

INTRODUCTION & EXPLANATORY NOTES

As from June 2013, the format of this report has been changed and improved. Instead of a full **Rand Exposé** being issued each Quarter (as it has been done in the past), it has been decided, in order to make assimilation of the updated data easier, to issue only one full **Rand Exposé** update annually following release of the previous year's full data by the Reserve Bank in March of each year. For each Quarter thereafter (in June, September and December), an Appendix will be issued with updated tables and charts under headings which reference the Sections in the full **Rand Exposé**. Where these have been updated since the previous issue, the charts and tables will be marked with a yellow star.

SUMMARY TRENDLINE VALUES FOR THE RAND

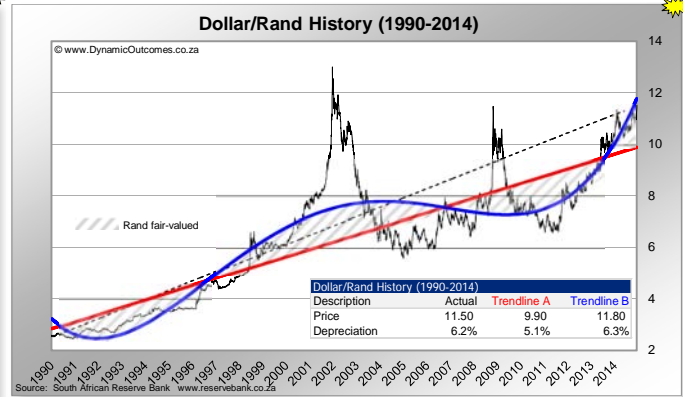
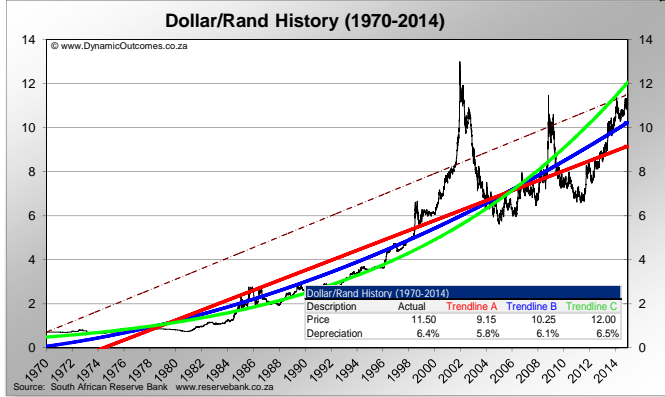
44+ Year History	Value	Depr p.a.
1970 – 2014 Actual	11.50	6.4%
1970 – 2014 Linear Trendline	9.15	5.8%
1970 – 2014 Polynomial Trendline	10.25	6.1%
1970 – 2014 Exponential Trendline	12.00	6.5%

24+ Year History (since Jan 1990)	Value	Depr p.a.
Jan 1990 – Dec 2014 Actual	11.50	6.2%
Jan 1990 – Dec 2014 Linear T/L	9.90	5.1%
Jan 1990 – Dec 2014 Polynomial T/L	11.80	6.3%
Trade Weighted Linear Trendline	17.95	
Trade Weighted Polynomial T/Line	13.15	

WHAT IS THE RAND'S PRESENT TRENDLINE VALUE? (SECTION 4)

Based on a long term trend since 1970, the Rand's present true trendline value is between R9.15 and R12.00 and should be expected to depreciate between 5.8% and 6.5% p.a.

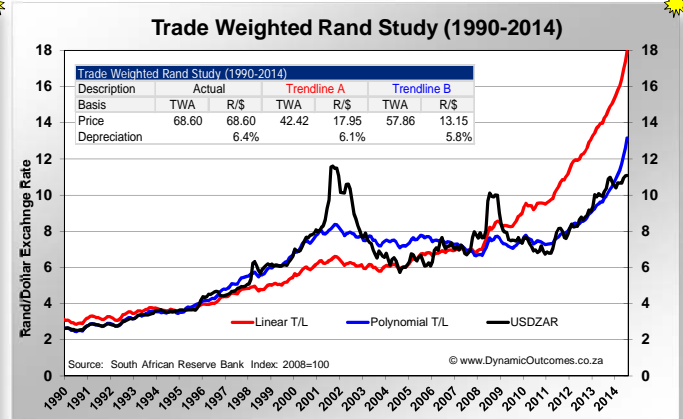
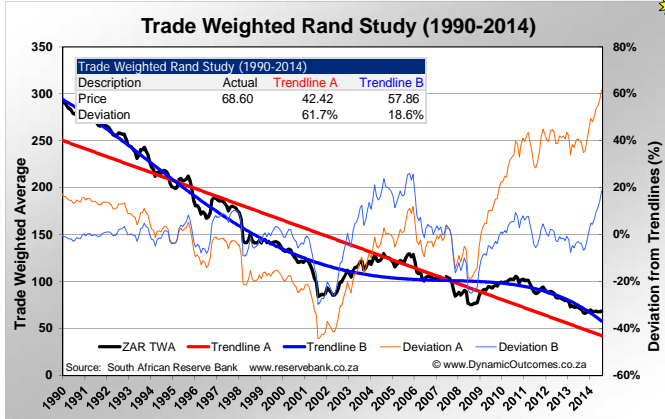
Based on a long term trend since 1990, the Rand's present true trendline value is between R9.90 and R11.80 and should be expected to depreciate between 5.1% and 6.3% p.a.



WHAT IS THE RAND'S PRESENT TRADE WEIGHTED TRENDLINE VALUE? (SECTION 5)

Based on a long term trend since 1990, the Trade Weighted Value of the Rand is presently 61.7% from its linear trendline value and 18.6% from its polynomial trendline value.

Applying this Deviation Factor to the Dollar/Rand, it's present trendline value is between R13.15 and R17.95 and should be expected to depreciate between 5.8% and 6.1% p.a.

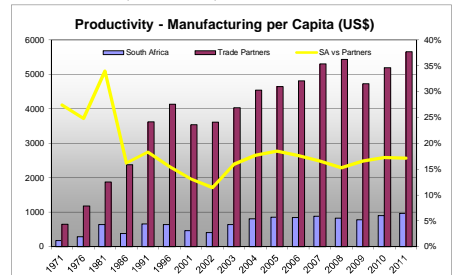
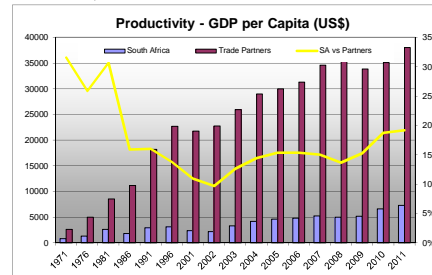
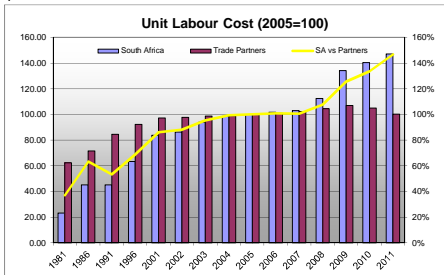


INTERNATIONAL COMPETITIVENESS (SECTION 6 CONTD)

Compared with its trading partners, South Africa's labour cost has increased by 15.9% p.a. since 1981, 10.4% p.a since 1991, and 9.0% p.a. since 2006.

On a GDP per Capita (US\$) basis, South Africa's productivity was 19% of its trading partners in 2011, compared with 15% in 2006, 11% in 2001, 16% in 1991 and 31% in 1981.

On a Manufacturing per Capita (US\$) basis, South Africa's productivity was 17% of its trading partners in 2011, compared with 18% in 2006, 13% in 2001, 18% in 1991 and 34% in 1981.



INTERNATIONAL COMPETITIVENESS (SECTION 6)

The differential in competitiveness between South Africa and its trading partners is estimated to have been 2.9% annually from 1991 to 2011, with the future in all likelihood looking bleaker, possibly as high as 7.9% p.a.

	Annual Differentials		
	1981-2011	2006-2011	Future
Primary Factors (Quantifiable Effects)	21.4%	2.9%	3.4%
Labour Cost	15.9%	9.0%	8.0%
Productivity	5.6%	-6.1%	-4.6%
Secondary Factors (Semi-definable Effects)	2.0%	2.0%	3.0%
AIDS Pandemic			↑
Black Economic Empowerment			↑
Emigration of Skilled Labour/Professionals			↑
Structural Factors (Indefinable Effects)	1.0%	1.5%	
Infrastructure Inefficiencies (Transportation/Energy/Fuel)			↑
Crime and Security Factors			↑
Immigration Burden Costs			↑
Illiteracy/Education Levels			↑ ?
Unemployment Burden Costs			↑
Delivery Costs (remoteness from major markets)			↑
Total		5.9%	7.9%

SOUTH AFRICA'S ECONOMY - A SIMPLISTIC VIEW (SECTION 7)

When viewed as a Company, the South African economy has been running at a net loss since 2003 and has had to fund these accumulative losses largely through short term foreign inflows. Current Account Deficit (Net Loss) in 2013 was -R197bn (-5.8% of GDP).

Income Statement for RSA (Pty) Ltd													
Ordinary Description	Technical Description	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Sales	Exports	333	291	311	358	448	538	704	556	657	790	815	918
Cost of Sales	Imports	-283	-265	-312	-360	-477	-574	-740	-554	-607	-743	-854	-991
Gross Profit/Loss	Trade Balance	50	27	-1	-2	-29	-36	-36	2	50	47	-40	-74
Other Revenue	Offshores Services	57	68	69	80	93	110	123	118	119	127	146	164
	Offshore Investment Interest/Dividends	20	18	18	26	37	43	42	27	26	30	40	55
Expenditures	Foreign-sourced Services	-70	-75	-85	-104	-126	-148	-178	-166	-171	-178	-200	-219
	Foreign Investment Interest/Dividends	-47	-51	-43	-54	-69	-109	-113	-78	-77	-94	-111	-124
Net Other Revenue	Services Account	-41	-39	-42	-52	-65	-104	-126	-99	-102	-115	-125	-124
Total Net Income	Current Account	10	-13	-43	-54	-94	-141	-162	-97	-53	-68	-165	-197
	% of GDP	0.8%	-1.0%	-3.0%	-3.5%	-5.3%	-7.0%	-7.2%	-4.0%	-2.0%	-2.3%	-5.2%	-5.8%
Cash outflow requiring short-term funding:													
Bank Overdraft/Loans	Foreign-sourced Loans	0	-13	-43	-54	-94	-141	-162	-97	-53	-68	-165	-197

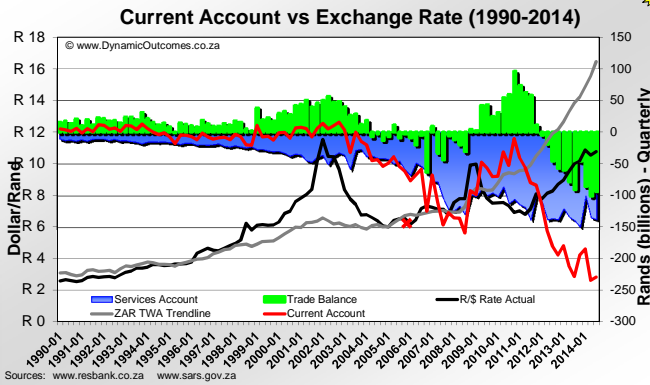
Rand Exposé – the Fundamental Truth

This is a quarterly supplement to the latest annual issue (March 2014)

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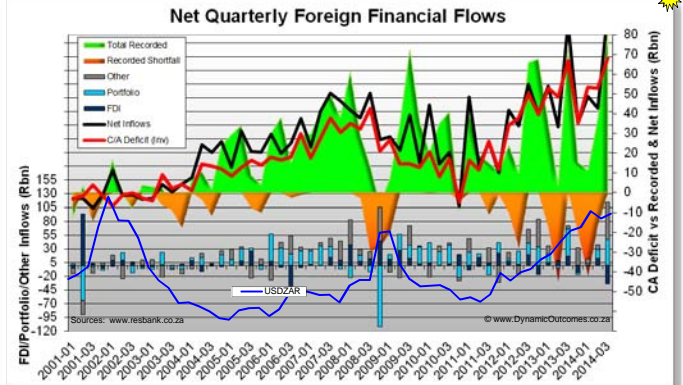
THE CURRENT ACCOUNT AND ITS COMPONENTS (SECTION 8)

The Services Account (blue area) and Current Account (red line) have deteriorated since the Rand strengthened below its trendline Trade Weighted Value, with Quarter 2014-03 registering an annualized Current Account Deficit (Net Loss) of R230bn.



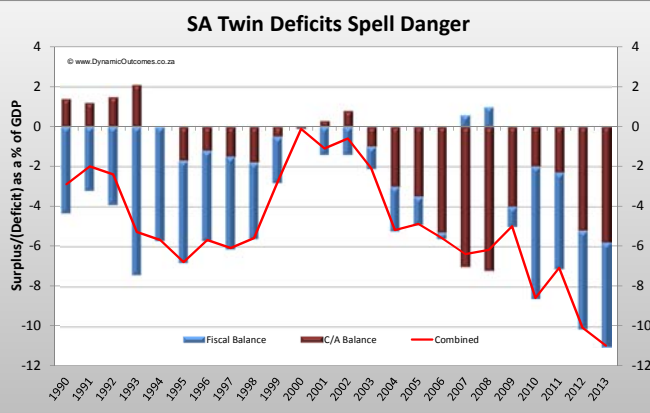
BALANCE OF PAYMENTS – THE ACHILLES HEEL (SECTION 9)

Where Total Recorded Foreign Inflows have been insufficient to fund the Current Account Deficit, this has led to a weakening of the Rand. The latest data for 2014-03 shows Recorded Inflows were sufficient to cover the Current Account Deficit.



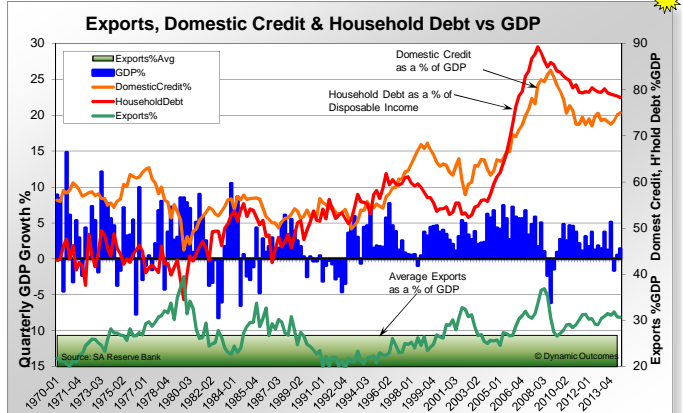
TWIN DEFICITS - DOUBLE DANGER RISKS (SECTION 10)

From a Combined (Current Account+Fiscal) Deficit of zero in 2000, the situation has steadily deteriorated to the point where 2013 recorded a Combined Deficit of -11.0% of GDP!



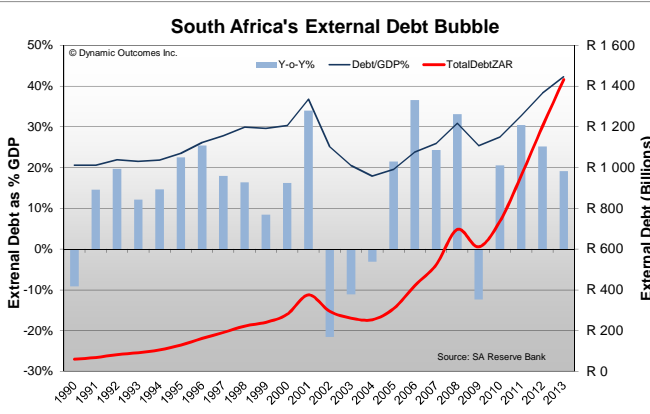
HAS RECENT GDP GROWTH BEEN HEALTHY? (SECTION 11)

GDP in recent years has been driven by Private Consumption - funded to a large extent by increased debt. Household Debt, while off its high, is still 78.3% of GDP as at Qtr 2014-03



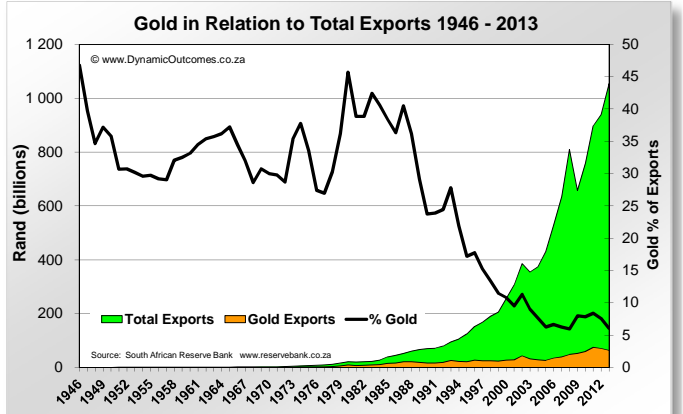
EXTERNAL DEBT - THE BIGGER PICTURE (SECTION 11 CONTD)

External Debt has increased 24.0 times since 1990, 5.6 times since 2004, and 2.1 times since 2008, with 2013 recording total External Debt of R1.4 trillion - equal to 42.3% of GDP!



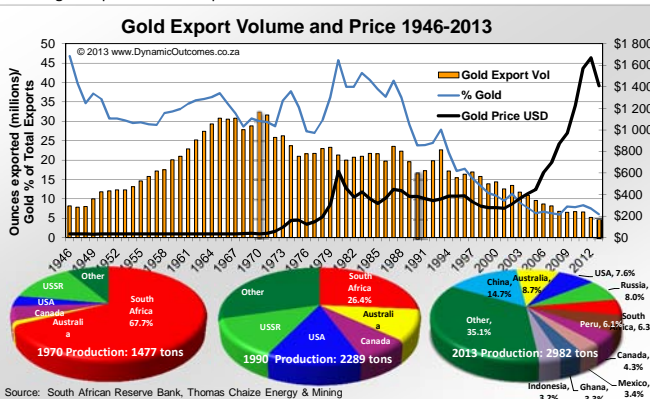
HAVE WE BENEFITTED FROM GOLD & WILL WE? (SECTION 12)

Gold Exports as a percentage of Total Exports value has dropped from 45.7% in 1981 to just 6.1% in 2013 and no longer has a significant impact on our economic growth.



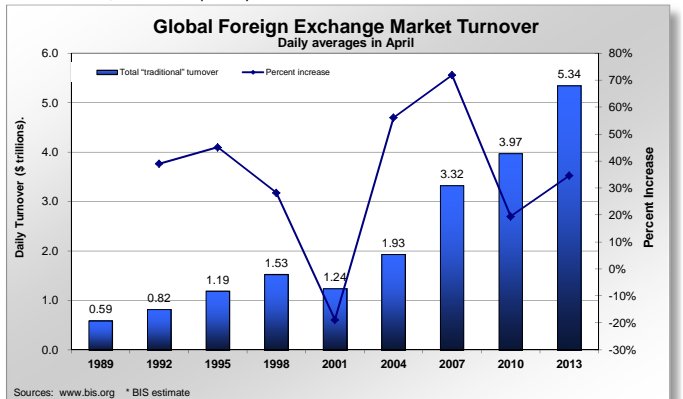
HAVE WE BENEFITTED FROM GOLD & WILL WE? (SECTION 12 CONTD)

In 2013, with the Gold price still at high levels, and record global mining output of 2982 tons, South Africa exported its smallest volume in living memory – just 152 tons, and produced just 5.7% of global production compared with 67.7% in 1970



THE GLOBAL & RAND FOREIGN CURRENCY MARKET (SECTION 14)

Global foreign exchange (forex) turnover has increased significantly, with 2013 turnover being US\$ 5.34 trillion per day – an increase of 35% over 2010 volumes. By comparison, 2001 volumes were \$1.24 trillion per day.



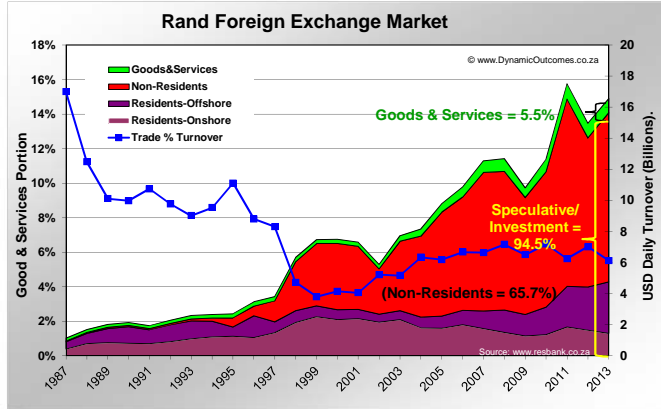
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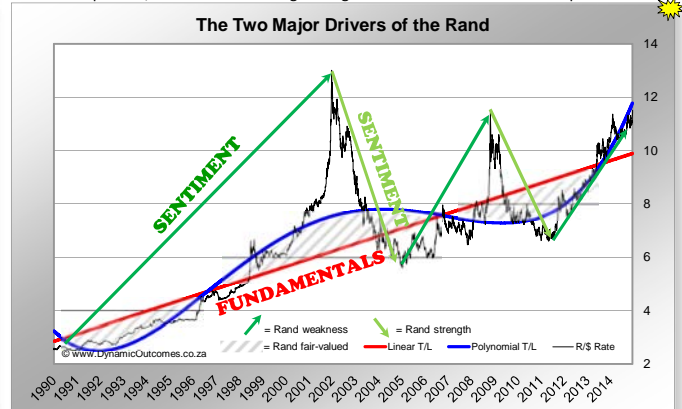
THE RAND FOREIGN CURRENCY MARKET (SECTION 14)

In 2013, Trade of Goods & Services made up just 5.5% of Daily Rand Foreign Exchange Turnover of \$16.6bn per day, with the balance being all speculative/investment based.



WHAT ACTUALLY MOVES EXCHANGE RATES? (SECTION 13 - 16)

While fundamentals determine that the Rand needs to depreciate in order for our economy to remain competitive, there have been huge swings either side of this trendline depreciation.



IN CONCLUSION (SECTION 17)

The purpose of this report has been to share our own experience and knowledge gained in investigating the Rand and the South African economy.

In essence, an overview of where the Rand should be from an historical and fundamental perspective, why it has moved as it has, and where we can expect the market to move in future, from an Elliott Wave perspective.

The result of these years of research has led to some astounding discoveries and observations, summarized as follows:

1. An exchange rate is an *adjusting mechanism* which compensates for product cost differentials, and other factors that affect international trade competitiveness.
2. Ongoing product cost differentials can be reduced down to two rudimentary factors – productivity and labour cost.
3. Based on historical trends and South Africa's competitiveness compared with its trading partners, it needs to adjust (depreciate) over time to remain competitive.
4. Despite the above, the Rand has for periods of time had huge deviations from these fundamental norms, indicating that something other than fundamentals is at work and influences market movements.
5. Although the Rand exchange rate is primarily to facilitate the international trade in goods and services, these imports and exports only represent a minuscule percent of total turnover in the Rand forex market (around 6%), with the majority being speculative/investment related.
6. Although the trade of goods and services is an *economic market* phenomenon, and whereas the exchange rate is there to facilitate this, yet the Rand forex market is itself a *financial instrument* where speculation prevails.

7. In an economic setting, where certainty and rationality prevails about the relative values, buying or selling decisions are made based on conscious rational evaluation; however, in a financial market setting, uncertainty and speculation prevail, and persons tend to make subconscious irrational decisions (unconscious herding).
8. The movements in all financial markets (of which the Rand is one) are the result of mass human emotion, flowing from hope and greed to fear and despair, from one extreme to the other.
9. These changes in mass human sentiment move in patterns which are definable in terms of the Elliott Wave Principle, from the very shortest to the longest time frames.
10. If one is able to determine – OBJECTIVELY – what pattern is in play in a market and where one is in that pattern, one is able to forecast how that market is likely to move from that point on, as we have shown.

As we have already said, this Rand Exposé is a non-economist, realist overview, and having an understanding of this has been critical to ourselves and those with whom we have shared this information –

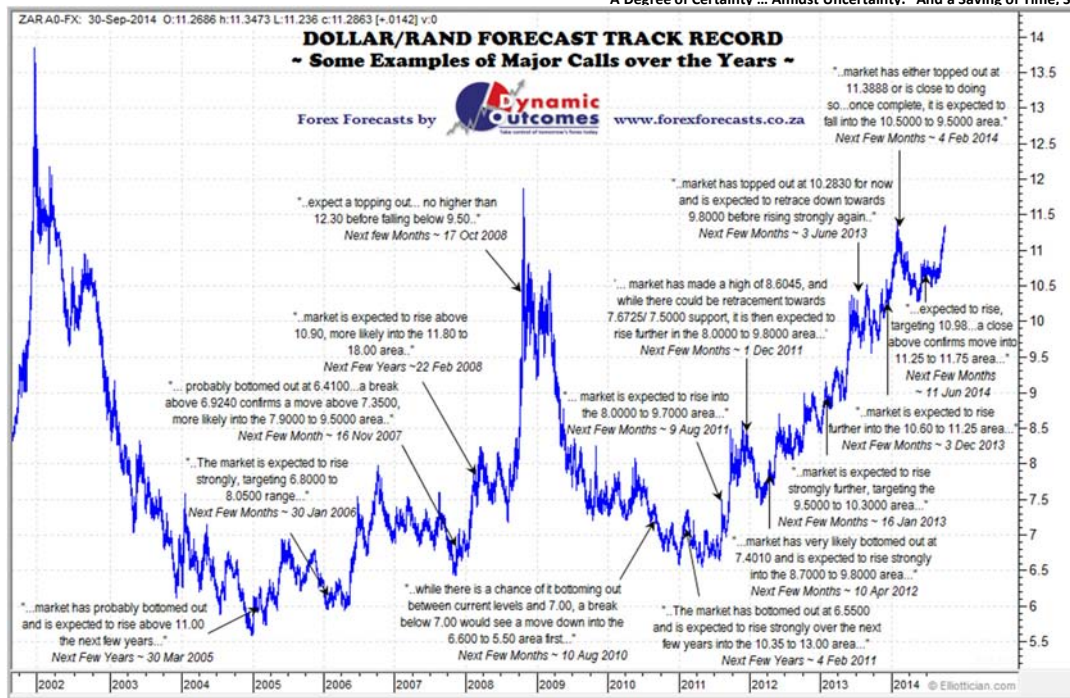
To not only have an understanding of the fundamentals, but more so, to have an understanding of the actual forces in play – who and what really moves the markets.

And then, through having access to an objective and scientific-based expectation of future Rand movements, (based on actual historical patterns and track record), which provides you with a roadmap of expected future movements...

...you have both the framework and parameters to enable you to make educated and informed decisions...and to take action – with the probabilities in your favour...and before it is too late.

The result:

A Degree of Certainty ... Amidst Uncertainty. And a Saving of Time, Stress and Money



This is an update to the last full Rand Exposé dated March 2014. To get a full explanation of the charts and of our findings regarding fundamentals and forecasting the Rand [click here](#)

While this report tells us where we can expect the Rand to head long term from a fundamental perspective, it does not tell us where we can expect to go in the short or medium term. That's where our forecasts have assisted clients since 2005, giving them close to 80% accurate roadmap for the days, weeks and months ahead.

For more info on our forecasting services see www.forexforecasts.co.za/forecast-service



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