



Richard Cluver Predicts

In our 29th year of service to the investing public of South Africa



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I thought it appropriate to start today by copying to you an article that appeared this week in the Daily Maverick written by Simon Allison:

Investing overseas is not easy. You have to know what you're doing, and the risks involved in doing it. And if you don't know, you have to hire someone – and they don't come cheap – to tell you what those risks are, and how to avoid them.

This is where risk analysts come in. In an increasingly globalised yet unstable world, risk analysis is a booming business, especially for companies looking to put their money into developing nations. Often, the advice of risk analysts is a primary determining factor when it comes to if, when, and how much investors are willing to stake in unstable markets. Their information can determine how entire countries or even continents are perceived by foreign investors.

In other words, what risk analysts think – and what they tell their clients – is important. So what do they think about South Africa?

This is not an academic question. Last week, Barclays announced it was pulling out of its African operations, including its stake in Absa. On Monday, The Times reported that South Africa's super-rich are taking their money out of the country, weary of its economic future. There's a lot of money at stake at the moment, and risk analysts play a crucial role in determining whether it stays in South Africa – or stays away.

Control Risks is one of the most influential risk analysis firms. The UK-based company has thousands of clients around the world, including plenty of blue chip multinationals, and they work in far-flung locations across the globe. Including, of course, South Africa.

In a briefing in Johannesburg on Monday, the company outlined its top five risks for South Africa, painting a bleak picture of a stagnating economy and uncertain political future. This is the broad-brush picture that foreign companies looking to invest in South Africa – or worried about maintaining their existing investments here – will be receiving.

Risk one: South Africa's bonds will be downgraded to "junk" status

An increasingly inevitable outcome, given the failure of factions within the government and the ruling party to sing from the same song sheet. Ultimately, ratings agencies are looking for reliability, and as long as they keep receiving mixed messages they will have no choice but to score South Africa lower.

Risk two: The government, and the ruling party, won't be able to deliver on their promises

This applies equally to investors hoping that the government will live up to the pro-business ideas outlined in Finance Minister Pravin Gordhan's budget speech and to the many citizens still waiting for meaningful socio-economic change more than two decades after the end of apartheid. The latter is of particular concern, given the potential for social unrest – unrest that is already manifesting in service delivery and student protests.

Risk three: The prevalence of white collar crime and corruption

While South Africa has plenty of excellent legislation, enforcement is patchy. It doesn't help that the police and prosecuting authority have become politicised, undermining their effectiveness and their ability to uphold the rule of law.

Risk four: Cyber vulnerabilities

South Africa is in no position to defend itself or its businesses against cyber crime. Last year, more than R2-billion was lost to cyber crime, making this a major criminal threat. In fact, South Africa is the most targeted country in Africa. Unless the government works with businesses to educate them, and initiates some kind of protection programme, it won't make up the ground already lost against the hackers — leaving both companies and individuals vulnerable.

Risk five: The loss of perspective

In some ways, argues Control Risks southern African managing director George Nicholls, South Africa is its own worst enemy. The doom and gloom headlines and incessant soul-searching makes the country seem like it is in a lot more trouble than it actually is. "We have a strong constitution that's rigorously defended, we are a strong constitutional democracy. When you look at the countries around us there's a lot to be positive about, and the weakening rand gives us more opportunities."

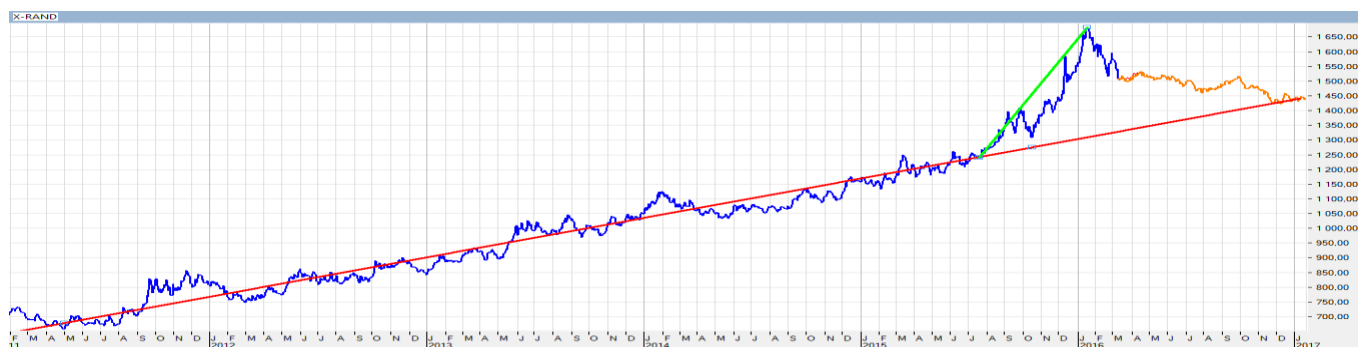
But if South Africans can't maintain perspective about their own problems, they can't expect foreign businesses to either.

The bottom line, from the risk analysts' perspective: South Africa is still a good place to do business. There's plenty of money to be made here, although it is more the slow and steady variety rather than the stratospheric returns often associated with developing markets. But there are serious problems, and they are largely of our own making. If investing is a confidence game, which all too often it is, we're selling ourselves short — even though South Africa's fundamentals aren't as bad as we like to tell ourselves.

The fact is that our country is in a crisis of confidence and until it is sorted out it cannot be business as usual. Furthermore, the longer it takes to sort out the more confidence will dwindle and our investment capital will leak away to safer havens overseas. Our crisis is the failure of the ANC to govern, to rein in rampant corruption and make this country a place where investors feel safe to invest their money.

What we are seeing is nothing new. It has been happening all around us since the ANC came to power and it will only begin to mend once the current administration is cleared away. That implies at the least the removal of President Jacob Zuma and his cronies or the removal of the ANC itself which is beginning to look like a certainty at municipal level in August.

So let us start today with a reading of our economic barometer as portrayed by the Rand:



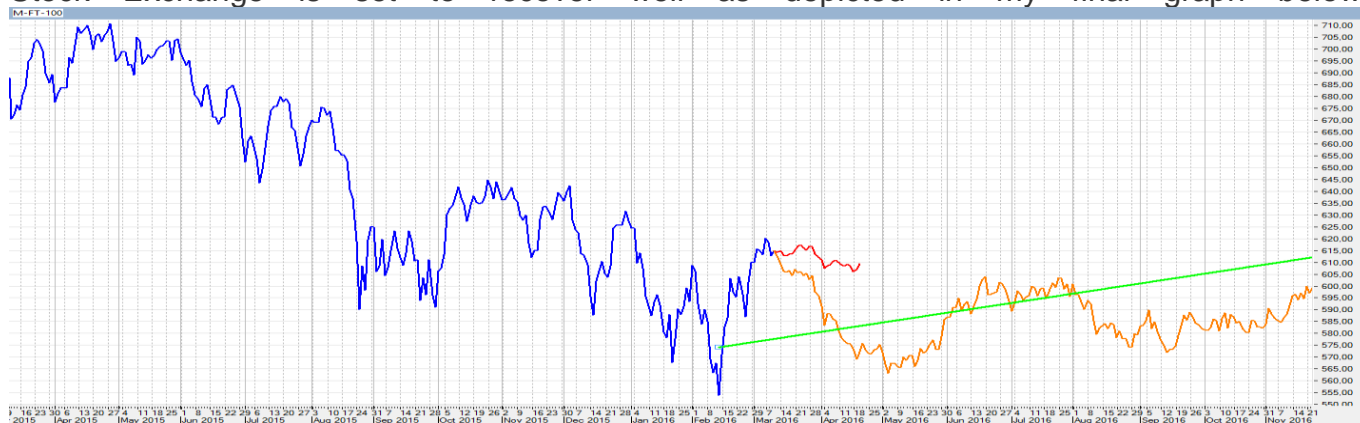
I have displayed this graph many times before so it should be nothing new to readers, depicting how our currency has been losing value at 15.2 percent a year for the past five years and how this accelerated in the second half of last year as highlighted by the green trend line to an annualised rate of 84.4 percent. More importantly, however, has been the sharp recovery since early January when Pravin Gordhan stepped in to take control of our finances, bring the Rand back from R16.9599 to the US Dollar on January 20 to a current R15.033 and, if ShareFinder's projection is correct, to a probable R14.198 by December. But, as my graph projection makes clear, it will take until the end of this year to get us back to where we were towards the end of

2015 and that assumes that nothing dramatic happens in the meantime to again sap public confidence.

Similarly, the ShareFinder Blue Chip index has been recovering well after collapsing from an early November value of 757015 to a mid January 664275 since when it has gained nine percent to a current 723 240. Here though, ShareFinder projects a sideways trend until the end of the year as investors mark time waiting for our governance issues to sort themselves out. My graph on this page is a blow up of the last one on the previous page to provide you with an easier to read version of the outlook for the next 12 months.



As I have constantly recommended to readers for some time now, the best option for the immediate future is to move as much capital as you can afford to Britain where the London Stock Exchange is set to recover well as depicted in my final graph below:



The next month:

New York's SP500: I correctly predicted a brief phase of weakness and now I see gains for the rest of the month.

London's Footsie: I correctly predicted that weakness would continue until the 18th when I see the next strengthening phase beginning.

JSE Industrial Index: I correctly predicted the beginning of weakness which should last until the 18th.

Top 40 Index: I wrongly predicted a recovery which I now don't see until March 22.

The ShareFinder Blue Chip Index: I correctly expected a continuation of the Blue Chip recovery. However the weakness that began mid-week is likely to continue until the 25th.

Golds: I correctly predicted a sideways trend for most of March and this is now trending towards mild weakness.

The Rand: I correctly predicted a continued recovery which I now see lasting well into April.

The Predicts accuracy rate on a running average basis over the past 580 weeks has been 83.6%. For the past 12 months it has been 91.23%.

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