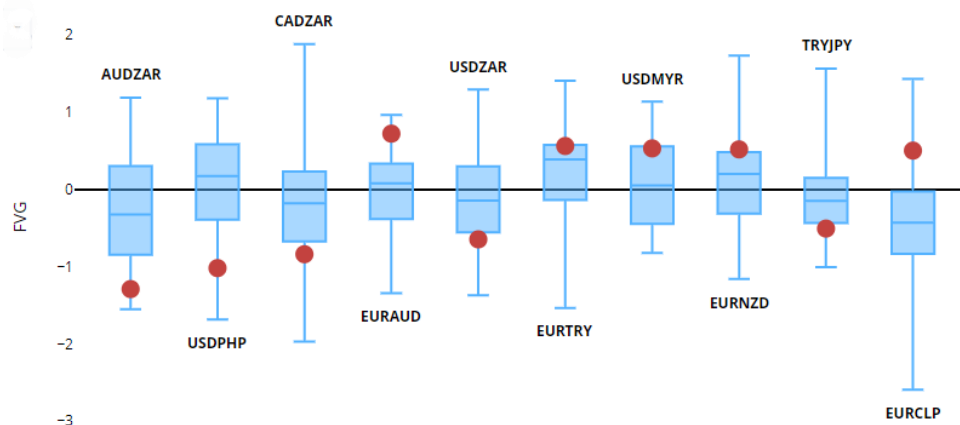




## South Africa

- The chart below shows the 10 biggest valuation gaps across all FX pairs modelled by Qi. **Three of them involve the South African Rand which is rich to macro on each occasion.**
- [AUDZAR](#) is especially notable. Prior to Friday's US Payrolls, the FVG was at a 1y low. Even with the recent bounce in spot, the valuation gap stands at -1.1 sigma (-4.1%). **Back-testing a buy the dip strategy at a FVG of -1.1 sigma since 2009 produces a 79% hit rate & +1.8% average return.**



- While the valuation gaps are less extreme, the Rand is expensive to model on [USDZAR](#), [CADZAR](#) & [EURZAR](#) as well. Of those, CADZAR's current -0.7 sigma FVG back tests the best with a 63% hit rate & +0.4% average return.
- The macro profile is similar across all 4 crosses. Risk off (wider credit spreads, higher VIX) plus weaker domestic growth (SA tracking GDP growth) dominate the regime & are Rand negative. **Put another way, on current FVGs, the Rand has priced a fair amount of good news on risk appetite & growth.**
- It is also noticeable how important the Rand is for South African equities currently. **The sensitivity of the iShares ETF tracking MSCI South Africa to Trade Weighted ZAR has been rising strongly since mid March, & the currency is now the biggest positive driver.** [EZA](#) is very close to macro fair value so equity investors need to monitor fx shifts.

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