

## Currency Performance Report

As at 31 May 2023



Market trends varied during the month of May, with major indices providing contrasting returns. The MSCI All-Country World Equity Index was down by 1.32% and the Nasdaq Composite Index was up by 5.80% during May. The Dow Jones Industrial Average was down by 3.48% while the S&P 500 Index gained 0.25%.

Locally, the FTSE/JSE Shareholder Weighted All-Share Index closed 5.95% lower.

**Table 1: Currency returns vs US dollar**

Currency Performance (USD Base)	1 Month	Year to Date	1 Year	3 Years	5 Years	10 Years
<b>Developed Markets</b>						
Australian dollar	-1,70%	-4,53%	-9,34%	-0,81%	-2,98%	-3,79%
Euro	-3,02%	-0,13%	-0,42%	-1,24%	-1,77%	-1,93%
British pound	-0,97%	2,82%	-1,28%	0,26%	-1,32%	-1,98%
Japanese yen	-2,20%	-5,91%	-7,65%	-8,20%	-4,82%	-3,22%
Norwegian krone	-4,09%	-11,61%	-15,34%	-4,28%	-5,90%	-6,16%
Swiss franc	-1,80%	1,53%	5,35%	1,83%	1,60%	0,48%
<b>Emerging Markets</b>						
Argentine peso	-7,03%	-26,20%	-49,81%	-34,12%	-36,38%	-31,71%
Brazilian real	-1,40%	4,52%	-6,44%	1,81%	-5,94%	-8,23%
Chinese yuan	-2,81%	-3,00%	-6,18%	0,12%	-2,05%	-1,47%
Mexican peso	1,69%	10,14%	11,14%	7,84%	2,41%	-3,17%
Russian ruble	-1,05%	-13,81%	-24,17%	-4,72%	-5,11%	-8,90%
Turkish lira	-6,31%	-9,98%	-21,12%	-31,00%	-26,27%	-21,37%
South African rand	-7,38%	-13,79%	-20,78%	-3,82%	-8,43%	-6,48%

*Cumulative returns are shown for periods less than one year. Returns for periods greater than one year have been annualised.*

Source: Sanlam Investments

## Developed market currency performance

### Norwegian krone

The Norges Bank raised interest rates by a further 25 bps to 3.25% during May, taking rates to levels previously seen in 2008. The bank confirmed that increased rates are required to curb inflation, which is significantly above its 2% target. Inflation was recorded as 6.4% in April, which was above market expectations of 6.1%. The bank indicated that it is likely to raise interest rates again in June considering krone weakness and ongoing economic pressures.

### British pound

There are expectations that the Bank of England (BoE) may raise interest rates to 4.75% in June which could see rates reach a peak of 5.5% by the end of 2023. The latest UK inflation figures showed a decline to 8.7% in April, down from 10.1% in March, the first single digit inflation figure since 2022.



## **US dollar**

The US Dollar Index was up 2.62% in May. Investors continue to assess the strength of the US economy and the expectation for the US Federal Reserve (US Fed) monetary policy ahead of its June meeting. Varied economic data has left markets divided. The US economy grew by 1.3% in Q1, which was higher than estimates and market forecasts of 1.1%. Regarding monetary policy, markets are split, with the majority predicting that the US Fed will pause its tightening cycle. However, there are views that the tightening cycle could continue, due to inflation being sticky.

## **Emerging market currency performance**

### **South African rand**

The South African Reserve Bank (SARB) raised interest rates once again in May, with a widely debated 50 bps increase taking rates to a 14-year high of 8.25%. The SA Reserve Bank remains committed to its task of reducing inflation and providing support to the rand, which experienced a record low of R19.8 to the dollar at the end of May. GDP data showed that the economy avoided a technical recession in the first quarter of 2023 despite experiencing severe load shedding and reports that alleged arms were provided to Russia. South Africa's annual inflation rate fell to an 11-month low of 6.8% in April, below market forecasts of 7%.

### **Mexican peso**

The Mexican economy demonstrated its strength despite the aggressive rate hiking cycle. The economy grew for the sixth quarter in a row, including Q1 of 2023, in line with market expectations. The Bank of Mexico held rates at an all-time high of 11.25% in May, while inflation dropped to 6.25% in April.

## **Outlook**

The US Fed once again stated that its monetary policy decision would be dependent on the most recent economic data at the time. However, the decision may be more complex than it would want, due to the varied economic data seen during May. The SA Reserve Bank governor stated that lower interest rates would not be possible until inflation is under control. Many economists are, however, opposed to this view, stating that the inflation is due to rand weakness and increased rates will not reduce inflation. There is now a risk that the SA Reserve Bank could continue to raise interest rates at their next meeting. However, a pause to evaluate the effect of the previous hikes remains a possibility.

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