Richard Cluver **Predicts**

In our 31st year of service to the investing public of South Africa

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I have returned to a South Africa abuzz with enthusiasm for Cyril Ramaphosa and the belief that all the evils of the Jacob Zuma era are now being swept away; the graft and corruption and the horrors of cadre deployment will forever be over.

Furthermore, the strength of the Rand and the JSE are similarly being attributed to the "Cyril effect."

All in all, what we are witnessing is the well-known "honeymoon effect" that most new political leaders are handed at the start of their term of office and it would be wrong to attribute too much to it. Cyril faces some almost intractable challenges, which could be his undoing, if he is unable to continue the momentum of change that attended his initial few weeks.

Above all is the rapidly-approaching matter of the State of the Nation speech next week in Parliament which, notwithstanding the outrage of Opposition parties and the general South African public, Speaker Baleka Mbeti has assured the nation will take place. If President Zuma is still the President on the day of the SONA speech, it is likely that Cyril will be seen as having failed his first major challenge and some commentators are already suggesting that the onset of some Rand weakness this week is an early sign of such disillusionment.

What is clear is that powerful forces in the pro-Zuma camp, in particular, figures like Secretary General Ace Magashule, have a lot to lose if Zuma is unable to see out his full term as President and they are fighting back with everything they have. If they win Cyril could lose everything and with it every South African citizen – local investors in particular will pay a heavy price as foreign investors withdraw their money from this country.

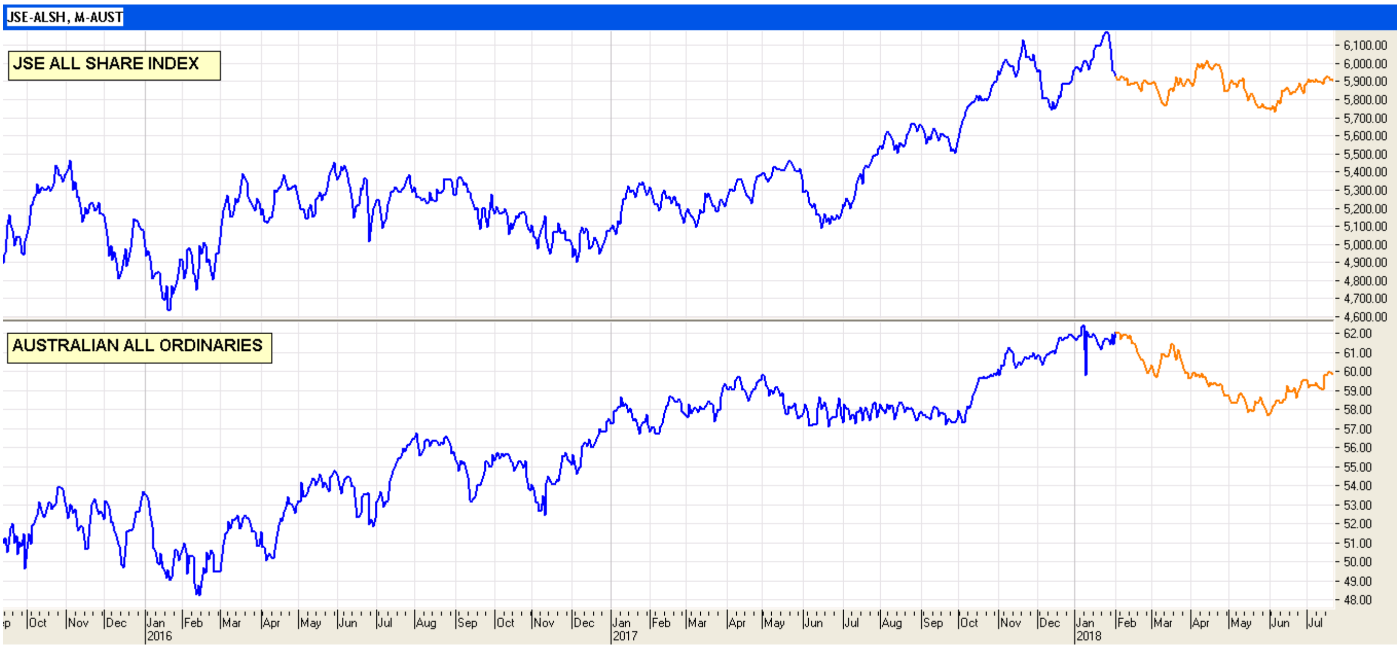
Meanwhile, with outgoing US Federal Reserve chairman Janet Yellen's final hawkish speech it is becoming very clear that rising inflation in the US will probably bring with it at least three and maybe four interest rate increases this year and, as leading economists warned at the latest World Economic Forum in Davos, mishandling of interest rates are likely to spark a catastrophic collapse of Wall Street stocks.

All in all, then, we face a very rocky few weeks that could set the tone for a troublesome 2018! So, let us take a look at the Rand's recent performance and, for good measure, compare it with the Australian Dollar which, though not possessing a Jacob Zuma problem, has nevertheless shown a remarkable similarity in movement to that of the Rand.

Note in my graph composite that both Australia and South Africa experienced a severe weakening of their currency at the time that Jacob Zuma so dramatically and irrationally removed South Africa's Minister of Finance Nhlanhla Nene and, more to the point, both currencies have lately been demonstrating what South Africa has come to know as the Cyril effect; that is both had been weakening steadily from early September and then, more of less coinciding with the ANC's elective conference late last year, both the Rand (Top graph) and the Aussie Dollar (Lower graph) began falling representing a strengthening of both currencies inasmuch as itt required fewer of the local currency to buy a dollar.

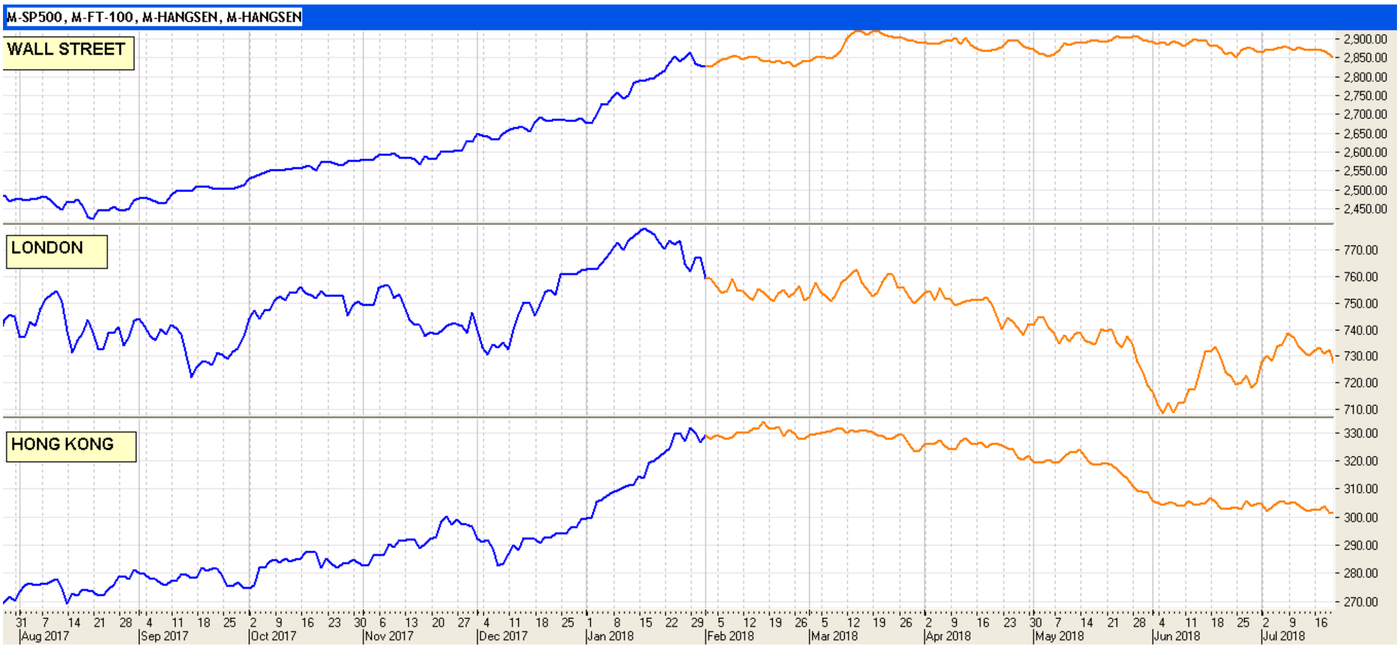
Clearly the Aussie Dollar has been more volatile than the SA Rand, but the trends have been the same. Furthermore, this week both currencies weakened suddenly though the Rand has since recovered while the Aussie Dollar is still in its weaker position. Overall, however, the trends have been remarkably similar making it clear that Jacob and Cyril have little to do with the currency movement. It has, in fact, everything to do with global attitudes towards the US Dollar.

Next consider how the JSE All Share Index has moved in the past two years and how the Australian All Ordinaries Index has moved in remarkably similar fashion. The point I am making is that ours and the Australian economy are remarkably similar in that both earn their foreign exchange from exporting minerals and both share markets move almost in tandem albeit with a few localized issues marginally affecting investor sentiment.



Note, furthermore, that the predictions I have previously made in this column about the impending end of the current share market bull phase have very likely begun and that both markets are projected by ShareFinder's artificial intelligence system to continue on downwards until the end of May. Here I should emphasise that ShareFinder's projections of market timing have proven themselves to be better than 90 percent accurate but less so in projecting the magnitude of such movement. I accordingly draw your attention, if you have not yet read it, to my study in The Investor which was published this Wednesday, about the magnitude of the major bear markets of the past half century which suggests that the average correction has been a little more than 40 percent.

The implications are thus that investors here and abroad need to brace themselves for a rough and tumble toboggan slide that could decimate portfolios. Meanwhile, ShareFinder's projections for New York and Hong Kong suggest that a sideways to modestly-weakening trend is likely for most of this year though London is projected to continue taking strain ahead of the Brexit issue:



The next month:

New York's SP500: I correctly predicted some more modest gains but now a decline is coming, possibly as early as February 8 to February 23 ahead of a last-gasp rise until mid-March and then further weakness.

London's Footsie: I correctly predicted that the decline would continue…probably until June.

JSE Industrial Index: I wrongly predicted gains into mid-February. Now I see weakness until the end of February though the signs are in opposition to one another suggesting that the current weakness has been overdone with a corrective rebound possible.

Top 40 Index: As with the Industrial Index I wrongly predicted gains until February 14. Here again the signs are in opposition to one another suggesting that the current weakness has been overdone with a corrective rebound possible.

ShareFinder Blue Chip Index: Technical problems have prevented me from making a prediction in this case.

Gold shares: I correctly predicted that gains wound run out of steam before mid-February. Now I see declines at least until the 8th and in the longer term a downward trend until mid-May accompanied by much interim volatility.

Gold Bullion: I correctly predicted the end of the recovery. Now I see weakness until at least February 15 and possibly February 23.

The Rand: I correctly predicted further gains and I see them continuing until at least mid-April.

The Predicts accuracy rate on a running average basis over the past 644 weeks has been 84.37%. For the past 12 months it has been 90.8%.

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