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Rand volatility hits SA manufacturers

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VOLATILITY is the name of the game as far as the South African currency goes — and it is a painful one for manufacturers.

At the beginning of last month, the rand hit a three-year low of R8,71 against the dollar. Last Friday it gained 2,7% to appreciate to R8,175/1$ as the currency swung on global and domestic economic fears.

"Nobody knows where the rand is going to go," says Stewart Jennings, CE of PG Group, a glass manufacturer, and chairman of the Manufacturers Circle. "So it's very difficult for us to decide if we (are) going to invest for exports when you don't know what is happening."

His lobby group including ArcelorMittal, BMW and SABMiller, has called for government intervention to weaken the rand as the nation's industry faces tough competition from Asian — particularly Chinese — importers. But it is a move that Finance Minister Pravin Gordhan and the central bank have ruled out.

The rand is only one of the problems facing South African industry, says Mr Jennings. The recent weakness of the currency, which could have offered respite for manufacturers, was offset by import competition and Europe's woes, where a third of SA's manufactured exports are shipped.

But, he adds, "many of us invested a lot in 2008 with the World Cup boom and now we are sitting with surplus capacity.

"We have the capacity of 2008 and our volumes are down at 2002 and so, until you start eating up this spare capacity, you are not going to invest."

Mr Jennings wants the rand to be in a band of R8,50 to R8,70 against the dollar. But he admits that predicting the currency's trajectory is risky.

"The mood is very concerning. It's still positive in one way — if we do get GDP of 2,5% to 2,7%, it's positive. But we are very worried about margin erosion, and what I am concerned about is the dip below the 50 (in the PMI index) coupled with what is happening in Europe," says Mr Jennings.

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