OVERBERG MARKET REPORT

Tuesday 24th November 2020

IN THIS WEEK'S BOTTOM LINE

Contributed by Kirk Swart

- Both Benjamin Franklin and Mark Twain once remarked: "The only two certainties in life are death and taxes". It is important to be aware of all the costs that need to be covered in the case of death. Read more in the Bottom Line.

SOUTH AFRICA ECONOMIC REVIEW

Contributed by Werner Erasmus

- South Africa's retail sales showed continued recovery in September, the first full month in which South Africans were free to travel to other provinces, smoke, and buy alcohol. Retail sales rose 1.1% month-on-month in September, but declined 2.7% year-on-year, though this is an improvement from a revised 4.1% annual decline seen in August. This means that, compared to the second quarter of 2020, sales volumes bounced by 23.9% (real, seasonally adjusted), reinforcing general expectations of a strong rebound in Gross Domestic Product (GDP) growth in the third quarter. Nevertheless, sales volumes were still 5.1% below the third quarter of 2019, suggesting that demand remains weak on a longer-term basis, in line with rising unemployment and stagnating household incomes. In all, incoming data suggest that - although not without administrative challenges - the TERS payments, the government's extended social grants programmes and the low interest rate are mitigating the devastating impact of weak labour market conditions. These measures continue to lend much-needed support to domestic demand for essential goods, while the outlook for non-essentials remains weak.

- The South African Reserve Bank's (SARB) monetary policy committee (MPC) left the benchmark interest rate unchanged on Thursday, even as two members of the committee voted for a cut. The MPC kept the repo rate at 3.5%. The implied policy rate path of the Quarterly Projection Model (QPM) indicates no further repo rate cuts in the near term and two increases of 25 basis points in the third and fourth quarters of 2021. The overall risks to the inflation outlook appear to be to the downside in the near term and balanced over the medium term. The Bank's headline consumer price inflation forecast averages 3.2% in 2020, 3.9% in 2021 and 4.4% in 2022. Global producer price inflation and oil prices remain low and risks to inflation from currency depreciation are expected to stay muted. However, additional exchange rate pressures could result from heightened fiscal risks. While there are no demand side pressures evident, electricity and other administered prices remain a concern. GDP growth is expected to be better than expected. The Bank's forecast of third quarter GDP growth has been revised up to 50.3% quarter-on-quarter, seasonally adjusted and annualised. The growth rate for the full year is now expected to be -8.0%. Getting back to pre-pandemic output levels, however, will take time. Sharply lower investment this year by both public and private sectors will weigh on growth prospects in coming years. GDP is now expected to grow by 3.5% in 2021 and by 2.4% in 2022.

- South Africa was sunk deeper into junk status on Friday, receiving a double bill of ratings downgrades from both Moody's Investors Service and Fitch Ratings. Both agencies maintained their negative outlook, with Moody's now placing South Africa at two notches into junk, and Fitch moving South Africa three notches below investment grade. The bottom line from Fitch was a history of under delivery and raised doubts about the speedy implementation of growth enhancing structural reforms in South Africa. Even if implemented, Fitch argued that the reforms will have a limited impact. It is also likely to take time for the positive impacts to accumulate. Moody's said it maintained its negative outlook given the risks "that the debt burden and debt affordability could deteriorate significantly more" than its projections. Moody's also warned that economic and social constraints to the government's growth strategy have intensified. The country's income inequalities, already among the highest globally prior to the crisis, are likely to intensify, which in turn will hinder reform implementation and weigh on growth, Moody's said. S&P Global, which has generally led the pack in lowering South Africa's rating to below investment grade, kept its rating unchanged and stuck to a stable outlook on its current rating. While S&P highlighted the same concerns as Fitch and Moody's, it argued that the stable rating outlook was supported by South Africa's credit strengths. These include a credible central bank, a flexible exchange rate, and deep capital markets. These factors should help counterbalance low economic growth and fiscal pressures, according to S&P. South Africa has now reached the lowest rating levels from all three major agencies since 1994. In response to the ratings action, a Treasury statement outlined the adverse implications for South Africans of a weaker credit profile. If it raises the cost of borrowing money for government, it means that government will have to either cut back on social spending or tax a shrinking tax base even more. Both these measures would clearly be bad for the country.

SOUTH AFRICA: THE WEEK AHEAD

Contributed by Ingrid Breed

- Composite Leading Business Cycle Indicator: Due Tuesday 24 November 2020. South Africa's leading business cycle indicator is expected to have edged slightly higher in September as the economy maintained its recovery from the damage caused by lockdown. The composite leading business cycle indicator is expected to have increased by 4.2% month-on-month, up from 3.7% recorded in August.

- Consumer Price Inflation: Due Wednesday 25 November 2020. Rising food price inflation during October is expected to have been counter balanced by big fuel cuts, thus leaving the consumer price index (CPI) for October unchanged. Consensus forecast is that CPI and Core CPI remained stable at 3% and 3.3% respectively in October.

- The RMB/BER Business Confidence Index: Due Wednesday 25 November 2020. South Africa's business confidence is expected to have increased slightly in the fourth quarter as the economy maintains its recovery from the damage caused by Covid-19 lockdowns. Consensus forecast is that the index moved higher to 27 index points in the quarter, up from 23 recorded in the previous period. Despite the expected improvement, business sentiment is likely to remain pressured by weak domestic demand and the reintroduction of lockdowns in key trading partners.

- Producer Price inflation: Due Thursday 30 November 2020. Producer price inflation (PPI) is expected to have remained weak in September due to accelerating fuel price deflation. Consensus forecast is that it stayed unchanged at 2.5% year-on-year and increased 0.3% month-on-month in October.

- ABSA Manufacturing Purchasing Managers' Index: Due Thursday 30 November 2020. The manufacturing purchasing managers' index is expected to have continued its recovery during November albeit at a slower pace as some of South Africa's trading partners have suffered renewed restrictions and lockdowns.

GLOBAL

Contributed by Nick Downing

- The Regional Comprehensive Economic Partnership (RCEP), signed on 15th November by 15 Asian-Pacific countries is a milestone for global free trade, facilitating tariff reductions and the removal of trade barriers. The scale of the trade agreement is impressive, including more nations than either the Trans-Pacific Partnership or the Association of Southeast Asian Nations, covering a third of the world's population and GDP. It is also the first trade deal to include the three economic power houses in the region, China, Japan and South Korea. Although the deal will take some time to ratify it is an encouraging development in a world increasingly threatened by trade protectionism. According to some estimates, the RCEP trade deal will add around $200 billion to global GDP, especially benefitting the member states but also global consumers via lower pricing structures.

NORTH AMERICA

Contributed by Nick Downing

- Following four straight monthly increases, both headline and core consumer price inflation (CPI), excluding food and energy prices, remained unchanged in October on a month-on-month basis. On a year-on-year basis headline and core CPI registered subdued readings of 1.2% and 1.6%, well below the Federal Reserve's 2% Average Inflation Target. The weak inflation data is attributed to the impact of a second wave of Covid infections. Although positive about recent vaccine news Fed Chairman Jerome Powell cautioned that "significant uncertainties remain about the timing, production, distribution and efficacy." The next Fed policy meeting on 15-16th December is likely to recommit to the existing pace of asset purchases, comprising $120 billion per month of US Treasury bonds and mortgage backed securities. In the absence of additional fiscal support, there is also likely to be updated forward guidance on how long the asset purchase programme will last and changes in the mix of bond maturities purchased including a shift towards longer-dated securities.

- The consumer spending rebound lost momentum in October. Growth in retail sales slowed to 0.3% month-on-month, down sharply from 1.6% in September, marking the smallest percentage increase since May. The key culprits were spending on clothing and restaurants. However, online retail sales remained a bright spot, gaining by 3.1% on the month. The overall slowdown is attributed to the dampening effect of rapidly rising Covid infections, the easing in the pace of employment growth and the absence of additional fiscal relief. The decline in the University of Michigan consumer sentiment index from 81.8 in October to 77.0 in November and the precipitous drop in the consumer expectations index from 79.2 to 71.3 suggest a further deceleration in household spending growth over the mid-winter. With household expenditure accounting for two-thirds of US GDP, the pace of GDP growth is likely to slip in the fourth quarter (Q4) from the heady 7.4% quarter-on-quarter pace recorded in Q3.

- The residential property market continued to shine in October with existing home sales rising to an annualised rate of 6.85 million units, the highest since February 2006. Sales increased by 4.3% month-on-month, the fifth straight monthly increase. Buoyant property demand is attributed to the combination of record low mortgage interest rates and surge in demand for larger living spaces motivated by the ability to work from home. The average 30-year mortgage interest rate has declined from 3.75% to 2.80% over the past 12 months. Home prices have surged amid strong demand. According to the National Association of Realtors, the median home price increased in October by 15.5% year-on-year. Moreover, price increases are broad-based, with all metro areas showing price growth, an unusual occurrence. Strong demand has led to a decline in the inventory of homes for sale to a record low of just 2.5 months' supply at the current sales rate, boosting confidence among home builders. The National Association of Home Builders (NAHB) builder sentiment index increased in November from 85 to 90, its third record high reading over consecutive months. The booming property sector has significant spinoffs for the broader economy via employment growth, the construction materials market and consumer demand for furnishings and home improvements. Low inventory levels suggest the boom, at least on the construction side, is set to continue over coming months.

- The monthly Wall Street Journal economists' survey showed a significantly improved outlook in November compared with October, attributed to reduced uncertainty following a smooth presidential election, positive vaccine news and optimism over a fiscal relief package. Compared with the prior month the consensus GDP contraction forecast for 2020 reduced from 3.6% to 2.7%, with growth of 3.6% expected in 2021. The year-end unemployment forecast reduced from 7.8% to 6.7%. Most respondents do not expect tax increases under a Biden presidency as the senate remains under Republican control. Most respondents believe the fiscal relief package will be implemented in the first quarter 2021, most likely in the range of $1-2 trillion. While the outlook has greatly improved the survey cautioned over the short-term impact from the second wave of coronavirus infections.

CHINA

Contributed by Nick Downing

- The spate of positive economic data continued in the month of October. Industrial production grew by a steady 6.9% year-on-year with manufacturing growth especially strong at 7.5%. Fixed asset investment grew in the first ten months of the year by 1.8%, accelerating from equivalent growth of 0.8% the prior month. Retail sales grew on a year-on-year basis for a third straight month, with growth accelerating from 3.3% in September to 4.3% in October although for the first ten months of the year compared with the same period in 2019, retail sales were still down by 5.9%. China's economic rebound has been buoyed by the industrial sector and exports while domestic consumption has lagged. Relatively weak domestic demand is illustrated by the sharp drop in consumer price inflation (CPI). CPI has declined steadily to just 0.5% year-on-year. While attributed to a collapse in pork prices following a recovery from the African swine fever, core CPI excluding energy and food prices also registered a subdued 0.5%. The two-speed economic recovery and relative weakness in consumer expenditure should keep the People's Bank of China on an accommodative monetary policy course. Nonetheless the overall data are upbeat, and the trend is positive, with GDP growth likely to accelerate in the fourth quarter (Q4) and into 2021 compared with the 4.9% year-on-year GDP growth achieved in Q3.

JAPAN

Contributed by Carel la Cock

- Japan's economy rebounded in the third quarter by 5% on the quarter following the 8.2% contraction in the second quarter, registering the first quarterly growth in a year, and beating consensus expectations of 4.4% growth. Despite the recovery, Japan's economy is still nearly 6% smaller than a year ago and has underperformed other G7 countries such as the US which saw its economy recovering by nearly a third. Private consumption has propelled the economy forward in the third quarter growing 4.7% quarter-on-quarter and contributing 2.6 percentage points, but the lack of business investment, declining 3.4% in the third quarter and 4.7% in the second quarter is a major concern and in contrast to the experience in Europe and the US. However, analysts believe that Japan is better positioned to break out in the fourth quarter and make up some ground lost to its western peers due to lower second wave infections and stronger growth in October when many European countries were heading into a second lockdown. The road to economic recovery will be long and arduous and it is expected that there might be further support for the economy in the fourth quarter with talks of a third supplementary budget in the works that could amount to an additional ¥10tn.

EUROPE

Contributed by Carel la Cock

- The IHS Markit Flash Eurozone Composite PMI plunged back into contractionary territory in November, coming in at 45.1 from 50.0 in October, well below the key 50-level demarcating a contraction in activity. The reading was a 6-month low and reflects the impact of the latest lockdown across Europe. The services sector fell back sharply with the Flash Eurozone PMI Activity Index falling 5.6 points to 41.3 in November. Manufacturing has held up better and was only marginally down to 53.6, but still showing expansion across the sector albeit impacted by lower orders. Amongst the European countries, Germany fared better than its peers and continued to expand although at a slightly slower pace. Manufacturing remained strong while services contracted at the sharpest rate since May. France saw a sharp decline in its composite PMI from 47.5 to 39.9. driven by a slump in services dragging the whole region down. Employment across the region declined for a ninth consecutive month with Germany again the exception seeing employment increasing for the first time since February. Business expectations for the next 12 months improved, and manufacturers were more optimistic than service providers although both cited the encouraging news of the vaccine in influencing their views. Chris Williamson, Chief Business Economist at IHS Markit notes: "Importantly, however, the further downturn of the economy signalled for the fourth quarter represents a major set-back to the region's health and extends the recovery period. After a 7.4% contraction of GDP in 2020, we are expecting only a 3.7% expansion in 2021."

UNITED KINGDOM

Contributed by Carel la Cock

- The UK economy expanded by 15.5% quarter-on-quarter in the third quarter following the 19.8% crash in the second quarter and although there has been a decent recovery, the economic output is still 9.7% below where it was a year ago. Services, production, and construction all recovered at a record pace, but remain below pre-pandemic levels. Private and public expenditure expanded by 18.3% and 7.8% respectively and fixed investment was 15.1% higher than the second quarter. Net exports fell as imports rose faster than exports in the quarter. Employment figures worsened in the third quarter and unemployment stood at 4.8%, up 0.3 percentage points from quarter two and is expected to rise further given new measures to curb the second wave of covid-19 infections. Despite the new lockdown and closure of non-essential services, retail sales continued their recovery and rose for a sixth consecutive month in October, up 1.2% compared to 1.4% a month earlier and 5.6% higher than a year ago. The figures were boosted by online retailing as well as household goods and department stores. The sales figure comfortably beat analysts' forecasts of 0% on the month and 4.2% on the year.

EMERGING MARKETS AND THE FAR EAST

Contributed by Carel la Cock

- The Turkish central bank has hiked its benchmark repo rate by 4.75 percentage points to 15% in an effort to slow down the country's double-digit inflation and strengthen the currency that has lost nearly a third of its value this year. The move followed the appointment of the new governor of the central bank, Naci Agbal, who took over after President Erdogan fired Murat Uysal earlier in the month. He had held the post for a mere 16 months. President Erdogan's son-in-law, Berat Albayrak, who served as finance minister announced one day later that he will also be stepping down, citing health reasons. The markets have thus far responded positively to the rate hike and Mr Agbal, a former finance minister and staunch advocate of bringing inflation under control, has already achieved more than his predecessor could by hiking the weekly repo rate. There has been much resistance to rate hikes from President Erdogan in the past, calling it the "the mother and father of all evil", but the latest hike will be seen as a step in the right direction, attracting foreign capital to the local economy.

KEY MARKET INDICATORS (YEAR TO DATE % AND LEVEL)

JSE All Share	+ 0.11	57147

JSE Fini 15	- 27.67	11337
JSE Indi 25	+ 15.31	79917
JSE Resi 20	+ 5.10	51771
R/$	- 9.19	15.42
R/€	- 14.04	18.25
R/£	- 9.60	20.53
S&P 500	+ 10.73	3577
Nikkei	+ 7.91	25527
Hang Seng	- 6.04	26486
FTSE 100	- 16.02	6333
DAX	- 0.92	13126
CAC 40	- 8.13	5492
MSCI Emerging	+ 9.50	1220
MSCI World	+ 7.99	2546
Gold	+ 22.63	1869
Platinum	- 2.56	946
Brent oil	- 30.37	46.06

BOTTOM LINE

Contributed by Kirk Swart

- DEATH AND TAXES: Benjamin Franklin and Mark Twain once remarked: "The only two certainties in life are death and taxes". Upon death, the deceased estate is responsible for settling all death taxes and fees. It is very important for any person to ensure that there is enough liquidity in his/her estate to cover all fees and taxes. If there is a liquidity shortfall, assets will have to be sold by the executor to cover the liquidity needs. We look at the four main expenses that need to be covered in the case of death. There are also a few deductions that can be claimed.

- MASTER'S FEES: Master's Fees are due to the Master of the High Court. A new Master's Fee tariff was set on 1 January 2018. Estates with a value of up to R250 000 will not be liable for any Master's Fee. Estates between R250 000 and R400 000 will be liable for a fee of R600. Finally, estates of more than R400 000 will have to pay a further R200 for every R100 000 of estate value. The Master's Fee is capped at a maximum of R7 000 which is reached when an estate is R3.6 million.

- EXECUTOR'S FEES: The Executor's Fee is a fee that the executor of any estate is legally allowed to charge. Currently the maximum that any executor can charge is 3.5% excluding VAT. Including VAT it comes to 4.025%. An executor can only charge a fee on the assets that they are dealing with. Therefore, items such as life insurance policies not paid into an estate, usufructs, pension contributions that did not rank for deduction, etc. will not attract an executor's fee.

- FUNERAL COSTS: Funeral Costs will also be paid from the estate. This can range anywhere between a few thousand rand to R60 000 depending on the size of the funeral. Funeral policies can be taken out to alleviate some of the hidden funeral costs.

- ESTATE DUTIES: Estate Duty is by far the biggest death tax for wealthy South Africans. Estate duty is a tax that is paid to the government by your estate upon death. In South Africa estate duty is levied on the dutiable value of an estate at a rate of 20% on the first R30 million and 25% for a dutiable value over and above R30 million.

- DEDUCTIONS: There are however a few deductions according to Section 4 of the Estate Duty Act that can be made before the estate duty calculation is made. Some of the most common deductions that South Africans may use are:

1. Funeral, tombstone, and deathbed expenses that the Commissioner of SARS considers fair and reasonable.
2. Debts due in South Africa.
3. Master's Fees.
4. Executor's remuneration.
5. Foreign property acquired via:
   a) A donation by a donor who at the time of the donation was not ordinarily resident in South Africa.
   b) An inheritance from a person who at date of his/her death was not ordinarily resident in South Africa.
   c) Profits or proceeds of any such property.
   d) Although the foreign property mentioned above may not be dutiable in South Africa, countries in which those properties are situated may impose death taxes.

- FURTHER DEDUCTIONS: Further deductions include: (1) Accruals claimed against the estate under Section 3 of the Matrimonial Property Act by the surviving spouse and (2) After all deductions have been taken into account, the net estate can further be reduced by the

Section 4A abatement of the Estate Duty Act. This allows a deduction of R3.5 million per person. If the deceased did not make use of the abatement and rolled over all property to the spouse, the spouse's abatement will be R7 million.

- SUMMARY: From the above it can be seen that it is very important to be aware of all the taxes and costs involved in wrapping up an estate. It is not a field for the amateur or layman. It is always advisable to speak to a qualified financial advisor to ensure that, not only pre-death planning is correct, but also post-death (estate) planning. Legally minimising estate duty by making use of pension plans, trusts etc. might be worthwhile options to consider. Speak to a professional.

  Finally, please contact anyone of our qualified financial advisors for any advice on the above.

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