

Reserves

ECONOMICS | SOUTH AFRICA

Gross reserves and the international liquidity position rose in February

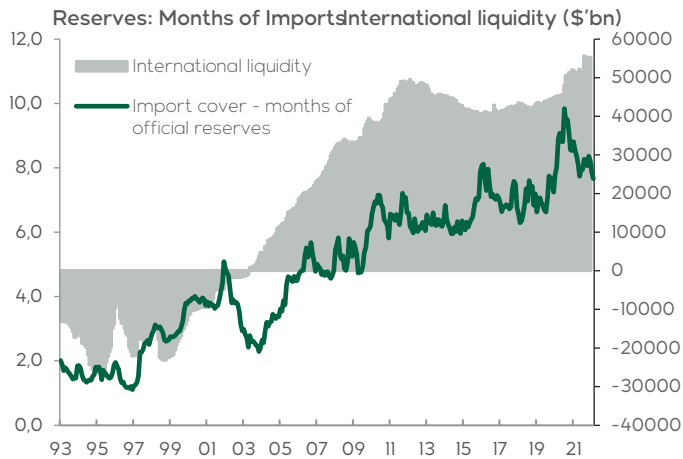
- Gross reserves rose from \$57.19 billion in January to \$57.69 billion in February, driven mainly by an increase in gold reserves. Gold reserves gained 6.4% m-o-m, while foreign exchange reserves were almost unchanged, accelerated by a modest rate of 0.04%. The rise in gold reserves can be attributed to valuation adjustments following a weaker US dollar and a strong rise in the US dollar gold price. Gross reserves are up 7.3% y-o-y, significantly stronger than the -1.7% observed in the same period last year.
- The international liquidity position also rose, increasing by \$531 million to \$55.53 billion in February as a result of the decline in the level of foreign currency deposits received. The forward position declined marginally from \$3.37 billion in January to \$3.35 billion in February.
- The rand gained 1.16% against the US dollar in February, resulting in a lower valuation of reserves in rand terms. Consequently, gross reserves declined by 0.3% m-o-m to R887.89 billion. In line with the decline in the rand value of gross reserves, the import cover provided by the level of reserves declined for a third consecutive month, falling from 7.9 months in January to 7.7 months in February.
- Reserve holdings could decline slightly during the year as a result of the uncertain global economic environment. Global growth has already been projected to slow and the escalating geopolitical tensions between Russia and Ukraine have exacerbated the weak outlook. The weak growth outlook combined with Russia-Ukraine tensions is likely to impact investor sentiment and weigh on demand for emerging market assets. Gold reserves will continue to benefit from gold's safe-haven status but US Fed monetary policy normalisation will add some downward pressure. Nonetheless, rising interest rates, and thus higher yields, in emerging market countries, such as South African could still attract investors and allow for further accumulation of reserves.

TABLE 1: Reserves (\$ Million)

	Feb-22	Jan-22	Change (m)	% change (m-o-m)	% change (Q-o-q)	Nedbank forecast (\$m)	Market forecast
	(\$m)	(\$m)					
Gold reserves	7 686	7 221	465	6.4	6.5		
SDR holdings	6 580	6 599	14	0.2	-0.4		
Foreign exchange reserves	43 427	43 412	15	0.004	-0.8		
Gross reserves	57 693	57 199	494	0.9	0.1	57 502	N/A
Minus Foreign currency deposits received	5 513	5 570					
Forward position	3 356	3 376					
International liquidity position	55 536	55 005	531	1.0	0.7	55 419	N/A
Euro/\$dollar	1.1204	1.1153					
Pound/\$dollar	1.34	1.341					
\$/ZAR	15.3899	15.5698					
Market gold price (\$)	1907.25	1791.94					

Source: SARB

Chart 1: Gross reserves and import cover



Source: SARB

Chart 2: Foreign exchange and gross reserves



Source: SARB

Assets and liabilities

The SARB sold R504 billion worth of government bonds in February, higher than the R206 billion sold in January. For the year to date, the SARB sold R1.49 billion worth of government bonds. The SARB is expected to reduce its holdings of government bonds further overtime.

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