BOURSE AFRICA
AFRICAN MARKETS ▲ GLOBAL OPPORTUNITIES

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ZAR/USD

The Rand which is considered to be one of the most traded emerging market currencies and which is notoriously volatile, has fallen below R10 to the dollar as it trades at four-year lows against the greenback. This situation has added to inflationary pressure in Africa's largest economy which is struggling to recover from a 2008/09 recession. South Africa had net foreign reserves of $45bn in July 2013, down from $49bn at the beginning of 2012. The country's trade balance deficit for August 2013 amounted to R19.1bn ($1.9bn), compared to a trade deficit of R13.1bn in July.

The depreciation of the Rand and rising unit labour costs (with unions engaging in wage negotiations) remain the key upside risks to the near-term inflation outlook. Many economists have linked this significant downward trend of the African currency to a slowdown in mining activity, ongoing labor disruptions, and continuing uncertainty across the global economy.

USD/ZAR Market (as of 30.09.2013)

Particulars	Value
Current Level	9.994
Exchange Rate Regime	Floating Exchange Rate with Central Bank intervention
Offshore Daily Turnover - Spot	US$1 million
Offshore Daily Turnover - Forward	US$ 1 million
Offshore Daily Turnover - Options	US$ 1 million
Onshore Spot Daily Turnover	US$ 2,500 million
Onshore Spot Daily Turnover Forward	US$ 700 million
Onshore Spot Daily Turnover Option	US$ 1000 million

Turnover of Global Currency Futures

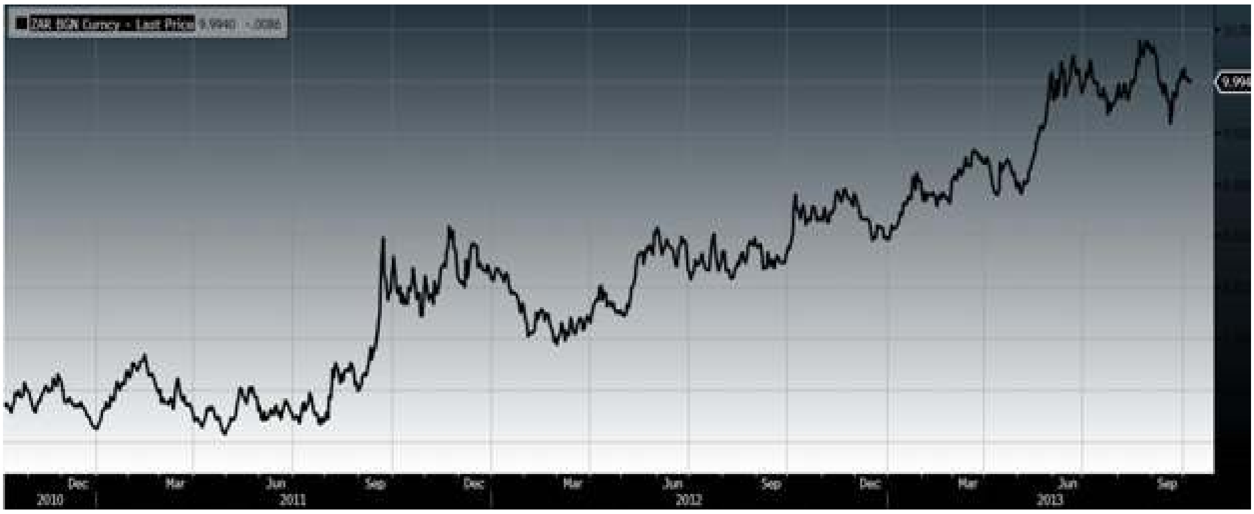
Region	Volume (No. of contracts traded)	Value of Notional Turnover (US$ mil.)
Americas	305 872 441	30 090 926
Asia Pacific	692 435 875	1 149 762
Europe, Africa, Middle East	423 592 331	440 041
Total	1 421 900 647	31 680 729

Note: Considered members of World Federation of Exchanges only and Data as of 13 June 2013.

Source: Standard Bank

Since the beginning of 2013, the Rand has been one of the worst-performing emerging market currencies against the USD as depicted below.

Exchange rate of the South African Rand against the US Dollars for the past 3 years



Source: Standard Bank

Hedge on BOURSE AFRICA ZARUSD Futures contract

Situation: A dealer, imports goods from South Africa and expects to pay ZAR 100,000 in 3 months time.

Spot Exchange Rate (Assumption): ZAR 1: 10 US Cents

AFTER 3 MONTHS:

Case 1: If, Spot rate is 10 US Cents, the dealer pays US$ 10,000 (100,000 * 0.10)

Case 2: If, Spot rate falls to 9 US Cents (ZAR depreciates), he pays only US $9,000 (Profit)

Case 3: If, Spot rate increases to 11 US Cents (ZAR appreciates), he pays US$ 11,000 (Loss)

Futures Market Position: The dealer can lock in the effective exchange rate of 3 months later at 10 US Cents using Bourse Africa Futures. He buys 10 ZAR/USD contract as he needs to pay ZAR 100,000 and the contract size of one Bourse Africa ZAR/USD contract size is ZAR 10,000.

Market	Entry Date	Market Price (ZAR / USD)	Total Value (US$)	Exit Date	Market Price/ Settlement Rate	Total Value (US$)	Total Value (US$)
Spot	09/10/2013	10 US Cents	10,000	09/01/2014	11 US Cents	11,000	- 1,000
Futures	09/10/2013	10 US Cents	10,000	09/01/2014	11 US Cents	11,000	+ 1,000

Source: Standard Bank

As shown above, the gains that he makes by buying the Futures low and selling it high offsets the “loss” that he makes when ZAR appreciates to 11 cents.