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Rand Rallies to 3-Month High as South African Data Signal Rise
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By Sikonathi Mantshantsha

April 1 (Bloomberg) -- The rand rallied to a three-month high against the dollar, extending its second weekly gain as producer inflation quickened and consumer borrowing rose, signaling rates may climb and boosting the rand’s carry appeal.

The currency of Africa’s biggest economy appreciated as much as 0.8 percent to 6.71764 per dollar, its strongest level since Jan. 6, and traded at 6.72125 per dollar as of 3:42 p.m. in Johannesburg, taking its gain this week to 1.7 percent.

The cost of goods leaving factories and mines advanced 6.7 percent in February, the fastest pace since September, the statistics office said yesterday. Credit growth accelerated to 5.4 percent in February as interest rates at a 30-year low spurred consumer spending, the central bank said yesterday. The bank won’t be “soft” on inflation and will try to prevent rising oil and food costs from driving consumer prices above the upper end of its target margin, Governor Gill Marcus said March 29.

“Just about all the local data of significance released this week highlights the fundamental backdrop which is likely to promote rather than detract from more rand resilience and strength,” Tradition Analytics researchers said in an e-mailed statement to clients today. “Whilst the timing of a rate hike is up for debate, the fact that a hike in South Africa would only widen the interest-rate differential to its major trading partners again boosts the potential attraction of South African assets to foreigners.”

Rate Comparison

South Africa’s benchmark interest rate of 5.5 percent compares with 1 percent in the eurozone and 0.25 percent in the U.S. In a carry trade, investors borrow where interest rates are low, such as the U.S., to fund purchases in countries with higher yields. Foreign investors were net buyers of 1.9 billion rand of South African bonds yesterday, according to data from the JSE Ltd., which manages the country’s debt and equity exchanges.

Investors expect the central bank to raise its rate by December, forward-rate agreements show. The rate on the contract for three-month cash in six months’ time climbed 10 basis points, or 0.1 percentage point this week, to 6.025 percent.

Bonds gained, with the yield on the 13.5 percent security due September 2015 falling 6 basis points to 7.77 percent. That pared the yield’s advance this week to 1 basis point.

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