


BERRY & DONALDSON

NEWS UPDATE

TAPER TANTRUMS

5 December 2013

Importers who do not buy forward cover and are paying suppliers for goods in foreign currency would have had a torrid time in recent months.

For the most part, the rand has been "strong" in the past decade, enjoying inflows of foreign currency as a result of markets losing confidence in developed economies.

However, as we all know, the rand has been sliding quite considerably more recently.

Our trade deficit is yawning ever bigger which has sent our currency southward and a new buzzword has also entered the fray.

"Tapering", when mentioned by US Federal Reserve chairman Ben Bernanke and his successor Janet Yellen, sends the markets scurrying. Tapering, at this point, is merely a suggestion of easing of quantitative easing (couldn't resist that play on words). That is the reduction of a stimulus programme in the US in which the government purchases bonds (puts cash into the economy) at a rate of about $85 billion a month. A reduction in US liquidity would see the capital flowing out of emerging markets like South Africa. In fact just the suggestion of tapering seems to spark movement in that direction.

As if the rand needed another reason to depreciate. Of course, if importers are able to pay their foreign suppliers in rands, somehow, this sort of talk would be less of a worry. However, invariably, suppliers need to be paid in forex, more often than not in dollars.

This means that murmuring and tapering and easing, as absurd as it may sound, can impact the price that you pay.