Richard Cluver Predicts

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

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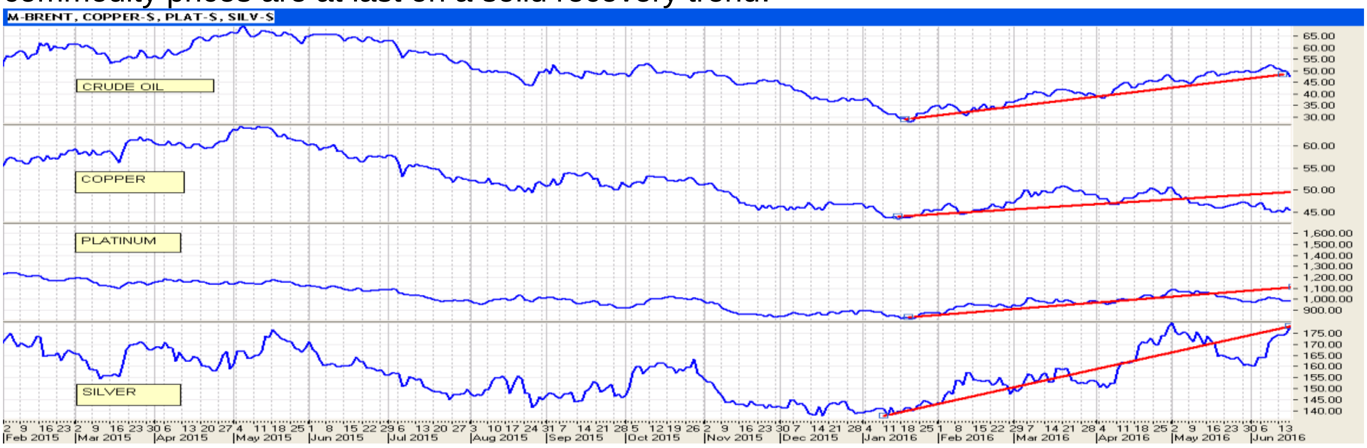
Nothing focuses the mind on the plunging value of the Rand than a trip abroad, to the US where a cup of Starbucks coffee now costs the equivalent of R75 and Mediterranean Europe where a beer currently costs R51.

As a fellow South African remarked to me in the Greek islands, “We are becoming captives in our own country.

Well I am glad to say that, notwithstanding today’s sharp Brixit hiccup, the news is not all bad because a weakening US dollar and the strong possibility of a weaker British Pound for an extended period in the wake of today’s EU exit vote means that the tables are turning in our favour once again.

Noting that a rising Rand/Dollar exchange rate graph depicts weakening, my graph illustrates how in the aftermath of Nenegate, when we became a laughing stock of the financial world with three ministers of finance in just over a weekend, the Rand/Dollar exchange rate spiked dramatically. In fact, weeks of political uncertainty and a fumbled economic policy had seen the Rand weaken from R13.07 to the US Dollar in mid-October to R16.79 in mid-January this year. Then it strengthened all the way back to R14.14 in late April before fears of a rating agency downgrade sent it back up to R15.88 in mid-May.

Happily we won a reprieve. We avoided Junk status this time around and the Rand has since strengthened to R14.76. Furthermore, with growing signs that the El Nino could be giving way to good rains in the coming spring and the promise of bumper crops, the agricultural sector recession might be on the way out. Furthermore, as my graph composite below clearly shows, commodity prices are at last on a solid recovery trend.



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All of which implies that South Africa's years of hardship might finally be drawing to an end and, if the Government is able to learn from its past mistakes and genuinely make an effort to promote economic growth, 2016 could well turn out to be a year to remember. Certainly, ShareFinder's long-term market projection illustrated by the smoothly-curving green line that turns red in future projection in the graph below, suggests that better days lie ahead for our blue chip shares. It would not take a lot in these circumstances for blue chips to return to an annual growth average of 22 percent which was the case until late 2015.

In the immediate future, however, cool heads are required. The Brexit leave decision came as a complete surprise to the markets and in the immediate aftermath the Pound weakened to levels not seen since 1985 and it is clear to markets around the world will face some serious volatility in the next few days. The Rand and our equity and bond markets are similarly expected to take strain today. In early trade the Rand was already down 6% this morning and it is likely to see-saw until some clarity emerges.

All of which represents a golden opportunity for those holding cash. Markets hate uncertainty and so you can expect trends to be overemphasized. Quality assets will go for a song in the short term. Thus, for example, the most underpriced quality shares on the JSE this morning were Coronation, MTN, Mr Price, Sanlam, Woolies, Netcare, BHP Billiton, Brimston, Hudaco, Adcorp and Emira.

Adding to that list, the shares I would most like to buy if they fall significantly in price in the next few days are Coronation, AVI, Capitec, EOH and Famous Brands.

The next month:

New York's SP500: I correctly predicted the start of weakness and that is now becoming very clear for the foreseeable future.

London's Footsie: I correctly predicted a weakening phase. Now I see shapr declines followed by a strong recovery..

JSE Industrial Index: I correctly predicted a sharp downturn followed by recovery. Now I see a volatile sideways trend until the elections are over.

Top 40 Index: I correctly anticipated an up and down market essentially going nowehere. Now I foresee gains until mid-July followed by a sharp downturn until the tail end of July when a recovery should begin..

The ShareFinder Blue Chip Index: I correctly predicted an end of the recovery in mid-April followed by a brief decline and then another recovery. From here on until late July I see the probability of declines.

Golds: I correctly predicted a decline extending into May before a fresh recovery began. The current decline is, however, probably over and I see a whip-saw rising market well into July.

The Rand: I correctly predicted quite sharp declines which I saw lasting well into May though it never got as bad as my possible R17.5 by May 13.Now, I see sharp initial declines followed by a strong recovery until the end of July.

The Predicts accuracy rate on a running average basis over the past 585 weeks has been 83.71%. For the past 12 months it has been 92.33%.

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