



Richard Cluver Predicts

In our 32nd year of service to the investing public



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Want a quick explanation as to why the country is currently suffering the massive disruption of Eskom's load-shedding schedules?

Addressing a press conference in Johannesburg on Wednesday Eskom chief executive Phakamani Hadebe is reported by Independent Newspapers to have said that the power utility has so far burned "...at least 20-million litres of diesel by running its open cycle gas turbines as a last resort to meet electricity demand at a cost of almost R5-billion."

So do the maths. By my calculation R5 000 000 000 divided by 20 000 000 is R250 while at the filling station pumps ordinary South Africans are paying R14.99 a litre. Determining who is pocketing the difference in price might go a long way towards explaining why so many coal-fired generators went down in un-planned closures recently.

While it seems logical to blame poor reporting or someone not knowing the difference between a British billion and an American billion, in the latter instance the price still works out at twice what you and I have to pay. And, as a bulk user one would presume that Eskom gets a better price...and one would presume that as a government entity, Eskom does not have to pay the same fuel taxes as you and I? Or does it?

Someone needs to do some explaining!

Meantime, load-shedding might be costing the economy dearly, but clearly the JSE is untroubled by Eskom's shenanigans. As my graph composite below clearly shows, since the end of October both the JSE Overall Index and the Blue Chip Index have been rising at a significant rate: at 28.6 percent compound in the case of the Overall Index and 39.5 percent in the case of the ShareFinder Blue Chip Index.:



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But what is sauce to the stock exchange is not so for the Rand relative to the US Dollar. As the red trend line in the upper graph of my next composite shows, since January 31 the Rand has been losing value at a compound annual rate of 92.5 percent. Logically, if it continues for another 11 months the value of the Rand will nearly halve.

By comparison, the Australian Dollar has been losing value steadily relative to the US Dollar but at only 7.6 percent a year.



Before you go into panic mode, however, it is important to recognise that currencies are by their very nature extremely volatile, made even more so by the fact that they are actively traded by banks. Furthermore, as has been highlighted in a recent case where several banks were found to have been guilty of colluding in order to manipulate the Rand value in order to profit from it and in the process have artificially weakened our currency to the extent that in terms of the popular “Big Mac Index” the real value of the Rand is calculated to be R5.56 instead of the current official rate of R14.444.

Using the raw data, a Big Mac hamburger costs R31.00 in South Africa and US\$5.58 in the United States. The implied exchange rate is R5.56 to the dollar. The difference between this and the actual exchange rate suggests the South African Rand is undervalued by 61.5 percent.

Long-term, the Rand in fact loses value at an annual rate of 9 percent relative to the US Dollar, a rate largely explained by the difference between the inflation rates of the two countries while, to complete the comparison, the Australian Dollar loses value relative to the US Dollar at a long term rate of 5.8 percent. In my next graph then, I have portrayed the Rand relative to the Dollar over the past ten years. It makes clear that from February 2015 to January 2016 the Rand was massively

manipulated when the rate rose from R11.48 to R16.8 before recovering steadily until the end of March 2017.

As usual; these moves tend to over-shoot which explains why the currency yaws about the long-term trend line. It also explains why, during the recent phase of Ramaphoria between September 2018 and the end of January when the lights went out as emphasised by my green trend line at the extreme right of the graph, the Rand was strengthening excessively and it is now returning to its implied correct value of R15 to the Dollar as my ten-year graph below illustrates:



To make you feel a little better I have next created a graph of the Rand over the past 30 years with the green trend line depicting how the Rand should have moved in order to take us to a present implied rate of R5.56 to the Dollar. Had that been the case the Rand would have lost value at an annual rate of just 2.7 percent:



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The next month:

New York's SP500: I was wrong again for I predicted a pull-back starting last Friday which only began on Tuesday and though a brief gain could occur today, all indications are now heavily weighted for declines until mid-September.

London's Footsie: Markets again defied ShareFinder's prediction of the start of a long decline until mid-September but the sharp gain early this week should be the last with Tuesday's decline signaling the start of a long down-trend until mid-September...

JSE Industrial Index: I correctly predicted the major decline which started on time on March 4 and could last until August 5.

Top 40 Index: I correctly predicted declines which might be over today with a recovery beginning today or Monday and lasting at least until April 4 and possibly on until May 7.

ShareFinder Blue Chip Index: I correctly predicted a decline. Now I see a recovery which could last until May 6.

Gold shares: I correctly predicted a brief up-tick until now. Now I see declines.

Gold Bullion: I correctly predicted declines that are likely to last until November.

The Rand: I correctly forecast a recovery which could last until April 5...

The Predicts accuracy rate on a running average basis over the past 700 weeks has been 85%. For the past 12 months it has been 92.19%.

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