



Richard Cluver Predicts

In our 28th year of service to the investing public of South Africa



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Most of the investment news we are reading lately is comparatively gloomy. So I thought I would bring you some good news to brighten up your Friday. ShareFinder predicts that the Rand is about to reverse its recent weakness and continue gaining strength for the next 12 months.



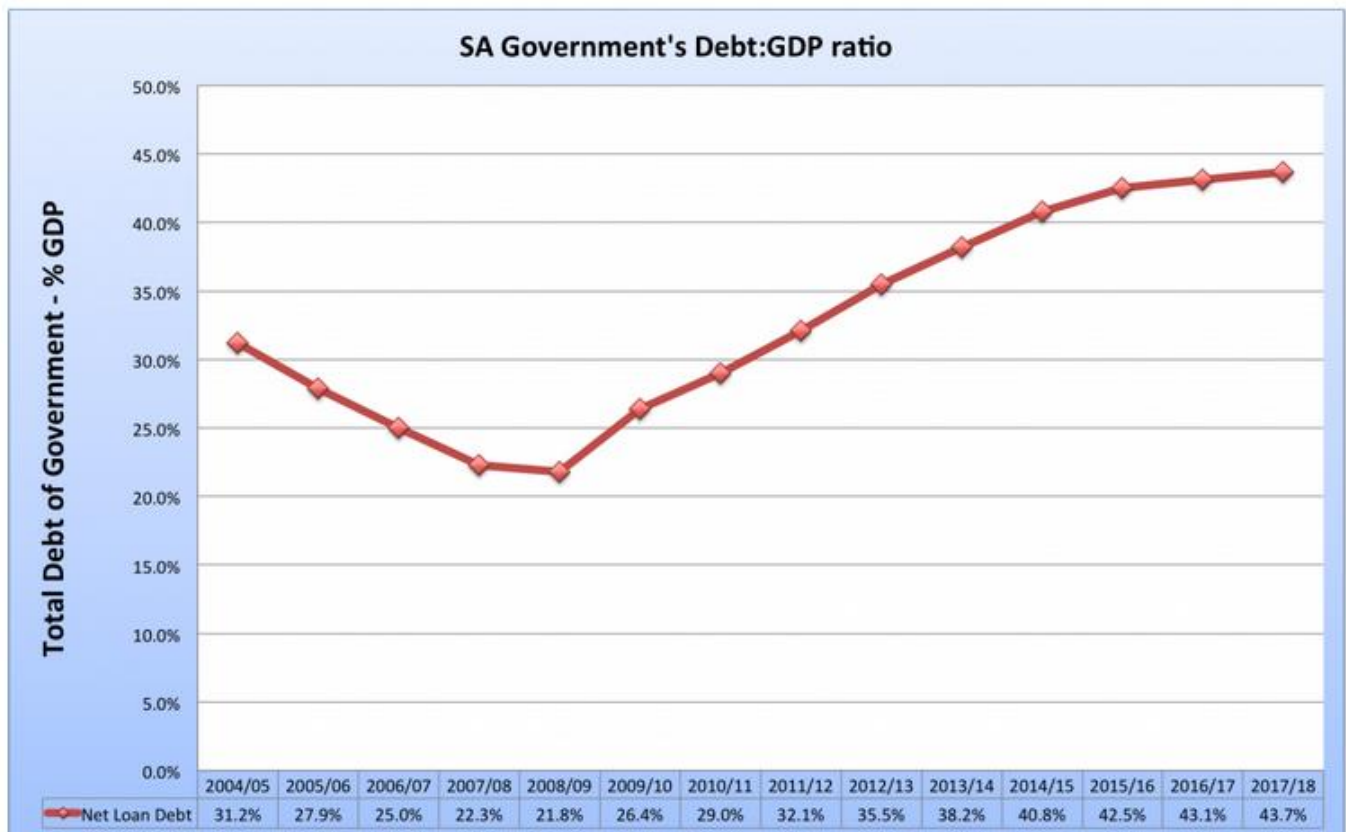
In the graph above I have pictured the relationship of the Rand with the US Dollar for the past 25 years with a long-term trend line overlaying it to show that over this period our currency has lost value at a steady 6.6 percent a year and at its latest 12.77 Rands to the Dollar valuation this week it is nearing its lowest value ever recorded on December 21 2001 when it briefly touched 13.81 Rands to the Dollar.

When that happened many South Africans panicked and sent money out of the country only to see the value begin recovering again to peak in value at R5.64 to the Dollar on December 23 2004. I remember a friend who had sold his house and emigrated, ruefully telling me that although he wanted to return home he could now no longer afford to do so having effectively halved his capital in the process. So the big question facing South Africans right now is whether history is likely to repeat itself? Below I have reproduced what ShareFinder thinks.



If the programme is correct in its projection then the recovery will be a far more modest event this time, recovering to just R11.54 to the Dollar at the end of next year. I believe, however, that it could do better. My reasoning stems from the fact that since Jacob Zuma wrested control of the ANC and our administration became massively tainted by patronage, mismanagement and corruption, the rate of decline of the Rand accelerated from its 6.6% long-term average to a current landslide annual rate of 16.6%.

The collapse of the Rand is in large measure a reflection of government borrowing which has seen our government debt to GDP ratio swing from 27.8 percent in 2009 to a current 39 percent and there is no end in sight. By the Treasury's own estimates it is hoped to level out at around 50 percent in the 2017-18 financial year at which stage it will be costing us R150-billion a year to service. And that is before we start to think about the impact of the nuclear power station build programme which the Zuma administration is forcing upon us with unseemly haste notwithstanding expert opinion that clearly shows that alternatives like solar and wind generation are far cheaper and infinitely more cost effective.



Meanwhile the levels of service delivery protests have been rising dramatically from 162 a year in 2008 to the latest police statistic detailing that there were 12 300 crowd-related incidents in one year. More to the point, five years ago only 20% of protests turned violent but, according to the Civic Protest Barometer 80% turned violent last year.

So it is becoming abundantly clear that the general public in South Africa are not nearly as inamid of the ANC as it traditionally was and it would be reasonable to accordingly predict that next year's municipal elections will show some significant political changes. Could I venture that the DA will win our economic heartland and, probably the Eastern Cape as well and gain political control of the country at the next parliamentary election. That would be first prize, but even the threat of such election losses must surely convince the ANC that it needs to clean up its act, end the crippling chaos that results from its cadre deployment philosophy and move towards a more accountable process of public administration.

In either outcome one must expect that South Africa's economic outlook would significantly improve and the Rand would strengthen.

The next month:

New York's SP500: The gains I predicted are still under way and should last until the 26th of August.

London's Footsie: The gains I predicted are still under way and should last until September 21 at least. But in the short-term I see a dip until August 18.

JSE Industrial Index: I correctly predicted that the declining trend would continue but now the point of the upturn has moved ahead to August 18 followed by a brief recovery lasting at most until the 27th followed by a decline until + - September 2.

Top40 Index: I correctly predicted an upward trend but did not see this week's sharp decline. Now I see a whip-saw recovery lasting into the third week of this month followed by a decline until September 4 before the next recovery gets under way.

The ShareFinder Blue Chip Index: I correctly predicted weakness which I saw lasting until this week followed by a recovery which I see lasting until + - September 17 with a brief dip between August 25 and September 2..

The Rand: I correctly predicted a brief recovery which I now see lasting until August 17 followed by weakness until the 21st and then a recovery until September 7.

Golds: I correctly predicted a brief recovery which is now over and I see a volatile decline until September 26 when the next recovery is due to start.

The Predicts accuracy rate on a running average basis over the past 555 weeks has been 83.26%. For the past 12 months it has been 92.9%.

Richard Cluver