

South African rand extends losses on concerns over unity government obstacles

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JOHANNESBURG (Reuters) - The South African rand extended losses early on Tuesday on concerns over future challenges for the government of national unity (GNU) and after trading turbulently on Monday following the announcement of President Cyril Ramaphosa's cabinet.

At 0641 GMT, the rand traded at 18.44 ZAR/USD, almost 0.5% weaker than its previous close. The dollar was up around 0.09% against a basket of global currencies.

"The rand is trading weaker... this morning on what seems to be a 'buy the rumour, sell the fact' move," Andre Cilliers, currency strategist at TreasuryONE, said.

"The GNU remains a fragile agreement and investors are concerned over the many obstacles that need to be overcome going forward," Cilliers added.

Ramaphosa's African National Congress (ANC) lost its parliamentary majority for the first time in 30 years in the May 29 election and has formed a unity government with former rivals as a way to stay in power.

South African assets gave up some gains on Monday as the initial optimism shown by the markets waned a day after the new cabinet was formed. It included former opposition leader John Steenhuisen as agriculture minister.

South Africa's benchmark government bond was weaker in early deals, with the yield up 5 basis points to 10.005%.

The risk-sensitive rand often takes cues from global drivers like U.S. monetary policy in addition to local factors. In this regard, U.S., inflation is [slowing again](#) after higher readings earlier this year, Federal Reserve Chair Jerome Powell said today, while adding that more such evidence would be needed before the Fed would cut interest rates.

After some persistently high inflation reports at the start of 2024, Powell said, the data for April and May "do suggest we are getting back on a disinflationary path."

"We just want to understand that the levels that we're seeing are a true reading of underlying inflation," he added.

Powell also acknowledged that the Fed is treading a fine line as it weighs when to cut its benchmark interest rate, which it raised 11 times from March 2022 through July 2023 to its current level of 5.3%.