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NEWSLETTER HIGHLIGHTS

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IFA NEWS

Rand Synopsis

By Nico le Roux

Since the start of the Covid 19 pandemic lockdowns, it seems that all my Rand Synopsis reviews have started with….."and what crazy, extra ordinary volatile times are we experiencing!". And the last couple of months and current events in global financial markets did not disappoint! The normalised world, or what we all perceive to be normal, seems to have changed. In reflection of the past three years, the global economy had to deal with a pandemic, a war in Europe coupled with unprecedented escalation in geo-political tensions, and now an emerging banking crisis in the US and Europe. Locally, our politicians seem to have tried everything in their power to keep the economy of South Africa going backwards!

In his most recent published book called "Megathreats", the world renowned economist, Prof Nouriel Roubini, lays out what he sees as major threats to the global economy in the near and medium term. These threats are classified in four key ideas:

1. **The mother of all debts crisis** - By looking at numbers coming out of Central Banks, this threat is easy to identify, and we are surely building an economic bomb here, that could explode at any time.
2. **Easy money (cheap money) and a coming stagflationary crisis** - with interest rates near zero for a very long time, central banks encouraged speculative investing (aka meme stocks and crypto) and an explosion of private debt. In order to contain inflation caused by this easy money, the higher interest rates are causing boom-bust cycles that leads to volatility in global markets
3. **The end of Globalisation and currency meltdowns (wars)** - We have seen over the past 8 years that politicians (Trump, Johnson, Bolsonaro and more) have campaigned on the back of globalisation causing unemployment, lack of growth and financial instability. Central banks are getting involved in national security through the weaponising of their currency and freezing of foreign reserves. This all spells problems for the US Dollar.
4. **The threat of Artificial Intelligence and Climate Change** - There is a real threat that new jobs will not be replacing old jobs. Think of how quick ChatGPT has taken the world by storm and everyone's reaction to it is the same - it is scary! Furthermore, the continents of Africa and South America will be influenced the most by climate change, mainly because its population's reliance on agriculture for daily survival.

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Prof Roubini, also known as Doctor Doom, does have a chapter in the book of how to partly remedy the threats, or more on how to limit the consequences of the threats. However, as you read these simplified summaries of his "Mega threats", you will notice that all of these threats are currently present and are playing a daily role in Global Markets and Politics. We have seen the demise of Silicon Valley Bank (SVB) and Signature Bank in the USA, and serious problems for Credit Suisse in Switzerland, which culminated in its shotgun take over by UBS. The nature of the problem is very different between the banks in the US (very bad interest rate management) and Switzerland (money laundering, corruption and bad risk taking) - the origin can be traced to the Mega threats described by Prof Roubini. Contagion in the global banking sector is now a threat to each and every one, however, with the Federal Reserve guaranteeing depositors of the US banks and the Swiss Central Bank bailing out Credit Suisse and the subsequent UBS take over, it seems to be under control.

On the local front, it seems our government has gone out of their way in order to put our economic wellbeing at risk. There is no need for me to discuss how broken Eskom really is, mainly due to mismanagement, corruption and state capture. Load shedding, blackouts and the lack of energy availability is impacting production on a daily basis, and will impact South Africa's growth rate directly. Together with the Eskom problem, the destruction of Transnet and the inability to provide a service to transport goods and products to South Africa's harbours, and the inability of Transnet to effectively operate our harbours, have impacted our exports very negatively. We are seeing mining companies (like Exxaro) struggling to properly take advantage of a weak rand and strong commodity prices through exports, because they cannot get their products to harbours and on ships in order to earn a foreign income. And there is no concrete solution on the horizon yet. This will lead to a weaker ZAR. We cannot expect a stronger ZAR without earning foreign income through exports.

All these Global and local economic threats and factors play a unison role in driving up volatility in our currency. And with so many threats and factors at play, all in an extremely fluid environment. I am asked on a daily basis if I think the ZAR is undervalued. On a purchasing power parity, the ZAR is certainly undervalued - ask any visitor to the UK or Hong Kong how much a cup of coffee costs in restaurant converted into ZAR. That said, the value of the ZAR is determined by open market forces and is well determined by supply and demand. Therefore, this seemingly undervaluation is evaporated in the trust that the global economy and its participants have in the future of the South African economy.

This does make it extremely difficult to be a CFO of an organisation that imports or exports, or an individual wanting to invest in the foreign markets. These changes in the value of the South African Rand have huge effects on the profitability of the organisation or returns on long term investments, and this currency volatility makes it extremely difficult to plan ahead. A well-structured currency risk management policy becomes very important during volatile and unknown times like these. This should take the guess work out of trying to time the currency, and helps business plan the road ahead. This should not differ for individuals wanting to invest their savings offshore. Understand the risk and volatility and implement risk reduction steps through taking out forward exchange contracts at different dates in the future. Merchant West Incompass is well positioned through experience and knows how to help you compile and execute a proper currency risk management plan, so please feel free to contact us should you require any assistance.
Let's hope that the threats around the globe will cool down in the next three months, and that we will see some silver linings to a much more "normal" world.



Nico le Roux
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MERCHANT WEST CAPITAL MARKETS – INCOMPASS: MERGER UPDATE

Braam Viljoen

Merchant West CEO

The Merchant West Group is a diversified financial services portfolio of businesses with debt securities listed on the JSE. Its core products are asset finance, treasury, working capital and asset management solutions.

The Group is the largest privately owned provider of specialised financial solutions in South Africa with a national footprint. More recently, Merchant West has taken advantage of opportunities in territories like Namibia, Botswana and the US state of North Carolina.

Merchant West Incompass is an integral part of the Merchant West platform - providing treasury solutions to corporates, SMME's and individuals. A transaction in March 2022 resulted in a merger of Incompass and Merchant West Capital Markets, and now the merged business is one of the largest treasury outsourcing providers in South Africa.

We explained our rationale for our merger in 2022 was to:

- Combine the best of 2 uniquely positioned businesses and form a treasury business of scale.
- Provide leading edge advice and service to clients of IFA's in respect of discretionary and foreign investment allowances.
- Offer corporate and individual clients a full spectrum of forex and cash management solutions.
- Make business easier for clients by offering cost-effective solutions for international payments.
- Support importers and exporters in mitigating currency volatility risk in their money transfers.



Upon reflection, we can confidently pronounce that our expectations have been met 1 year on. The merged business offers clients a compelling value proposition which we believe is also a value add for our IFA partners who advise their clients. This is true not only for a broader suite of forex products locally and offshore, but also for clients being afforded easier access to a wider range of asset finance and working capital solutions, irrespective of industry or sector.

We have strengthened our business and are quietly confident in its long term sustainability, built on shared values of Incompass and the Merchant West Group, with 3 foundations to our value proposition:

1.A personalised service philosophy.
2.Flexible and bespoke client solutions.
3.Our growth aspirations will be achieved through both organic and acquisitive means.

Going forward, we are optimistic with the opportunities and synergies still to be unlocked in complementary product solutions for clients of IFA's, our access to capital and savings in compliance costs. We also believe that the Group's commitment to an ESG framework will increase confidence amongst IFA's and prospective clients.

In closing, we thank our IFA partners and clients for their support in 2022 and look forward to being of service in the years ahead.

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