

Richard Cluver Predicts

In our 22nd year of service to the investing public of South Africa



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Will world economies tip into the dreaded double-dip or will they turn upwards again having been offered renewed stimulation by US Federal Reserve Chairman Ben Bernanke? All eyes and ears will later today be on the meeting at Jackson Hole, Wyoming, when Bernanke addresses a meeting of the world's leading central bankers.

As they have done so for weeks now, the world's financial markets have this week yawed backwards and forwards between optimism that Bernanke will somehow miraculously produce another rabbit from his hat, and the pessimism of the gainsayers who argue that the Fed chairman has run out of options.

Top of the guessing is that the Fed will launch "QE3"; a programme of securities purchases. But calculations suggest that if the Fed "prints" as much as a trillion US dollars it is unlikely to stimulate the economy by more than 0.5% over the next year. The attraction for the US of this step is that it would be inflationary, effectively diminishing the value of the dollar which would help boost US exports and make imports more expensive: very bad news for countries like South Africa whose currencies consequently strengthen and whose export industries conversely suffer.

Another option would be to cut to zero the interest it pays to US commercial banks for holding their reserves. That might force them to step up their commercial lending efforts to the private sector which might in turn be encouraged to expand their activities. But this is a somewhat forlorn hope since manufacturers who are unable to sell their goods into a recession-bound market are unlikely to spend borrowed money on expanding production.

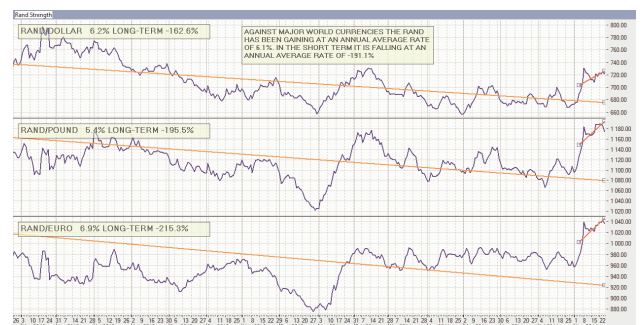
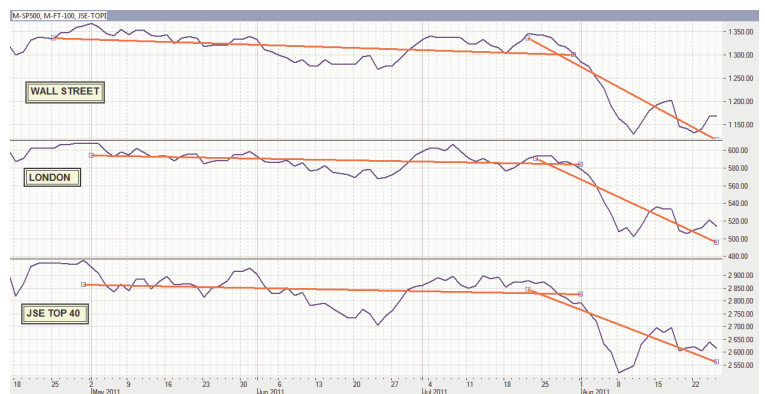
Beyond these, only minor tinkering is possible and so the optimists are obviously hoping for a combination of morale-boosting assurances and some positive moves. But nobody seriously expects anything dramatic. That is why Wall Street last night went into decline.

Locally, while the JSE Top 40 has tracked the principal markets as illustrated by my composite on the right, it has been relatively less pessimistic.

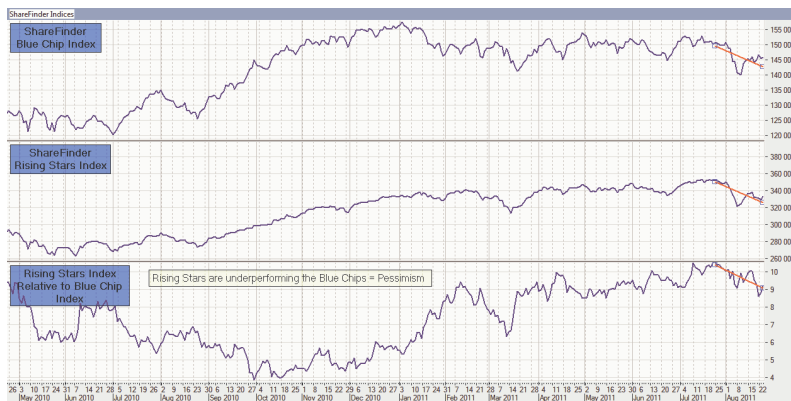
Since May Wall Street has been falling at -10% and London at -6.8% while our Top40 Index has been falling at half that (at -5%). Lately the rate has accelerated to -85% on Wall Street and in London while locally it has been falling at - 67%.

That does not mean that South Africa is not under threat. Most troubling is the recent decline of the Rand which has on average been falling at an annualised rate of minus 191% as illustrated by the composite on the right. This suggests an outflow of foreign investors out of local equities and back to the perceived safety of the Developed World.

Locally the same trend is evident in a strong flow away from riskier shares into the ShareFinder Blue Chips as illustrated by my composite. Note



the strong increase in the index since August 10 and ShareFinder's short-term Fourier projection (light green) which suggests that gains could continue until September 2. Longer term, however, Fourier projection – supported by ShareFinder's other indicators - suggests that the decline is likely to continue until at least the end of March.



The month ahead:

New York's SP500: I correctly predicted the beginning of a recovery trend and a clear base-building is now happening ahead of a recovery that could extend well into September.

London's Footsie: I correctly forecast the beginning of a recovery next month and like New York, base-building is now taking place.

JSE Industrial Index: I correctly forecast the beginning of a recovery that seems likely to accelerate in September.

Top40 Index: I correctly forecast initial weakness followed by a recovery beginning in mid-September. This might now be delayed depending on how Wall Street behaves next week.

ShareFinder Blue Chip Index: I correctly forecast an up-trend with a few hiccups along the way. I continue to hold that view with weakness in the week ahead.

The Rand: I wrongly predicted a short-term recovery and now I expect a sideways trend continuing until the end of September.

Golds: I correctly forecast a sharp downturn and now a bounce back seems probable.

Gilts: I correctly predicted a resumption of the strengthening trend. And I expect it to continue until late September.

The Predicts accuracy rate on a running average basis over the past 399 weeks has been 80.4%.

Richard Cluver