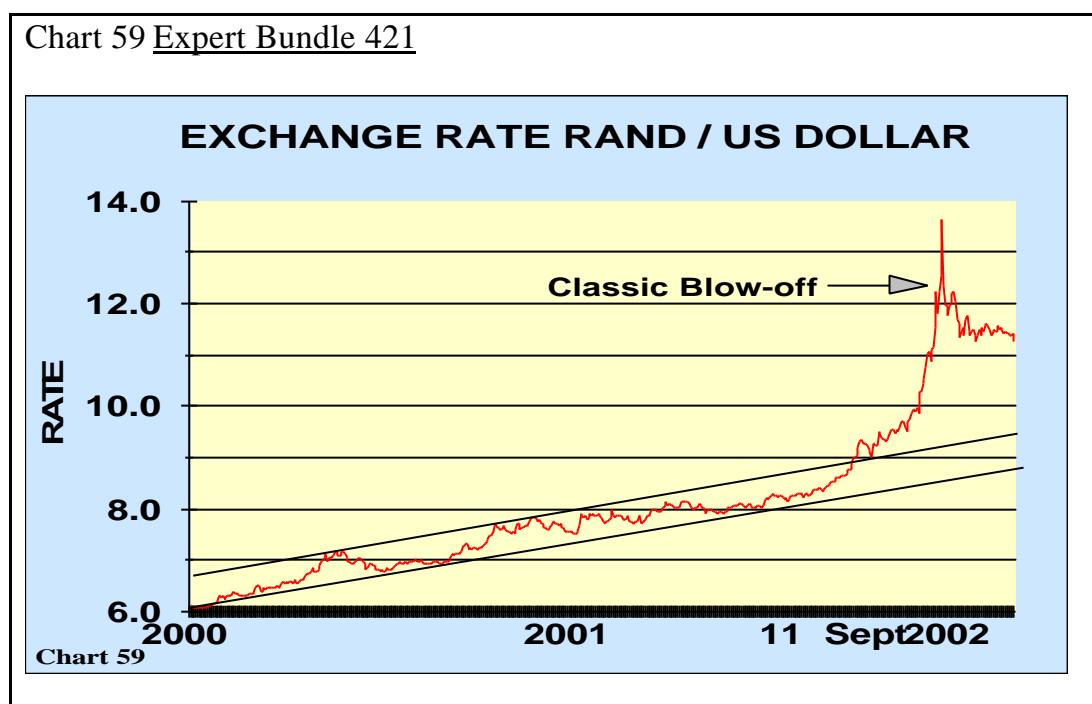
In November, and particularly, December 2001 the rand, according to Dr Jammie, entered a “blow-off” phase. The entire depreciation of the rand against the dollar from the beginning of 2000 until September 2001 saw the depreciation of the rand occurring within a clearly defined upward channel. However, once the dollar had broken the upward channel on the upside, it was apparent that the currency was in

¹¹² Memorandum of Reserve Bank Bundle SARB (7) 104

¹¹³ Memorandum of Reserve Bank Bundle SARB (7) 104

unchartered territory and would keep running upwards in an ever dramatic fashion against the dollar until the movement blew itself out.

The channel referred to be Jammine is shown in the following chart:



Dr Jammine stated that even though the depreciation of the rand until about October 2001 could be justified somehow on economic and political grounds, the move in November and especially December 2001 defied the bounds of normal economic and political analysis and logic. He suggested that some people must have profited enormously at the time and that those speculators were found in the financial services industry both domestically and abroad.¹¹⁴