

A STRONGER RAND AND TRAVEL COORDINATION

We start this week with some exciting news! The rand has been consistently appreciating against major currencies over the last two weeks. Since early April, when the rand was trading near its all-time R19-lows, the rand has appreciated to levels around R16.80; restoring some of our sanity. For a long time, we have held that the rand is too weak and should be strengthening. Using a measure of the average undervaluation of the rand's purchasing power parity (PPP), and considering all the negative sentiment towards South Africa, directly and indirectly, a "normal" closer to what we would expect would probably be around R16.50. Yet, the rand continued to depreciate. If South Africa could do a couple of things better (i.e. prudent fiscal management and/or a pro-business ideology) the rand could even appreciate to R15.50. Nevertheless, the recent moves in the rand were caused more by external factors, than by internal ones.

Expecting more COVID-related troubles in the European Union, the European Central Bank (ECB) decided to increase its stimulus programme by EUR600 million, far above what markets were expecting. Not only that, but the ECB also decided to further extend its emergency bond purchasing programme to June 21. The news was well received by markets and supported the rand in its recovery. The United States dollar was also starting to depreciate against other major currencies as 1.9 million more Americans filed for unemployment claims, bringing the total to over 42 million. To put this in context, last year this time only 189,577 individuals filed for unemployment. As a result, the United States unemployment rate, which stood at a 50-year low of 3.5% before the COVID-crisis, is now higher than it has been since the Great Depression in the 1930s. However, as the week came to an end, markets were hit by another surprise after non-farm payrolls reported that 2.5 million jobs were created in the United States during the month of May. Analysts were expecting an 8 million decrease in jobs, following the record 21 million decline we saw in April. As a result, the United States unemployment rate only reached 13.7%, much better than the 20% that was expected, and the dollar took back some territory against other currencies.

We have previously explained that the worst-hit sectors from the COVID-crisis will most likely be the travel and tourism industries, critical industries that employ more than 330 million people globally and contributes upwards of 10.3% to global GDP. Comair, one of the very few companies who can manage airlines profitably, is no exception. The JSE-listed company, who operate low-cost airliner Kulula.com and the British Airways domestic flights in South Africa, opted to go into voluntary business rescue in March. A clever move to protect the long-term sustainability of the firm. Business rescue is ultimately designed to aid struggling companies, not those beset with chronic issues, like South African Airways. The latest news from the business rescue practitioners is that they intend to reduce the number of aircrafts used by Kulula.com by at least half. This, according to expert opinion, should be able to inject enough cash into the business to cover the debt Comair owes to creditors and allow the business to function in the struggling aviation industry, post-COVID-19. By reducing their fleet from 24 to 12, Comair should be able to raise R4.7 billion, pay the remaining R2 billion in aircraft debt, and use the remainder to cover the R1 billion owed to its creditors. Returning to the issue of a struggling travel and tourism industry, the World Travel and Tourism Council (WTTC) has given guidance to industry leaders and governments on how the industry can be restored. According to them, the most critical factor is to restore the confidence of travellers, which they believe can only be achieved through a coordinated and consistent application of new health and hygiene standards, across borders. A lack of consistency and coordination caused these industries to struggle four and a half years to recover after the 9/11 terrorist attacks.

