



Richard Cluver Predicts

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



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Walking down H Street in Washington last month I came across a Tesla car showroom and stepping inside I got my first real understanding of what electric cars might mean for our future.

I have always enjoyed driving beautiful cars, but I have never lusted after owning one until I saw the new Tesla model S though my picture on the right does not entirely do it justice. It is quite one of the most beautiful cars on



the road today and, although a little expensive by US standards, it is very competitively priced against Mercedes, BMW and others in the luxury category.

What, however, has been exercising my mind this week is the dramatic growth rate in electric and hybrid motor vehicles sales in recent years and the consequence for the oil industry globally. While environmentalists are obviously overjoyed by the fact that these vehicles are likely to completely replace their internal combustion competitors in the not too distant future, what few people seem to have taken into consideration is the global shift of economic power that this change represents.

What, for example, does the declining use of oil as a fuel imply for countries like Russia and the Middle eastern emirates which, as oil producers, have for most of the post-war years punched well above their economic weight in world forums? Getting closer to home as well, what does this trend imply for companies like Sasol whose *raison d'être* is petrochemicals?

Let's start with considering the following graph:

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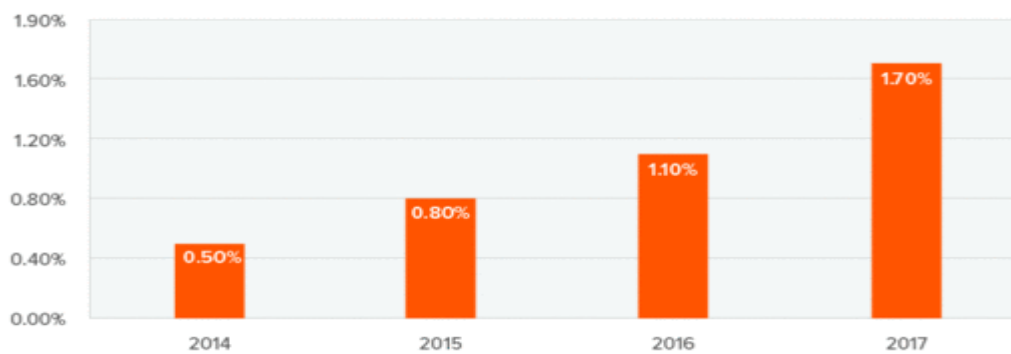
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GLOBAL EV & PHEV SALES, % MARKET SHARE

Source: Macquarie Bank, January 2018.



The figures imprinted on the bar graph might astonish you. They did me. Macquarie Bank's economists have produced data to show that electric vehicle share of the world vehicle market has risen from just 0.5 percent in 2014 to 1.7 percent in the past four years. Though still relatively low in world terms, according to Wikipedia, global cumulative sales of highway-legal light-duty plug-in vehicles reached 2 million units at the end of 2016, 3 million in November 2017, and the 4 million milestone in September this year. Sales of light-duty plug-ins achieved a 1.3% market share of new car sales in 2017, up from 0.86% in 2016, and 0.62% in 2015. The global ratio between battery BEVs and PHEVs was 66:34 in 2017, up from 61:39 in 2016, and 59:41 in 2015.

It might also surprise you to know that on May 12 last year an electric car pictured on the right broke the record for the fastest lap around Germany's famed Nürburgring. The six minutes and 45 seconds lap record set by the Chinese Nio EP9 was beaten two months later by a McLaren P1 LM modified for road use but the one-million-megawatt car had achieved its aim of becoming the talk of the motoring world.



These facts are not yet enough to significantly impact the international oil price but are surely playing their part. ShareFinder data shows that the benchmark Brent North Sea crude oil price is continuing to rise in the long term at compound 7.7 percent in US Dollar terms but, more importantly, since November 2014 the price has been below the purple 23-year mean as illustrated in my graph below.

Furthermore, the latest sharp decline that began in October represented a break-down of a nearly three-year rising trend which failed to break through the mean represented by the purple line on my graph; an extremely negative outcome from a technical analysis point of view. ShareFinder's artificial intelligence system also predicts that the current bear market will

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not be bested by the up-coming OPEC conference which oil producers are currently hoping will restore some price stability. ShareFinder sees a crude oil price low which could be as low as \$46 next April which should be really good news for South African motorists and for the ANC ahead of the May elections.....but very bad news for investors in Sasol shares.



Note, however, that in contrast with the 7.7 percent compound growth rate of Brent crude oil, the Rand price of Sasol shares has done nearly twice as well, gaining at compound 13.1 percent in Rand terms over the past 32 years (the purple trend line in my next graph) which illustrates how well these shares have performed as a Rand hedge investment. However, notwithstanding the fact that the Rand has been falling at an accelerated rate of 7.3 percent since the onset of the Zuma years of profligate ANC government, my green trend line representing the past decade indicates that over this latter period Sasol shares have been gaining at a far more modest rate of 4.7 percent compound.



So, let us turn to the Rand/Dollar exchange rate to see what this really means. Here, noting that over the past 28 years as depicted by the purple long-term trend line in my next graph, the rand has annually lost 5.9 percent against the US Dollar. US Dollar though during the years of

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the Zuma presidency it was losing annually at 7.3 percent as depicted by the green trend line....and it has continued to do so in the first year of the Ramaphosa administration as our national debt approaches catastrophic levels and the truth of ANC corruption has started fully emerging.



So, if we correct for the declining value of the Rand, we can thus see that in the long term Sasol shares offered investors a real return of (13.1 minus 5.9) 7.2 percent. However, during the Zuma years Sasol's compound annual gain was only 4.7 percent and subtracting Rand slippage during that decade of 7.3 percent implies that in Dollar terms investors in Sasol were losing 2.6 percent a year in real value.

Clearly international investors are taking a jaundiced view of Sasol and of the future of oil and one can see this clearly if one moves outside South Africa. The chart below plots the daily price of British Petroleum shares over the past 17 years with the purple trend line making it clear that these shares have been losing value at 1.1 percent a year.

However, over the past three years until May this year BP turned around and has until recently been gaining at a remarkable annual 32.5 percent. Here, of course, other forces are at play for Britons, like ourselves, are worried about their economy and their investments in the face of the Brexit issue and so the recent performance has much to do about Pound hedging.



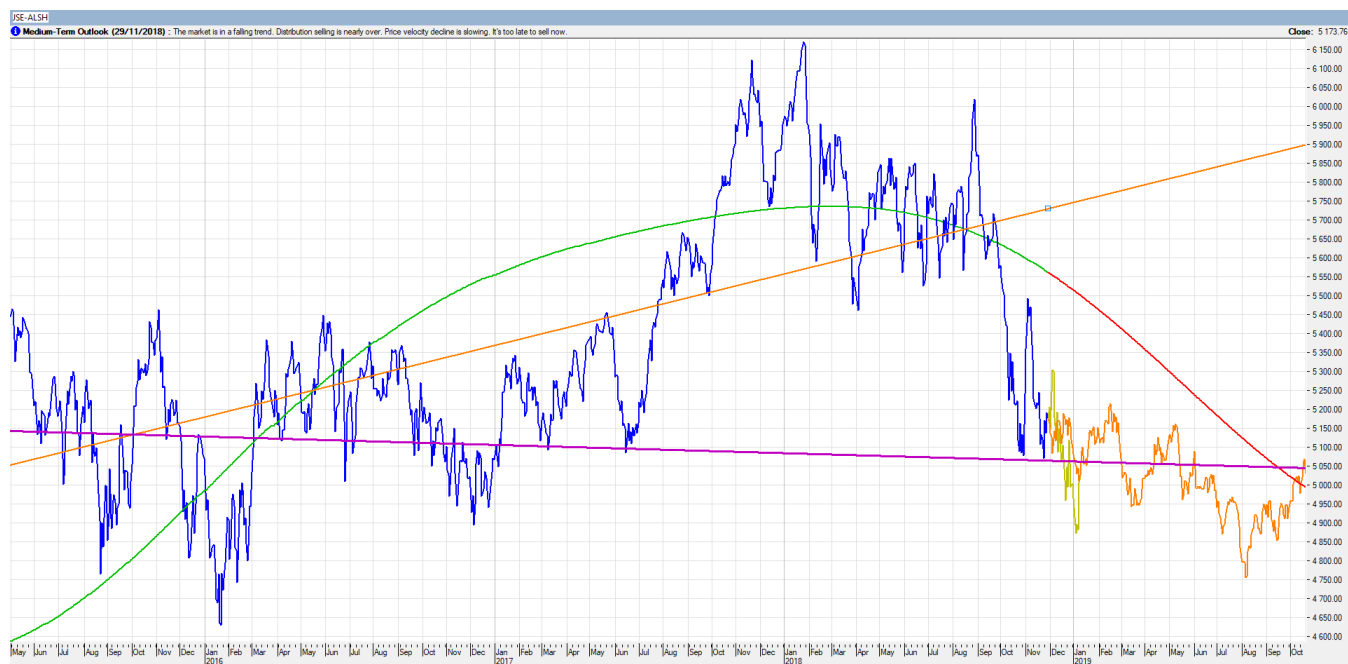
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Turning to the outlook for the JSE, the All Share Index has twice in recent weeks rebounded off a very powerful support line that has been in place since 2014. ShareFinder's artificial intelligence systems predict that the support could be briefly breached in mid-December and again in late February and thereafter the market might decline significantly until at least August.



This view accords with opinion polls which suggest that South African have not for a long time been as pessimistic as they currently are in the face of revelations being made by the State Capture Enquiry, land expropriation moves and the very stark reality that none of the big fish have yet been sent to trial. President Ramaphosa will need to do some very decisive fence-mending if he hopes to turn back the tide of public pessimism ahead to the next general election now likely to be less than six months away.

The next month:

New York's SP500: I wrongly predicted that Wall Street would not rebound upwards before the second week of December. Now I see further gains until Monday followed by a brief retreat towards the end of the week and then gains for most of December.

London's Footsie: I correctly predicted a recovery which I see lasting until early in the new week before another sharp decline takes the market down until mid-December.

JSE Industrial Index: I correctly predicted gains with an imminent down-turn likely to begin mid-week and lasting until the first week of January.

Top 40 Index: I correctly predicted a recovery which I now see lasting until mid-week before a decline for most of December.

ShareFinder Blue Chip Index: I correctly predicted weakness which I now see lasting until early January. However, a brief up-tick between now and December 6 appears probable.

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Gold shares: I correctly predicted the downward trend would continue and I still see it lasting until mid-May. However, a brief up-tick now appears possible between mid-December and the year end.

Gold Bullion: I correctly predicted the up-turn would peak and be followed by a brief decline. Now I see another brief gain, but it could be over by Tuesday followed by declines for the rest of the month.....and a declining trend for most of the new year.

The Rand: I correctly predicted the beginning of a recovery which I saw lasting until around now. Now I see a day or two of weakness before further gains until December 10 before a new bout of weakness sets in.

The Predicts accuracy rate on a running average basis over the past 683 weeks has been 84.91%. For the past 12 months it has been 94.02%.

Richard Cluver