INCOMPASS
TREASURY SOLUTIONS

IFA NEWSLETTER



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RAND SYNOPSIS

The past three months have seen quite a number of Global movements in markets, geo-political changes and conflicts boiling over. These changes drive movements in the currency markets, which then cause changes in business budgets, costs of goods, values of investment portfolios and more.

It is interesting to note all of the global factors that are currently playing a role in the value of the South African Rand:

- **Global Economical Polarisation**

Global economic polarisation between the traditional West and East has been seen during the past quarter, and is evident that the country with the highest exports to the US has changed from China to Mexico. This is quite significant if you consider how far ahead China was when it came to exporting goods to the US.

We are also seeing China being net sellers of US bonds and US equities - most probably driven by China's domestic economic problems, but also increasing polarisation by the two superpowers that started during the Trump era.

- **Global Bond Yields**

The 10-year US bonds closed in late October over 4.9%, the highest since late 2007. This has led bond investors to lose around 50% in the capital value of the bonds since mid-2020 and has been described by some bond analysts as one of the biggest bond bear markets of all time. This is a clear message that investors now think that interest rates will be higher for longer in the US.

- **Global Inflation and the Outlook**

We have seen inflation creeping back down from historically high rates of inflation in Western economies. The current core inflation in the US is 4.15%, which seems to indicate that the Federal Reserve's interest rate hikes and Quantitative tightening are paying off. That said, looking at the long-term bond market and the price of oil, we could see this downward trend reverse again.

- **Global Conflicts**

During 2022 we saw an unprecedented amount of conflicts (war and geo-political) break out in the world. In October 2023 Hamas launched an attack from Gaza on the Israelis which can now be added to the long list of wars raging in the world.

- **Low Commodity Prices**

Except for oil, it seems that global commodity prices like coal, iron ore and steel have significantly decreased. With China's drastic economic slowdown driven by its domestic housing crisis, the demand for commodities is much lower. These lower commodity prices have significant effects on the commodity-driven emerging markets and their currencies.

There are also some local factors that have influenced the value of the ZAR:

- **Money Flowing Out of Our Bond and Equity Market**

For most of 2023, international investors were net sellers of South African bonds and in particular, equities.

- **Very Poor Economic Growth Environment**

South Africa has been bound by stagnant growth and the future prospects do not look extremely positive. These constraints on growth are mainly driven by a lack of electricity, a breakdown in logistical infrastructure like rail networks and the South African harbours managed by state owned enterprises, and uncertainty on government policies.

- **Very High Government Expenditure**

The Minister of Finance recently expressed concerns about the high levels of state expenditure and highlighted the need to cut expenditure in light of an under-recovery of revenue caused by a weak economy and a lower growth rate. A lack of curbing this expenditure will lead to higher government debt projections, which is already extremely high.

So, with all these negative factors, what do we see as fair value for the ZAR? In my last Rand synopsis, I shared my thoughts about the ZAR being well undervalued by the market, and in all fundamental terms, this still holds.

That said, as described above, with a world with more political and economically unstable relationships between the global superpowers, with a number of wars and conflicts raging, long-term rates in the US the highest in nearly 20 years and all the local uncertainty, it does give us some understanding for the undervaluation of the ZAR.

Should we see an escalation in international tensions, economically and politically, and rates higher for longer in the US, we will have to contend with a weak ZAR, most probably trading between R19.00 and R20.00 for the next 12 months. The situation can however quickly change, with long-term rates in the US trading lower, the Fed being more confident that they have inflation under control, a de-escalation of tensions between China and the US, and stronger commodity prices, we can see the ZAR trading stronger in the R17.50 to R18.00 range.

Nobody can predict the future correctly all the time, and it is therefore extremely important not to try and time any exchange rate. If you think you will get this correct as an investor, businessperson or Financial Officer for a multi-national organisation, then there will come a time when your decisions will lead to losses. It is therefore always important to have a strategy to manage exchange risk actively – in the long term, this strategy always pays off!

Regards



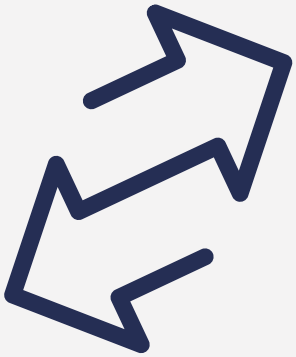
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MANAGING DIRECTOR



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YEAR END TRANSFERS



Important dates

Seeing that we are approaching the last 3 months of the calendar year, the subject of client's annual foreign exchange allowances should come to the fore. The following information will assist you in understanding the timeframes to ensure that the appropriate plans can be implemented so that your clients do not miss out on the opportunity to transfer funds abroad under their 2023 foreign exchange allowances.

REMINDER ON ALLOWANCES

South African residents over the age of 18 have two allowances under which they can transfer money out of South Africa:

- The Single Discretionary Allowance (SDA) of ZAR 1 million per person - no tax clearance is required for this.
- The Foreign Investment Allowance (FIA) of up to ZAR 10 million per person - a tax clearance certificate in respect of foreign investment is required for this.

IMPORTANT TO NOTE

- Both allowances start and end with the calendar year, not the tax year, meaning you can trade ZAR 1 million in December and another ZAR 1 million in January.
- The allowances are on a 'use it or lose it basis', meaning they do not carry forward.
- Where funds have previously been transferred out of South Africa (using these allowances) and have since been repatriated, such funds can be transferred out again and do not form part of the client's allowance or require tax clearance, provided the funds were registered correctly with the South African Reserve Bank (SARB). In other words, they do not form part of the ZAR 11 million per calendar year allowance and can be taken out in addition to this.

HOW MERCHANT WEST INCOMPASS CAN ASSIST:

1

Provide you with a list of clients that have not taken out their entire allowance yet (note we can only track funds that have been transferred via us and not via another provider/ bank).

2

Provide you with a list of any clients with a current tax clearance where there is still an amount that has not been utilised.

3

Facilitate the opening of foreign currency accounts should a client wish to utilise their allowance but an investment decision has not yet been reached.

4

Preparation and submission of tax clearance applications free of any fee from Incompass, provided you use our services.

Our nationwide consultancy team and their support staff are there for any queries or assistance you may need.

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TAX CLEARANCE APPLICATIONS

SARS TIMEFRAMES

Please note that the tax clearance process has changed. SARS is requesting more detailed information now. Please allow extra time for the preparation. Please also note that you should start your application process no later than October in order to receive your tax clearance in 2023.

- SARS' processing time - SARS has stipulated that their processing time is 21 working days, but they are currently running over this time frame frequently.
- When does the 21 days start? - The 21 days start as soon as the TCC application has been submitted and the supporting documents uploaded.
- Sometimes, we can submit both on the same day but in some cases, the link to upload the documents is only available after 24 hours.
- What is not considered part of the 21 working days? - The days between 15 December and 15 January of the following year do not form part of the 21 working days as SARS is officially closing down during this period.



PLANNING FOR YEAR-END

Considering that SARS is closing on December the 15th and is only operating on skeleton staff, we suggest that all applications should be submitted by 24 October so that we still have enough time available to query and escalate cases that are not yet finalised before 15 December.

- The client has the amount he wants to take out of the country readily available and can prove this with an up-to-date bank statement.
- The client is up to date with his tax returns and has no tax outstanding.
- The client or client's accountant has access to e-filing (we will request shared access in order to submit the application).

PLEASE NOTE

Once the tax clearance has been approved, the client only has up until 21 December 2023 to actually trade his or her funds in order to still fall into this calendar year and be allocated against his or her 2023 allowance, due to the Reserve Bank closing early on December the 22nd, and Christmas falling on a Monday and Tuesday which results in a very short last week of the year.

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FOREIGN EXCHANGE TRANSACTIONS

COMMON MISTAKES TO AVOID WHEN MAKING FOREIGN EXCHANGE TRANSACTIONS

Foreign exchange transactions can be complex and costly if not done correctly. Independent Financial Advisors (IFAs) play an important role in helping their clients avoid common mistakes and make the most of their foreign exchange needs.

In this article, we will discuss some of the most common mistakes to avoid when making foreign exchange transactions. We will also provide IFAs with tips on how to advise their clients on foreign exchange.

Common Mistakes to Avoid

- **Not Comparing Exchange Rates**

Before making a foreign exchange transaction, it is important to compare exchange rates from different providers. Exchange rates can vary significantly from one provider to another, so it is important to shop around to get the best rate.

- **Not Hedging Foreign Exchange Risk**

Foreign exchange markets can be volatile, and exchange rates can fluctuate wildly. This can pose a risk to businesses and individuals who need to make foreign exchange transactions. IFAs can help their clients hedge foreign exchange risk by using products such as forward contracts and currency options.

- **Not Using a Reputable Foreign Exchange Provider**

It is important to use a reputable foreign exchange provider when making foreign exchange transactions. Many fly-by-night companies charge exorbitant fees and offer poor exchange rates. IFAs can recommend reputable foreign exchange providers to their clients.

Tips for IFAs

- **Educate Your Clients About Foreign Exchange**

Many people do not understand how foreign exchange works or the risks involved. IFAs can play an important role in educating their clients about foreign exchange.

- **Help Your Clients Develop a Foreign Exchange Plan**

IFAs can help their clients develop a foreign exchange plan that meets their specific needs. This plan should consider the client's foreign exchange budget, risk tolerance, and investment goals.

- **Monitor Your Clients' Foreign Exchange Needs**

IFAs should regularly monitor their clients' foreign exchange needs to ensure that they are getting the best possible rates and fees.

Foreign exchange transactions can be complex and costly if not done correctly. Independent Financial Advisors play an important role in helping their clients avoid common mistakes and make the most of their foreign exchange needs.

By following the tips above, IFAs can help their clients make informed foreign exchange decisions and reduce their risk.



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