Graph 2

The impact of a change in the NOFP on the exchange rate of the rand.

		Market	SARB	Exchange rate
Step 1	Stability exists in the market	Demand = supply of US dollars	-	Equilibrium
Step 2	Suppose: Sudden huge increase in demand for US dollars on local FX market eg. Importer demand	Demand for US dollars > than supply of dollars	-	Depreciates away from equilibrium
Step 3	Suppose: SARB deems it appropriate to support the rand by selling US dollars.			
	In order to do so: SARB sells US dollars onto the spot market, using its reserves	$+ (Should restore demand & supply to equilibrium levels)	$-	Appreciates back towards equilibrium
	This results in: *SARB reserves decline *NOFP deteriorates			
Step 4	Suppose: SARB does not want to reflect this decline in reserves, it will swap it out to the forward book:			
	On spot date	$-	$+	Neutral
	On forward date	$+	$-	Neutral
	This results in: *SARB reserves revert to previous levels *Oversold forward book increases *NOFP remains unchanged			

Notes: The exchange rate of the rand is only impacted in steps 2 and 3.

When a forward contract matures, there are three options to follow:

1. To deliver the cash into that contract	Exchange rate neutral Reserves will decline NOFP will be unchanged
2. Swap the contract to future date	No impact on exchange rate, reserves or NOFP
3. Buy the US dollars spot in the market & deliver those US dollars against the maturing contract	Exchange rate will depreciate Reserves will be neutral NOFP will improve