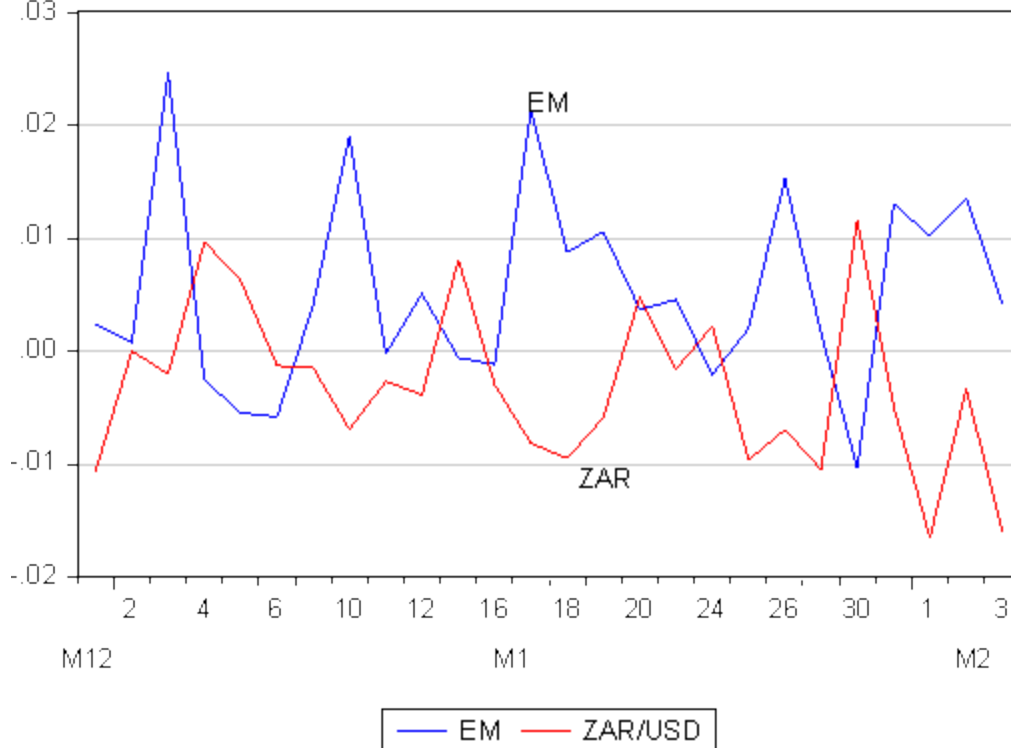


The rand and emerging markets: It all makes consistently good sense

The rand has strengthened in recent weeks in response to global equity markets and in particular to the recovery in emerging market (EM) equity markets. Such responses are entirely consistent with the patterns of the exchange value of the rand since 2008. As we have often pointed out, the rand is an emerging equity market currency: where emerging equity markets go, so too goes the rand and this year is no exception.

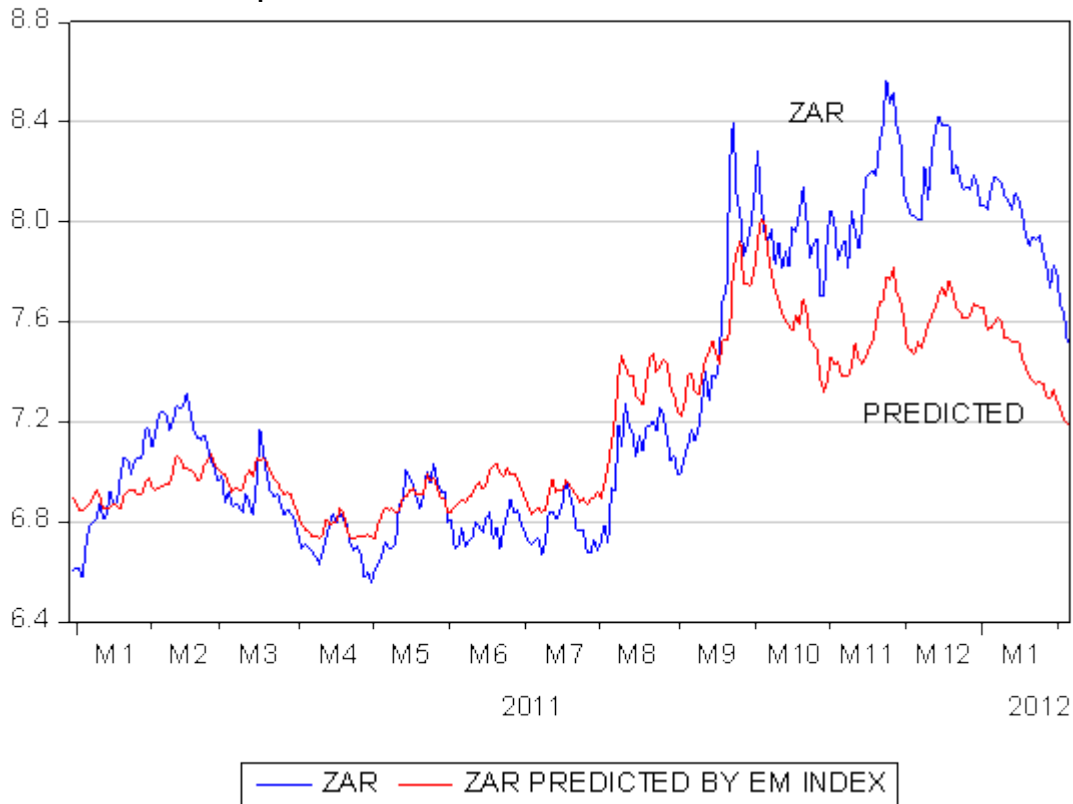
Daily moves in the MSCI EM Index and the rand/US dollar



Source: I-Net Bridge and Investec Wealth & Investment

In the figure below we show the actual daily value of the rand since January 2010 and the value predicted simply by the MSCI EM Index. While the rand has recovered with the EM Index, may still be regarded as somewhat weaker than predicted by the EM Index itself. The predicted value of the rand/US dollar at the close on Friday 3 February was R7.20. Thus further rand strength should be regarded as very possible, given support from equity markets.

The rand – actual and predicted values

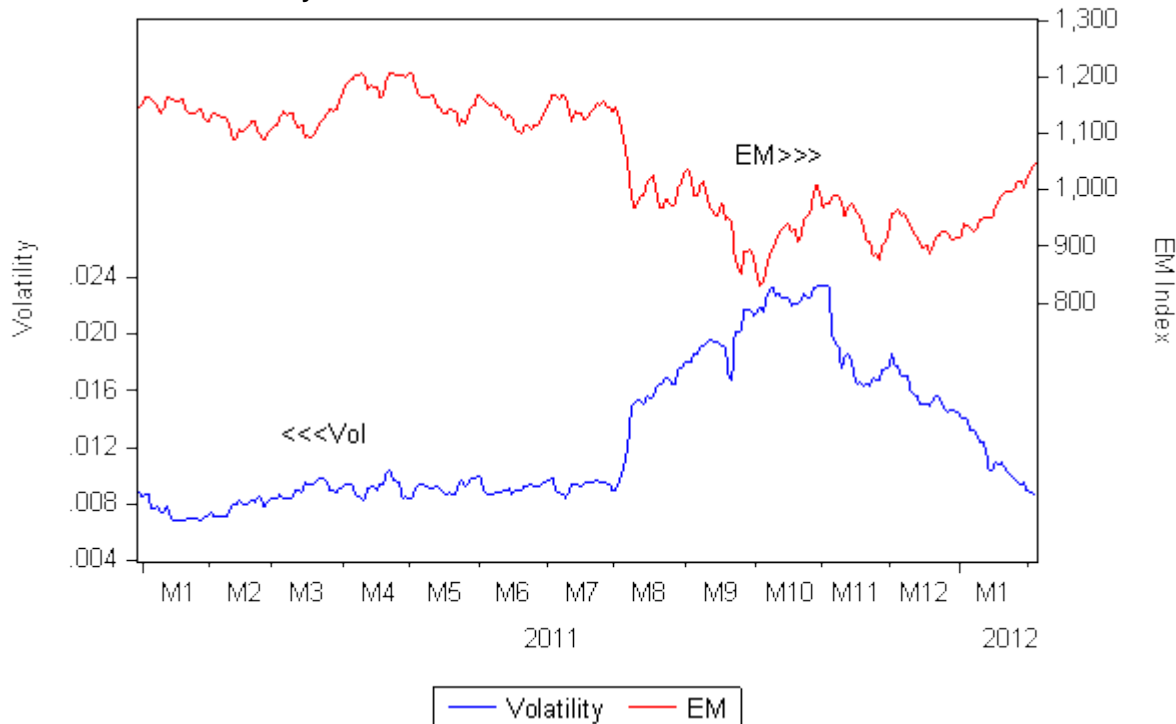


Source: I-Net Bridge and Investec Wealth & Investment

Equity markets themselves have responded entirely consistently to declining levels of global risk aversion. This is associated with the sense that Europe will avoid a financial meltdown, thanks to the ECB lender of last resort action on an unlimited scale.

These risks are perhaps best revealed by the daily volatility in share prices. Risks and returns (share prices) naturally move simultaneously in opposite directions, as we show below. Volatility in this case is measured as the 30 day moving average of the standard deviation of daily Index moves.

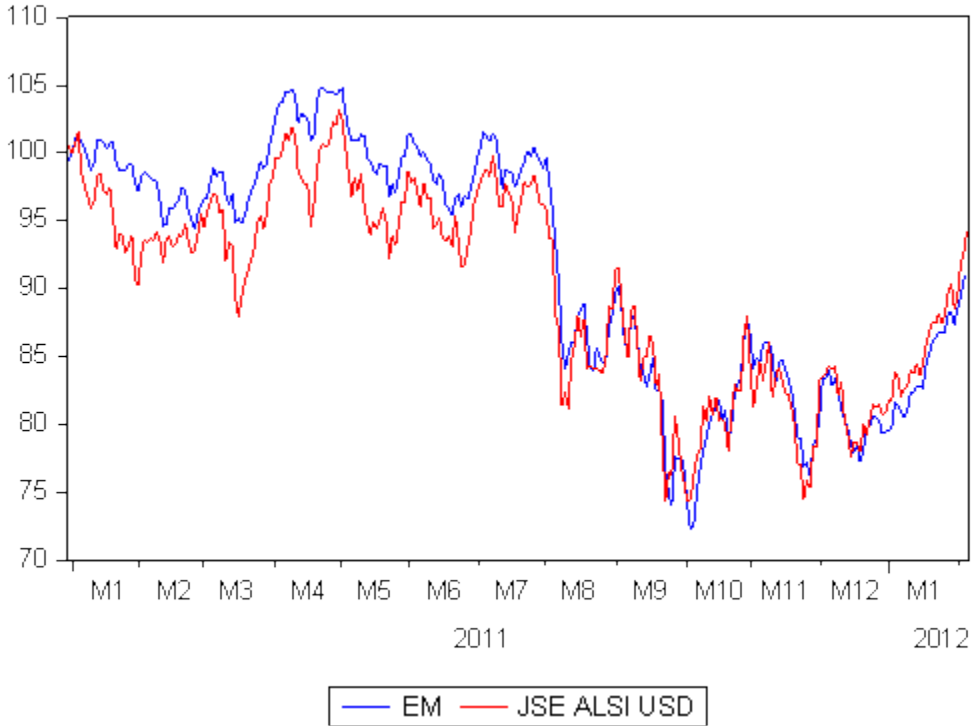
The EM Index and Volatility



Source: I-Net Bridge and Investec Wealth & Investment

One further pattern to be noted is the highly consistent relationship between the benchmark MSCI EM Index and the JSE All share index when measured in US dollars. The JSE remains highly representative of your average EM equity market. This fact of economic life no doubt accounts for the behaviour of the rand itself, as an EM equity market currency. This year the JSE in US dollars is up 15.4% while the MSCI EM Index has gained 14.45%. The S&P 500 is up by 6.94%. **Brian Kantor**

The MSCI EM Index and the JSE (in US dollars) 1 January 2011 = 100



Source: I-Net Bridge and Investec Wealth & Investment