GAINING CURRENCY

Forex has its rightful place on the investment agenda but it's important to seek advice from JSE-approved experts

BY SIMON BROWN

These days it seems everybody wants to be a forex (FX) trader, and any visit to Facebook displays literally dozens of adverts for 'secret' get-rich-quick formulas for FX trading. The reality is naturally vastly different – if it were that easy to get rich quickly from FX trading, we'd all be rich already. Further, the majority (if not all) of these FX trading websites are unregulated and frankly bucket shops – even if you do manage to make a profit, you would probably be unable to withdraw it.

Another big issue for aspiring FX traders is that this is the most popular market for experienced traders. So when newbies enter a trading space wherein they have no experience, they're often taken to the cleaners by the experts.

Added to that are the extremely high levels of gearing offered. In simple terms, this allows participants to only put down a small physical deposit relative to the amount of the trade. For example, say you take a $10 000 position – on a gearing of 100x, your deposit is just $100. This means a small move against you can result in you owing more money to the broker than you started with. Some websites offer gearing of 500x but even the 'normal' 100x or 50x will lead to a newcomer going bust in pretty much all situations.

That said, there are solid reasons for wanting to gain exposure to foreign currency either as a hedge or speculative trade, and there are several JSE-listed options that work without the risks of suspect brokers or insane gearing.

First though, let's step back a moment. FX is forex – in other words, currency: rand, dollar, pound and the like. We use them every day but typically we only use one currency; locally, that's the rand. If you want to buy another currency, you enter the FX market using rands to buy a foreign currency. This is generally done via the large banks as they offer FX services to individuals and companies.

An even bigger question is what drives a currency's price? Firstly, realise that the rand trades against all other currencies, so the rand/dollar will be different to the rand/pound (called FX pairs), and they will have different drivers. Certainly, one of the big drivers of a currency pair is economic but politics, war, drought, etc all drive a currency – and the often-used analogy is that FX traders turn to the front page of a newspaper for price drivers as much as the financial pages.

For example, Brexit was as much a political event as an economic one, and in fact the economic impact will be felt only when the UK finally exits the EU. Yet when the vote happened, the pound went into free fall, losing more than 10% against most currencies.

As mentioned, for the average person FX is about money for international holidays or,

THERE ARE SEVERAL JSE-LISTED OPTIONS THAT WORK WITHOUT THE RISKS OF SUSPECT BROKERS OR INSANE GEARING perhaps if you're an importer or exporter, about paying or being paid by clients. Yet we can take a view on the rand movements either to profit from that view or hedge against a future cost or payment in a foreign currency.

The first and easiest way is via the Absa series of exchange traded notes (ETNs) that track major currencies against the rand. You can take a position in dollar, euro or sterling and if the rand weakens against any of these currencies, the ETN will increase by a similar amount. The one drawback is that you can only profit from these when the rand is moving weaker – not from a stronger move by the rand. These ETNs trade on the JSE and can be bought via any stockbroker but they cannot be included in a tax-free account.

Finally, you will not receive the foreign currency – it will always trade in rands. However, if you're off to London for Easter and are worried about the rand weakening against the pound, you could buy NEWGBP (the rand/sterling ETN), and if the rand does weaken, you'll profit from that weakness. Essentially, you lock in the current exchange rate as you hedge the position.

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The other FX offering from the JSE is currency futures. Here we have 17 listed currency pairs and one rand index called RAIN. These are futures contracts and so one can profit from a move in either direction from the rand. If you're expecting rand weakness, buy a contract. And if you're looking for rand strength, sell a contract.

Again, you'll be paid out in rands – not the foreign currency. These are great products for traders and people looking to hedge either a holiday or business transaction.

Being a futures contract, they have standard expiry dates every March, June, September and December, and a contract can be bought up to eight standard expiry dates out (two years). However, the JSE also offers expiries for any business day the hedge is needed for.

Each currency futures contract is 1 000 units of the opposing currency. So, the rand/dollar is equal to $1 000 while the rand/euro is €1 000. A last point is that – again, being a futures contract – one doesn't pay the full amount but rather a 'deposit' called a margin. On the March 2017 rand/dollar contract, the margin required is R2 100 on a contract with a value of $1 000 (approximately R14 000 at time of print).

To trade in either futures or ETNs, ask your stockbroker to do the transaction for you. And above all, beware of the get-rich-quick scams that are flooding the internet. ■