Richard Cluver Predicts

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

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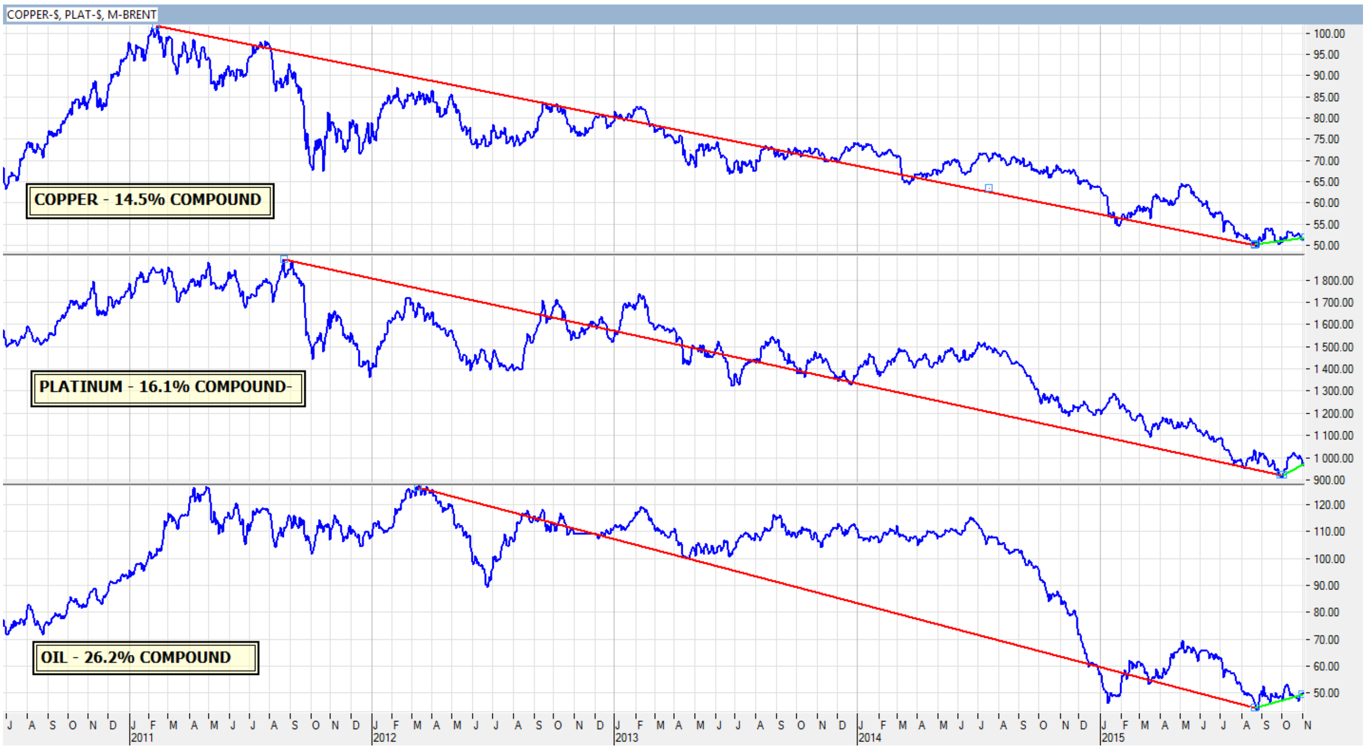
The disproportionate penalty levied by Nigeria against MTN for infringing its RICA rules together with the internal government dissent over a similar attack on Standard Bank are beginning to have worrying repercussions for Africa as a whole.

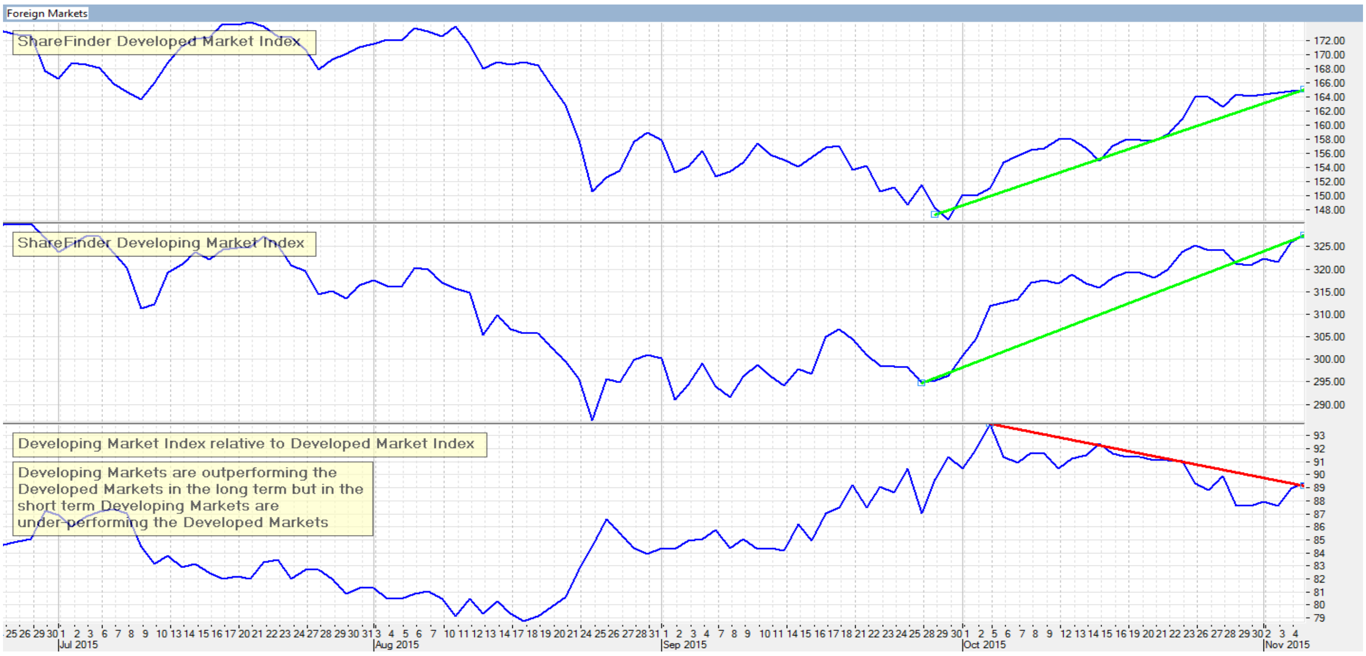
The fact that the MTN fine conveniently equates to the Nigerian Government's fiscal deficit is being interpreted in some overseas investor eyes as a potentially worrying trend which might just trigger a series of copycat exercises by other African countries that have seen their export earnings decimated by the economic slowdown in China which has hit Nigeria's oil earnings, Zambia's copper exports and South Africa's platinum and iron ore exports just to name a few.



The composite above makes it clear how the mineral export revenues of these countries have fallen steadily for nearly five consecutive years. But note the very small green trend lines at the right of each graph which signify the very modest beginnings of a possible improvement in the fortunes of these mineral prices. Furthermore ShareFinder projects that these modest beginnings could well continue for another five months at least.

However, much more radical gains will be needed to restore the fortunes of the mineral exporters of Africa and, in the interim, their governments will need to both strongly disapprove of Nigeria's actions and equally strongly emphasise to the investors of the Developed World that they have no intention of emulating that country's behaviour lest they choke off what little foreign direct investment that is still flowing to this continent.

It is in this light that I bring you today comparative graphs of the recent behaviour of ShareFinder's Developed World share markets relative to those of the Developing World. My graph composite below makes it clear that since the beginning of last month the tide of investment flows has again turned against the Developing World and that if nothing is done to reassure foreign investors the repercussions could be very severe for this country and the other countries of Africa which depend so heavily upon foreign investor goodwill.



Noting that South Africa's sovereign debt has effectively doubled since the onset of the global economic crisis and that our international borrowings have poured almost entirely into financing social grants and the public service wage bill, the massive pay increases that have recently been granted to our civil servants mean that our borrowings need will continue rising because there is no way these can be funded from our tax base even if marginal tax rates are increased to an impossible 75%.

Readers should therefore brace themselves for an even more rapid collapse of the Rand/Dollar exchange rate. With echoes of the Zimbabwe experience, my graph below illustrates how the long-term Rand depreciation rate of 3.5% a year since the ANC came to power has turned into a 16.7% rout since Jacob Zuma gained control of government.

Seldom has there ever been a more compelling case for local investors to invest a significant proportion of their funds abroad.

The next month:

New York's SP500: I correctly predicted a recovery which I expect to last until November 11 before an abrupt decline sets in.
London's Footsie: I correctly saw the beginning of declines which I expect to last until November 13.

JSE Industrial Index: I correctly predicted a brief recovery and then declines which I now see lasting until November 16.

Top40 Index: I correctly predicted a decline beginning the end of this week and I see it lasting until November 16.
The ShareFinder Blue Chip Index: I wrongly expected the decline to continue into November and now I see gains until November 19.

Golds: I correctly predicted losses which I now see lasting into December.

The Rand: I correctly predicted weakness which I see lasting until the end of November with a brief recovery from November 11 to 16.

The Predicts accuracy rate on a running average basis over the past 566 weeks has been 83.51%. For the past 12 months it has been 93.83%.

Richard Cluver