

Richard Cluver Predicts



In our 23rd year of service to the investing public of South Africa

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Groaning under the pressure of rising administered prices: electricity, water, municipal rates, Government taxes and the highly emotive E-Tolling system in Gauteng, the South African consumer can ill afford this month's twice increased fuel bill.

So it is comforting to note that, notwithstanding the shocking fuel increases South Africans have recently had to take on board, ShareFinder's systems suggest that in the 12 months the cost of fuel should come down steadily. That is, however, not good news for investors in Sasol shares for Sasol's annual profits are acutely geared to the Rand price of petrol and diesel.

Three main elements determine the local price of fuel: the international price of crude oil, the Rand/Dollar exchange rate and the levies and taxes the Government imposes on fuel sales. Except to note that the Government's need for taxes is voracious and will inevitably continue rising over the years, there is no way to predict this latter element. But we can make reasonably accurate predictions about the Rand and the oil price.

Thus, if you consider my first graph which tracks the price of Brent (North Sea) crude, the straight black trend line drawn by the least squares fit process determines that crude oil prices oscillate about a mean axis that is rising annually at compound 7.6% and that since the beginning of 2011 the price soared above that mean. More importantly, however, the price has made a double top formation at 126 dollars and is now receding back towards the black trend line with ShareFinder's Fourier projection system suggesting that Brent crude will bottom at 90 dollars a barrel in August this year.

So if the international oil price is falling, why is our local fuel price rising? Well we have just had to absorb an increase in the taxes Government imposes on fuel, aggravated by the fact that foreign investment flows have recently been away from developing countries back to the US and the Rand has borne much of that pressure as illustrated by my second graph. Here the bad news is that Fourier projection



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<http://www.rcis.co.za>

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richard@rcis.co.za

suggests that the Rand is likely to continue weakening until early in August when it is likely to reach approximately R8.29 to the US dollar. Thereafter it appears likely to strengthen again until it reaches around R7.25 to the Dollar next February.

The summation of all of this is contained in my analysis of the likely future price of Sasol shares which, as my third



graph suggests, appear likely to have peaked recently at R411 on January 19 and now appear likely to trade down to a low of R303 next February. Investors in it for the short to medium-term might accordingly be well advised to sell their Sasol shares. Mindful however of the capital gains implications of such a transaction, long-term investors should make careful note of the red trend line in the graph which highlights the fact that these shares have been rising in price at a compound annual average rate of 17.3 percent over the past decade and there is no reason to expect that this rate will decline in the future as global oil resources dwindle.

The month ahead:

New York's SP500: I wrongly predicted that overall April would prove to be a month of gains. And now I foresee that the declining trend will continue well into May.

London's Footsie: I correctly predicted gains for the rest of the month. Now, however, I see a declining trend for most of May.

JSE Industrial Index: I correctly predicted a sideways trend. Now I foresee gains until mid-May.

Top40 Index: I correctly predicted a sideways to slightly stronger trend which I now expect to continue until approximately May 18.

ShareFinder Blue Chip Index: I correctly predicted gains continuing until the end of the month. Now I see that trend coming to an end late in the new week followed by a weakening trend until around May 24.

The Rand: I correctly predicted a recovery until month end. Now I foresee a weakening trend until May 11.

Golds: I wrongly predicted a stop/start recovery until the 26th. Now I see continued declines for most of May.

Bonds: I wrongly predicted losses. Now I expect gains until May 8.

The Predicts accuracy rate on a running average basis over the past 431 weeks has been 81%.

Richard Cluver