INCOMPASS

THE DEDICATED IFA NEWSLETTER ON FOREIGN EXCHANGE



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INCOMPASS MERGE WITH MERCHANT WEST DIVISION

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A belated welcome to 2022

We at Incompass wish all of the IFA community a happy and prosperous year ahead and look forward to assisting you and your clients with your ongoing foreign exchange and exchange control needs.

For our regular readers thank you for your continued interest in our quarterly IFA newsletter and if you are joining us for the first time welcome.

www.incompass.co.za || info@incompass.co.za || + 27 (0) 21 424 2936

Incompass merges with Merchant West Capital Markets, part of the Merchant West Group.

by Nico Le Roux - Managing Director

I am proud to announce that on the 1st of March 2022, Incompass and Merchant West Capital Markets merged their business units to become one of South Africa's largest foreign exchange intermediaries.
The rationale behind the merger was to combine the best of 2 uniquely positioned businesses to form a treasury business of scale, and offer clients a broader range of forex solutions, locally and offshore.

By blending the strengths of each business, and supported by our skilled and experienced staff, our Introducers and clients can look forward to even better systems, processes and even more competitive rates. With all the enhanced experience and skills that the merger will bring, Incompass and Merchant West will expand on its service and product offering.

The management team of Incompass will be responsible for the daily operations, and I will now be the Managing Director of the combined businesses.

The brand, staff, processes and entities will stay the same, and the day-to-day operations and services will continue as per the high standard and quality our clients are used to over the past years.

Myself and the Incompass team are all very proud about our achievements over the past 19 years in building Incompass, and thank each and every one of you for the support and role you have played in or journey so far, as well as your ongoing support.

We look forward, with great excitement, to the future and continuing to bring you the highest quality of service and development to all of our stakeholders.



Nico Le Roux
Managing Director

Budget takeaways 2022

by Christo Rust - Senior Treasury Consultant

Finance Minister Enoch Godongwana delivered his first budget speech in Cape Town on Wednesday, 23rd February. Below we give you a few of the highlights:

Of note was the increase in tax revenue, largely due to a windfall (some 181 billion rand) from the strong commodity prices which allowed a little more 'wiggle room' for the minister to introduce some tax relief measures aimed at assisting South Africa's economic recovery from the COVID pandemic.

Decrease in tax rates

The previously announced decrease in the corporate income tax rate (from 28% to 27%), will apply to companies with years of assessment ending on or after 31 March 2023.
Personal income tax rates have been increased by 4.5%.

The Road Accident Fund levy remains the same with no increase, for the first time since 1990.
Income tax will now only be payable where an individual earns more than R91 250 a year.

Medical scheme credits

There were rumours that medical scheme credits may have been scrapped, but these seem unfounded as they have not just been retained but increased in line with inflation.

Exchange control

No news may be deemed good news as there was no further news on last year's proposal to trigger a deemed disposal for emigrants who remain members of their South African retirement funds, but that the relevant double tax agreements will be renegotiated.

Individuals are now permitted to export dual listed domestic securities to a foreign recognised exchange. This means that inward listed shares traded on the JSE can be moved to a foreign exchange by using the ZAR 1 million annual discretionary allowance or ZAR 10 million foreign capital allowance. The transaction must be placed on record with the individual's authorised dealer and any gains calculated (on transfer date) will be taxed at that time.

Whilst individuals have always been able to receive gifts from non-residents offshore, the rules now allow for such funds to be retained offshore without declaration to an authorised dealer.

Authorised foreign assets inherited from a South African estate can be kept offshore without declaration to an authorised dealer.

The new changes are applicable for any assets that the individual is entitled to on or after 23.02.2022. All unauthorised assets or assets that accrued before 23.02.2002 require an application still to be submitted to SARB.

Residents with authorised foreign assets may lend and/ or dispose of such authorised foreign assets to other South African residents.

Wording has been added in excon manual 'Subject to local tax disclosure and compliance'
- rules refer to foreign assets: funds transferred from SA still need to be placed into an account in the clients own name first. Once the funds are offshore they can be transferred to another SA resident.



Finance Minister Enoch Godongwana

Previously individuals were not allowed to invest in excess of the combined ZAR 11 million annual allowances into foreign trust structures - this prohibition has now been relaxed. Therefore Investments, if approved, can now be facilitated via a foreign domiciled and registered trust. Please note all SARS requirements are still in place.

Non tax residents may now transfer, on a once off basis, remaining cash balances (of up to ZAR 100 000), without referring the matter to SARS.

Watch this space

For those individuals ceasing to be tax residents, the so called 'exit tax' rules will be reviewed with the aim of preventing emigrants from 'doubling-up' on the interest exemption and capital gains tax annual exclusion.
Of interest to the 'swallows' and expat community, the current exemption in respect of foreign retirement benefits is also to be reviewed.

Rand Synopsis – March 2022

by Nico Le Roux - Managing Director



The past 2 years have really been strange times that we all lived in. Dealing with a global pandemic, nearly the whole world being locked up at home, the urgent development in vaccines and the ever-changing Corona virus, through mutations, were all events that the world had to deal with since the beginning of 2020.
The pandemic was and is indeed what the investment community would label a "black swan" event – an event that is way out on the probability curve and therefore the chance of happening was very small.

These "black swan" events happen approximately every 10 years in the financial markets and cause a significant change in the world and how we live.

In 2001 we had the 9/11 attacks, which lead directly and indirectly to wars in Afghanistan and Iraq. In 2008 we had the Great Financial Crisis, which changed the way banks operate and how we think about money, and the assets we own.

Then, in 2020, we had the pandemic that changed how we work, how we do business and how we view life in general. All these events had an impact on the macro economy and exchange rates of different currencies.

As I am writing this, I am seeing Russian tanks rolling into the Ukraine, which signals the first war on European soil in 75 years - another event we could not have predicted 12 months ago, and our second "black swan" event in 2 years.

This is unprecedented!

The West has acted immediately with extremely harsh sanctions, and with the Russian banks being shut out of the SWIFT system, the money flow into and out of Russia has frozen.

The Moscow Stock Exchange initially sank an eyewatering 33%, before trading got suspended, and is still closed for any trading at the time of writing this. The Russian Ruble lost more than 30% in value against the US Dollar. A huge number of international companies and fund managers have written down their assets in Russia to zero. As for the human suffering and cost of lives, it is near unthinkable!

This event will touch each one of us, and potentially touch our wealth even more.

The price of oil, energy and all commodities and raw materials have skyrocketed. This is both good, and bad for South Africa – it is very good for our mining and farming sector, as well as for exports, but really bad for the consumer and inflation.

With oil breaching $130 per barrel, the extremely high fuel price and the high price of wheat and maize, we will see prices increase globally, through all products in our daily lives. We have already seen the US publish an inflation rate of over 6%, and the US Federal Reserve has now conceded that inflation is not transitionary.

So, what about the South African Rand (ZAR)?

It has been remarkably robust in the face of the latest crisis. The perceived risk of European assets has now increased, and we have seen that the US Dollar, regarded as a safe haven, increased in value. South African assets, currency and our bonds with a relatively high interest rate have suddenly become places of safety – a strange phrase to say!

For the South African Rand, there has been two factors for the tailwinds it is experiencing – the extremely high commodity prices, which is our major export product, and the current inflow of money due to the uncertainty in Europe.

At Incompass, we are fielding calls daily off European and British clients transferring their cash investments into ZAR. The South African Rand is only one of five Emerging Market currencies not to depreciate against the US Dollar since the Ukrainian crisis started.

Rand Synopsis – March 2022

by Nico Le Roux - Managing Director

What about the future for the South African Rand?

With the extra ordinary volatility in world markets and a very fluid global political situation around the Ukrainian crisis, it is extremely difficult to predict the direction of our currency.

Should the conflict seize very soon, with a peaceful diplomatic solution, the South African Rand should become a bit weaker on the back of the weakening of commodity prices.

Should this be a protracted war, with uncertainty reigning for quite a long time, commodity and oil prices will continue to rise, which should be good for the ZAR. A tipping point will be reached once inflation really kicks in, which will then weaken the ZAR.

For scenario planners, we believe in our opinion that the ZAR will trade between R15.50 and R17.00 at year end. These indicators can however change significantly as the Ukrainian crisis develops.

What the past 2 years have taught us though, is that predicting the exchange rate in the short and medium term has become difficult to near impossible. If you need to exchange your ZAR to an international currency or vice versa, it is much more important tohave a strategy to minimize short term losses, through hedging your exposure, or exchanging your currency over a longer period of time through a few transactions rather than only onecompletely resist from trying to "time the exchange rate" – we have seen much more clients loose value through trying to get a better rate tomorrow or next week.

Predicting the Rand exchange rate is very near impossible in the very short term.

Be very careful in becoming a person that could be caught by the "black swan". Rather have a long term strategy, and use the "black swan", with the help of good partners, to lay you a golden egg over a longer period of time.



Your Regional Consultants

Head Office:
Christo Rust
+ 27 (0) 21 424 2936

Cape Town CBD, Northern Suburbs, Cape Winelands:
Eben Botes
+ 27 (0) 71 480 7523

Cape Town CBD, Southern Suburbs, Peninsula and Atlantic Seaboard:
Bjorn Van Niekerk
+ 27 (0) 72 118 4970

Gauteng, Mpumalanga, Limpopo, Free State, Northern Cape and North-West:
Deon Bekker
+ 27 (0) 72 260 7516

Eastern Cape:
Tyler Archibald
+ 27 (0) 60 998 9536

Garden Route:
Mariaan Mousley
+ 27 (0) 82 455 3438

Kwa-Zulu Natal:
Jenna Grieve
+ 27 (0) 71 609 1571