



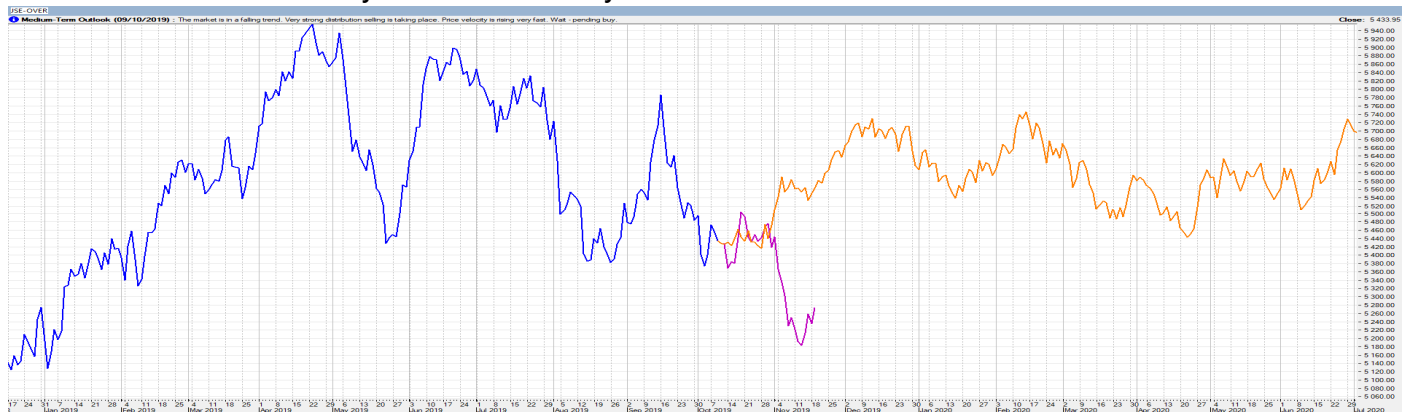
## Good news from both sides of the Atlantic have boosted markets everywhere and South Africa has not been an exception where the Rand gained significantly yesterday relative to the US Dollar.

Cause of the buoyancy, there were positive statements from US President Donald Trump that the first day of high-level trade negotiations between the US and China on Thursday went “very well” and that he plans to meet with the top Chinese negotiator today, and from Ireland’s Taoiseach Leo Varadkar, who briefed the Press on his lengthy one-on-one talks with British Prime Minister, Boris Johnson. Varadkar told the Press he could now “see a pathway to a possible deal” – and he thought it is possible to reach that deal in the week before the European Union’s summit on Brexit.

Would that mean things are positive for South African investors who have a nail-biting wait for ratings agency Moodys, to deliver their verdict on our sovereign bonds? If the last agency to hold our bonds above “Junk” decides next month to lower their status, we face the possibility of an exodus of an estimated R100-billion in foreign investments being withdrawn by fund managers whose mandates forbid them to invest in “Junked” countries.

On top of our stagnant economy and woes about the massive ongoing losses being incurred by Eskom, such a sovereign downgrade would offer a devastating blow to share values. In anticipation of such an event, the market has already fallen by 8.75 percent since its April 23rd peak and ShareFinder is suggesting that a negative report from Moodys could take the decline down to 13 percent. To be fair, as recently as mid-September, Moodys, the only international ratings agency that still has South Africa’s credit rating above junk, said there was a low likelihood of a downgrade, due to the country’s stable outlook. That was, however, before we knew the full extent of Eskom’s latest losses.

In the graph below, the mauve line represents ShareFinder’s short-term projection of the likely first result of a Moodys downgrade. The orange medium-term projection furthermore suggests that the JSE Overall Index is likely to trend sideways over the next 12 months:

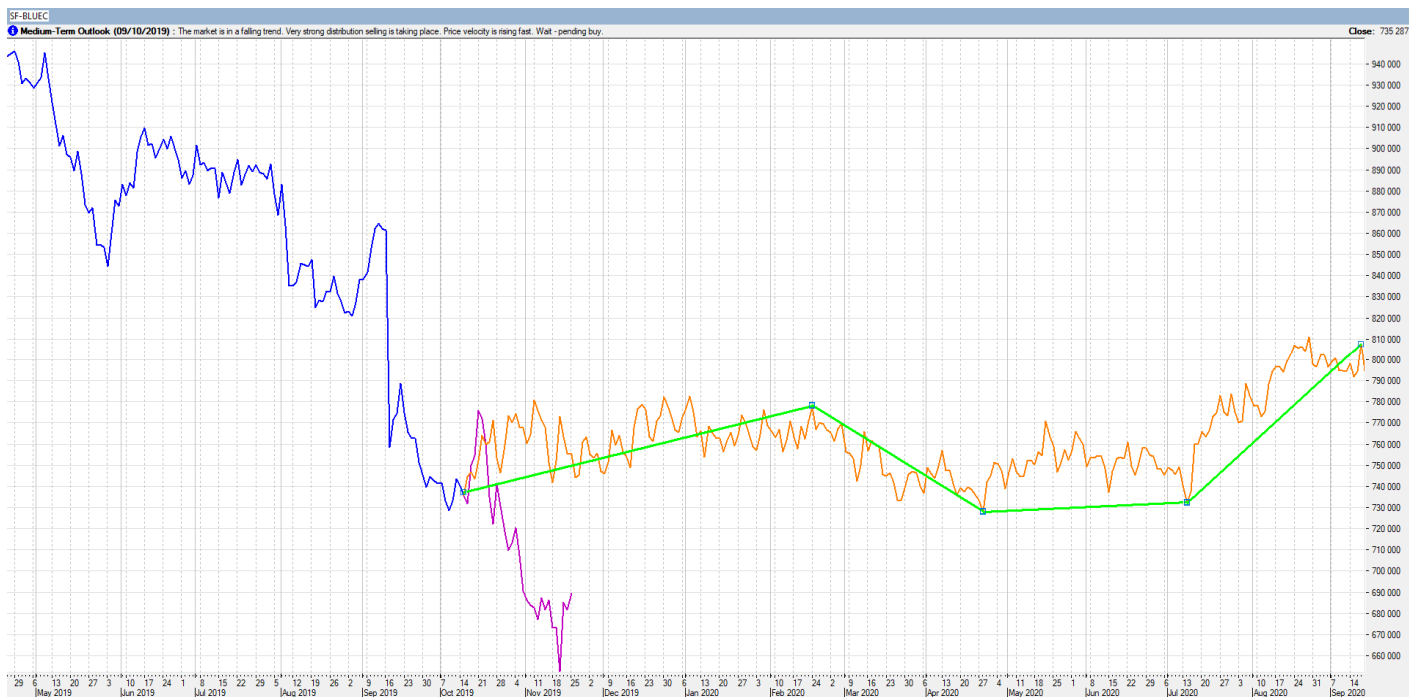


Furthermore, ShareFinder is taking a negative long-term view of the Rand which it suggests could weaken to R16.13 by this time next year:



The Blue Chips have uncharacteristically taken even greater strain because of the impact of the Naspers share split, and a technicality because the offshore creation of Prosus cannot be included in the Blue Chip valuation and have now experienced a 21.76 percent decline since the April 23rd price peak. ShareFinder sees the current recovery ending in early November and, in the worst case as depicted by the mauve line projection, taking the overall decline down to 30.5 percent.

As highlighted by my green trend lines, the medium-term projection suggests that from now until mid-February the Blue Chips will trend modestly upwards, before turning negative between mid-February and mid-April, trend sideways until early July and then accelerate upwards in the second half of 2020:



## The month ahead:

**New York's SP500:** I correctly predicted a recovery beginning around now and lasting until early-December with another weak phase from then until the second week of January.

**London's Footsie:** I correctly predicted that the September recovery would be short-lived, followed by a decline which I still see lasting most October. Around the 23<sup>rd</sup> I see a fresh recovery beginning, but it is likely to be over by late November followed by another decline to the end of January.

**Hong Kong's Hangsen:** I correctly predicted a decline until the 25<sup>th</sup> before the start of a brief recovery. I initially expected this to last until early January, but I now see another decline ahead. Of that lasting until late this month or early November, before a November to early December recovery and then a long decline until April.

**JSE Industrial Index:** I correctly anticipated a recovery lasting until early December, followed by a volatile decline until May.

**Top 40 Index:** The temporary weakness, I correctly predicted, is likely to continue modestly until nearly the end of the month when a solid recovery could begin lasting until early December followed by weakness until mid-January.

**ShareFinder Blue Chip Index:** With the big drop behind it, I correctly predicted gains, which I still see lasting until the first week of November, followed by a volatile period within an overall rising market until late February.

**Gold shares:** I correctly predicted a brief recovery followed by a modest decline until mid-month, which began exactly on time. Now I see a slightly weaker sideways trend until the next recovery, which should begin in early November lasting until mid-December.

**Gold Bullion:** I correctly predicted a decline, which I expected to last until late November. Now I see a volatile sideways trend until the 23<sup>rd</sup>, when another upward spike is possible followed by an equally sharp decline, with another sharp up-tick beginning in late November.

**The Rand/US Dollar:** I correctly predicted a recovery which I now see lasting until mid-December.

**The Rand/Euro:** I wrongly predicted that this interim phase of weakness would last until October 9. The strengthening phase that began this week should last until approximately the 16<sup>th</sup> before further weakness sets in lasting until early December.

***The Predicts accuracy rate on a running average basis over the past 715 weeks has been 85.29%. For the past 12 months, it has been 94.24%.***

**Richard Cluver**

**The following article is reproduced from The Daily Maverick because of its singular importance at this time. If you have not already read it, I commend it to you:**

# The great exit of the State Capture linchpins

By Ferial Haffajee

Most South Africans criticise the absence of a single criminal prosecution arising out of the many revelations of State Capture, but the exit of linchpins and enablers has allowed at least the start of state retrieval.

The impacts of exit are not yet effective enough to make a substantial difference to either the fiscus or governance, but viewed together the institutional clearing this reform has allowed, is a start. Take the Cabinet: eight ministers associated with the high era of State Capture and who were either linchpins (the key to the project) or enablers (those whose silence or acquiescence played a role) are gone. They include former home affairs minister Malusi Gigaba, whose stint as head of public enterprises coincided with the high-water point of State Capture. So did Lynne Brown's tenure when she was minister of public enterprises.

At water affairs and sanitation, Nomvula Mokonyane presided over an administration that bankrupted the department and saw multiple instances of infrastructure capture under her watch. In addition, at the Zondo Commission of Inquiry into State Capture, this former minister was also named as key to the Bosasa patronage network. Under her watch, former minister of social development, Bathabile Dlamini, underwrote a sweetheart deal for Cash Paymaster Services who for years ran the payments of social grants for sky-high profits.

In the final years of former president Jacob Zuma's administration, as the effort to extract rents became more and more desperate, his personal allies such as former intelligence minister David Mahlobo, three-day former finance minister Des van Rooyen, former mineral resources minister Mosebenzi Zwane and former intelligence minister Bongani Bongo were elevated to the Cabinet. They are long gone from the Cabinet, although Mahlobo retains a role as a deputy minister.

At Transnet, Eskom, SAA and Denel, there are new boards and the key characters associated with the corruption of procurement systems are gone – they include Brian Molefe, Anoj Singh and Matshela Koko at Eskom; Siyabonga Gama from Transnet; and Dan Matjila from the Public Investment Corporation.

At the vital public broadcaster, the buffoon-like character and former COO Hlaudi Motsoeneng is gone and so are the enablers, the former SABC CEO Lulama Mokhobo, chairperson Mbulaheni Maguvhe as well as the former head of news, Jimi Matthews.

And at Prasa, board chairperson Khanyisile Kweyama is undertaking a thorough clean-out. Former CEO Lucky Montana is gone and so is the chief engineer who had no engineering qualification, Daniel Mthimkhulu, and former head of strategy Siphon Sithole.

None of the state-owned enterprises is anywhere near a fix and almost all require national support for their balance sheets, but their distortion and dislocation has ended.

The most important clean-out has been at SARS, the revenue agency where the era of Tom Moyane is over. Last week, his lieutenant and henchman reached a settlement and quit, leaving the canvas clean for SARS commissioner Edward Kieswetter to rebuild the service.

At the institutions of criminal justice – the National Prosecuting Authority (NPA), the SA Police Service (SAPS) and the Hawks – there are new leaders in place with Shaun Abrahams, Khomotso Phahlane and Berning Ntlemeza all put out to pasture.

State Capture is defined as the repurposing of institutions to allow a takeover by patronage networks who can engineer revenue flows to their private interests. This required the criminal justice institutions to be weakened so that the system of patronage could be entrenched without investigation.

This systemic distortion or corruption is, of course, not going to be fixed by removing only the figureheads, but it does start with new leadership.

The new boards and managements at Transnet, Eskom and Prasa have been particularly good at bringing civil actions against individuals for the return of money or in beginning to get rid of executives who enabled corruption to take place.