



Richard Cluver Predicts

In our 24th year of service to the investing public of South Africa



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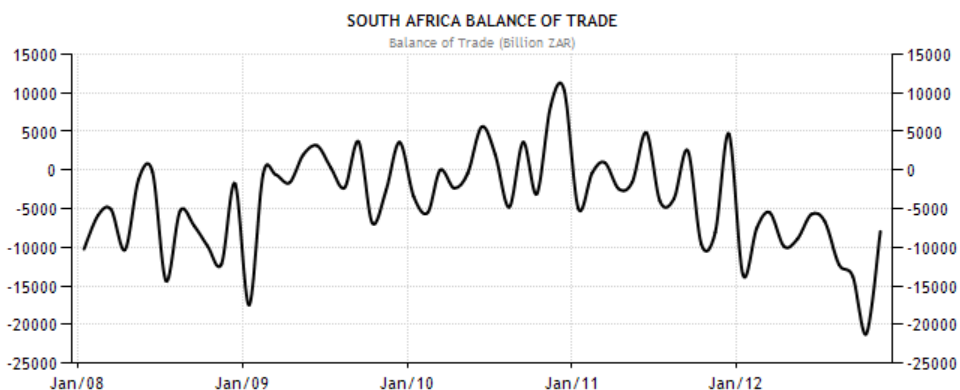
11 January 2013

It is now four weeks since our move to new offices in Kloof and Telkom is still dragging its heels on porting our old phone number. In the interim you are invited to use the emergency numbers 031 7647 845 and 087 230 9812 which will operate for the foreseeable future. Our Fax number is 086 5588 562

My greatest recurring fear for the Johannesburg Stock Exchange is, as I have frequently commented to readers, is the fact that we consistently rely upon an inflow of investment capital from abroad to fund our monthly balance of trade shortfall. This is tantamount to a household raising a bank overdraft to fund the rent and the grocery bill.

It is unsustainable in the long term and yet, as my first graph illustrates, the situation is getting steadily worse. The consequence is a steadily weakening of the Rand/Dollar exchange rate at a long-term rate of 4.9% compound as illustrated in my second graph. Subtract that from the current 5.3% yield on a representative local long bond like the R157 suggests a real yield of 0.4% and it should be plain to everyone that from the perspective of an overseas investor it would be preferable to invest in a US treasury bond that currently yields 1.87%.

If, or when the penny finally drops, we must expect foreign investors to sell their local holdings which will put pressure on the Rand raising the horror potential of a Rand collapse such as happened in 2001 and again in 2008 as can be seen in the second graph. Were that to occur it would also collapse our stock exchange.



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To avoid such a catastrophe we need to fix our terms of trade; something that given our epidemic of strikes appears unlikely in the short to medium term. That is why I keep a close watch on the Rand and the relative strength of our share market compared with those of other developing nations. So note in the first graph on this page that since late in 2011 Developing Country Share

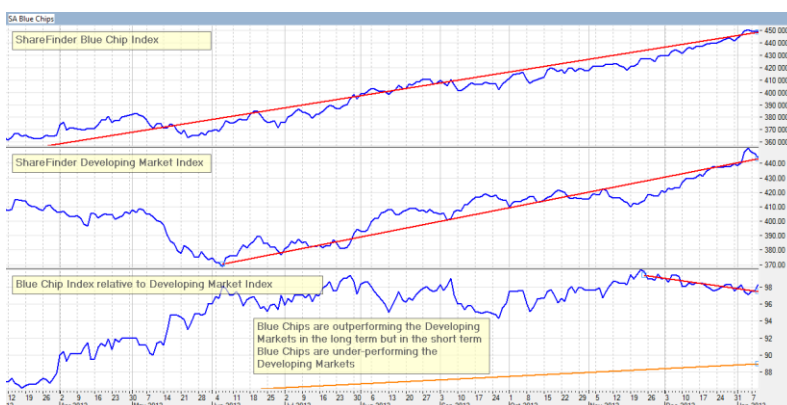
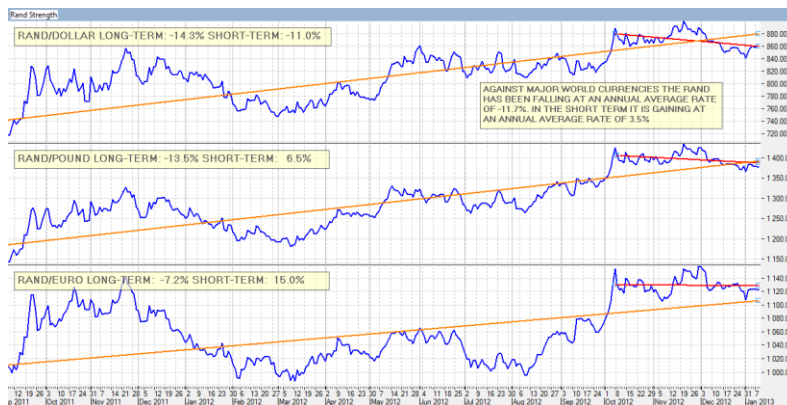
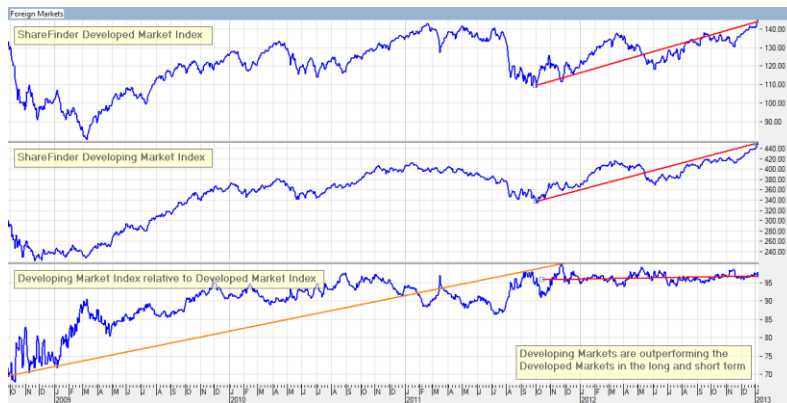
Markets have been attracting far less money than they previously were and in relative strength terms were more or less keeping pace with Developed Markets.

During the height of the miners' strike the Rand came under severe pressure but, happily, the trend changed at the end of November and on average the Rand has been gaining marginally against most major currencies as disclosed in my second composite.

It is, however, particularly troubling that while our Blue Chip shares continue to perform well, they have as a group been outperformed since November by the average of the Developing World's share markets as illustrated by the third graph in the third composite on the immediate right.

To put all of that into perspective, however, my last graph on the right illustrates how, on a flood tide of "Quantative Easing" new dollars our blue chips have soared in value since 2009 prompting the view that the market for these shares has become very overheated and average yields have become very thin. This raises the probability that 2013 will see a tapering off of our market as suggested by the red Fourier Projection on the right of my last graph, probably starting around the end of May if my calculations are correct.

In conclusion, you need to be alert because if our balance of trade trend worsens and it leads to any sustained weakening of the Rand, my worst fears WILL probably be realized. No need to panic at this stage but do review your portfolio and consider eliminating any underperformers.



The month ahead:

New York's SP500: I correctly predicted a weakening trend. Now I expect a week or so of recovery before the next bout of weakness

London's Footsie: I correctly predicted gains. Now I foresee a weakening trend until early February.

JSE Industrial Index: I correctly predicted gains followed by a weaker trend in early January and a recovery beginning around January 11 and I continue to hold that view.

Top40 Index: I correctly predicted a recovery which I expect will continue until the end of January.

ShareFinder Blue Chip Index: I correctly predicted gains which I expect to continue until early February.

The Rand: I correctly predicted a weaker phase. Now I expect a recovery lasting until the end of the month.

Golds: I wrongly predicted an upward trend. Nevertheless I continue to predict a period of volatile gains.

Bonds: I correctly predicted gains until well into January. Now I foresee weakness beginning around the 16th

The Predicts accuracy rate on a running average basis over the past 462 weeks has been 81.53%.

Richard Cluver