



Writing in the February issue of The Investor this week I detailed how, given the right measure of public optimism, stock exchanges are the tail that can wag the dog. I do not see myself as prophetic but that article precisely hit the button ahead of Finance Minister Tito Mboweni's surprisingly optimistic budget on Wednesday which triggered some of the most spectacular short-term market gains I have ever seen

Never in my long career as a financial journalist have I seen markets react as positively as they did in the wake of the budget with increases of as much as ten percent from retailers and financial services providers like Shoprite and Mr Price which have been wallowing lately in a trough of shareholder despair. Standard Bank put on almost eight percent, Discovery more than seven percent while there were rises of over 5 percent by FirstRand, Nedbank, Bidvest and Woolworths

And perhaps my emotional self knew something my rational self will always deny because at the start of this week I also shrugged off a recent mood of pessimism and went in for some quite aggressive bottom-fishing scooping up shopping mall owner Hyprop shares at an unprecedented dividend yield of nearly 16 percent. The shares had been punished unduly, in my mind, by the gloom of the retail industry and, more particularly by the widely-held view that VAT would be increased at this budget and that retailers would consequently be further punished.

While Tito Mboweni has been widely recognized as "his own man" who might have been expected to do what was good for the economy rather than what best served the warring political interests of his party bosses, few imagined he would have had the profound courage to take on the powerful labour unions in a direct attack upon their economic stranglehold. It is a gamble; some would say a dangerous one, which could see Government's debt to GDP ratio soaring if Mboweni and his colleagues are unable to achieve his promise of ending corruption together with unnecessary and wasteful expenditure, freezing civil service pay which has risen 40 percent in real terms recently and getting rid of costly dead wood.

But Mboweni clearly did not act on his own. Obviously, he had the backing of his "triumvirate" which includes Ramaphosa and Gordhan which knows it soon faces a showdown against the rearguard action forces of the Zuma comeback faction who sense that orange overalls likely lie in their future if they do not strike now. Thus, this budget, with its massive strengthening of the prosecuting authority, is a clear shot across the latter's bow.

It has always been a puzzlement to me that vast swathes of the political left wing, with its such strong anti-Christian bias, so happily espoused the earliest miracle of the loaves and fishes without recognizing that, only with miracles, is it possible to keep on forever cutting up and redistributing

the economic cake. If you don't believe in God then you obviously don't understand the concept of miracles but they nevertheless somehow contrive to imagine that, notwithstanding their protracted attacks upon the rich, the economic cake will keep on expanding! I believe it was Winston Churchill who famously opined that "Socialism is a wonderful thing so long as someone else is signing the cheques,"

Much of ANC thinking has long been dominated by the view that the wealthy are so rich that you can tax them into oblivion and they will uncomplainingly continue to fund your expensive flights of fancy.

The Finance Minister clearly understands the reality of our economy and has obviously taken seriously the fact that there has been a massive emigration of wealth in recent years and that further tax increases are thus likely to be unproductive. With this budget he has accordingly opted for the logical alternative of tackling the other side of the fiscal equation; of cutting the size of the cake and re-prioritising funds to where they are necessary to ensure the fight against corruption is won. But it is a gamble which, if lost, will push us over the debt precipice and so the ratings agencies will obviously be watching with even greater attention to see who wins in the coming contest with the trade unions.

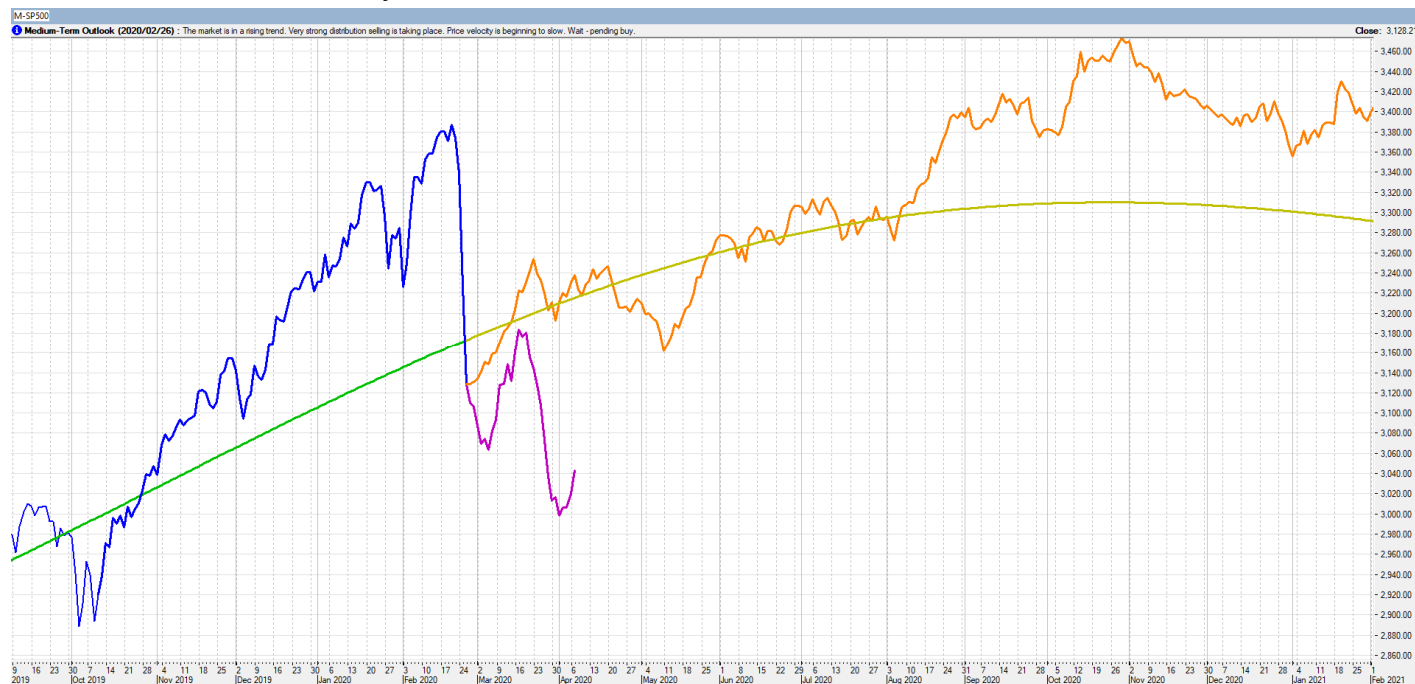
Shrewdly then, he has taken the side of the middle-income people by reducing the taxes paid by people like nurses and policemen whose goodwill is vital if the fight-back campaign against the old order of corruption and nest-feathering is to be won. Given this bonus he has stripped the unions of a vital piece of ammunition if they try to move towards strike action.

It is a dramatic swing towards reality. However, if in the euphoria of the moment we fail to recognize how tense the moment really is, the following graph of Shoprite share movements since the Ramaphosa administration began makes sober reading. Wednesday's ten percent gain is just a tiny blip on the right of a steadily-falling share price. Whether or not it marks the beginning of a turnaround will depend upon the political outcome of the next few months:



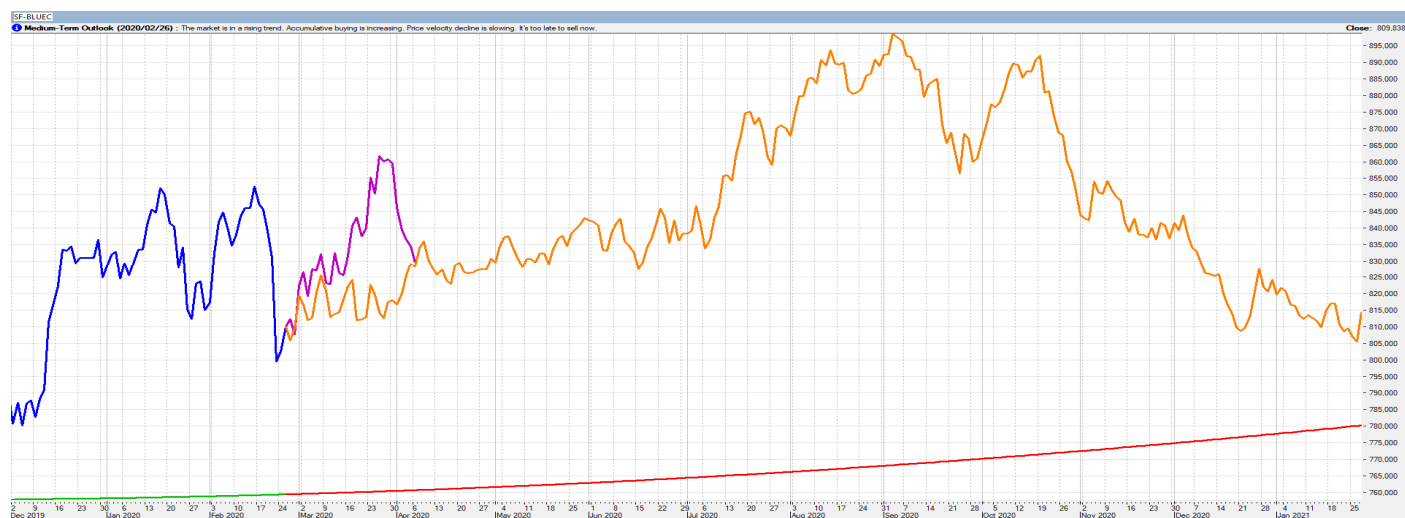
From its peak value of R275,50 back on March 7 2018 the shares had fallen to a February 25 low of R103.60, vividly underscoring the lack of confidence that has gripped the South African public over the past two years.

Is this a watershed moment then? We need to recognize that what we are seeing locally is entirely a domestic surge of positivity in an investment world that has been severely rattled in the past few days by the apparent breakout of the corona virus. To understand how significant this is, you need to see a graph of New York's S&P500 Index which has all the appearance of the Crash of 2020 which I warned about in my latest book:



The purple projection is what ShareFinder thinks is likely in the short-term while the red projection is the more reliable medium-term view and the yellow projection is the most reliable long-term view. What the programme is clearly telling us is that world markets are most likely to get over the initial panic by the end of March as health authorities fight back against fears of the global pandemic that they have long been preparing for. Then issues of a coming US election will take precedence and the market will continue its upward climb until, as I have so frequently warned, the next downward trend will commence on or about the end of October.

Remarkably, as I have previously opined, South Africa actually turned the corner back in December and, perhaps because of our feelings of isolation from global events, might have shrugged off – or having endured so much past pessimism are not ready for more. It appears likely in this ShareFinder projection that the Blue-Chip Index to already be on the road to a recovery lasting until September:



The month ahead:

New York's SP500: I completely failed to anticipate this week's corona virus panic happening so soon but nevertheless correctly predicted a down-hill phase until mid-May and then a long recovery until late October.

London's Footsie: I correctly predicted declines until + - the 27th before a longer recovery phase begins lasting until mid-April, then another slippage, another recovery until early June and yet another slippage until late July.

Hong Kong's Hangsen: I correctly predicted declines which I still see lasting until late March.

Japan's Nikkei: I correctly predicted brief weakness. Now I see a recovery until mid-April before the next short phase of weakness.

Australia's All Ordinaries: I correctly predicted declines starting immediately and lasting until late April.

JSE Industrial Index: I correctly warned that the next decline had begun and now expect it to last until mid-June.

Top 40 Index: I correctly predicted declines until late March when a brief recovery is likely but by the second week of April it is likely to be downhill again until mid-June.

ShareFinder Blue Chip Index: I correctly predicted a volatile declining trend. Now however, I see gains beginning and continuing with increasing velocity until early September when the next big dip is likely.

Gold shares: I correctly predicted a brief up-tick followed by declines which I now see lasting until the end of July.

Gold Bullion: I correctly predicted a short decline into March followed by modest gains until mid-April when further declines are likely through to early June.

The Rand/US Dollar: I correctly predicted a volatile recovery until late-May.

The Rand/Euro: I correctly predicted weakness which I still expect to last until July.

The Predicts accuracy rate on a running average basis over the past 729 weeks has been 85.55%. For the past 12 months it has been 95.33%.

Richard Cluver