Our Weekly Paid Newsletter

Richard Cluver Predicts

In our 34th year of service to the investing public of South Africa

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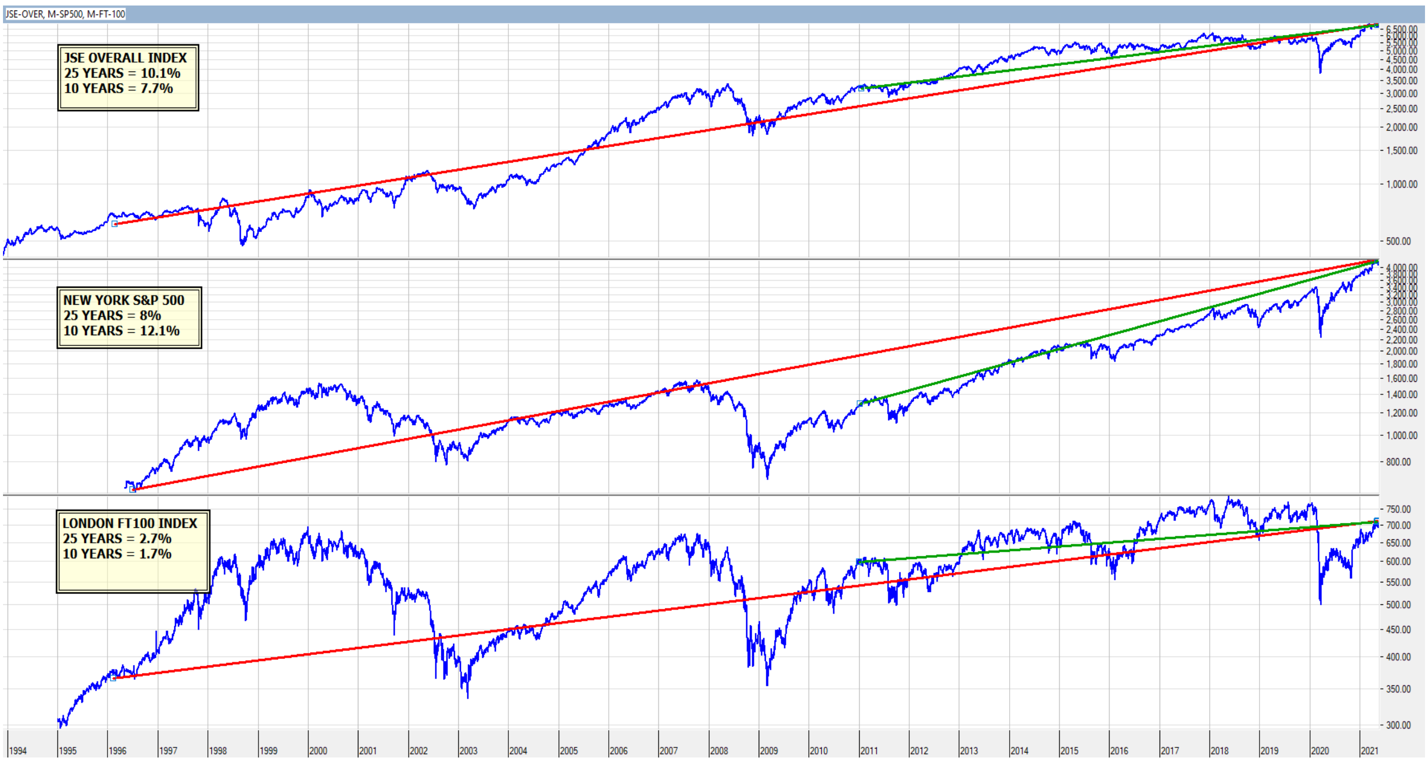
I took last week off to "chill" at that Transkei gem, the Umngazi River Bungalows, which I last visited in the mid 1970s. It was an opportunity to witness the startling improvement in the prosperity of local tribespeople who have in the interim replaced traditional beehive huts with modern homes which would not be out of place in any middle class South African suburb today. But the appalling state of the roads was a constant reminder of the bureaucratic failure which has all but destroyed the South African economy.

And if that was not enough, the towns of Flagstaff, Lusikiki and Bizana which I remembered in my youth for their well-trimmed lawns and pristine administrative buildings are a chaos of nightmarish traffic jams, roadside filth and disorganisation which forcefully remind one that this is "darkest Africa."

It was a sobering experience which inevitably led me to pondering our continued residence in this country, from which as a reflection of a mismanaged economy, our stock exchange has in the eyes of most commentators, deteriorated from a former powerhouse to a laggard in recent years. But you should not believe everything you read. It is still up there with the best! Consider my following graph in which the red trend lines underscore the fact that over the past quarter century the JSE Overall Index has delivered compound 10.1 percent growth annually relative to New York's 8 percent and London's 2.7 percent. Over the past decade we have been overtaken by New York with 12.1 percent against our 7.7 percent but we continue to offer nearly five times better growth than London's 1.7 percent:



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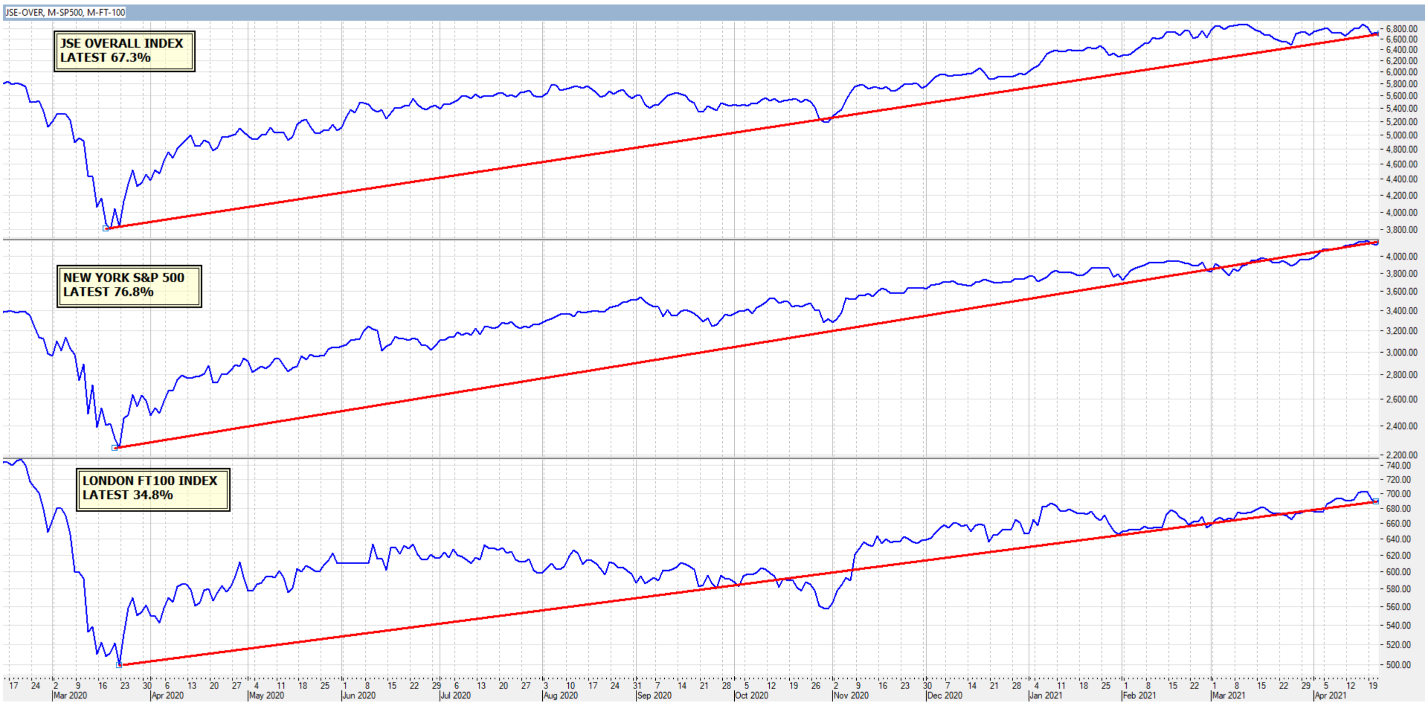
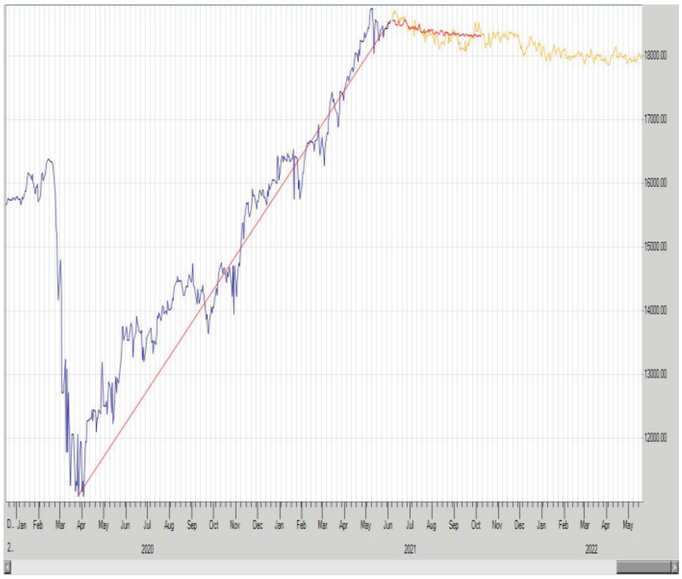
Over the past year New York has beaten markets everywhere with a stunning 76.8 percent recovery since the March low. But the JSE has offered a creditable 67.3 percent over the same period while London has trailed with just 34.8 percent

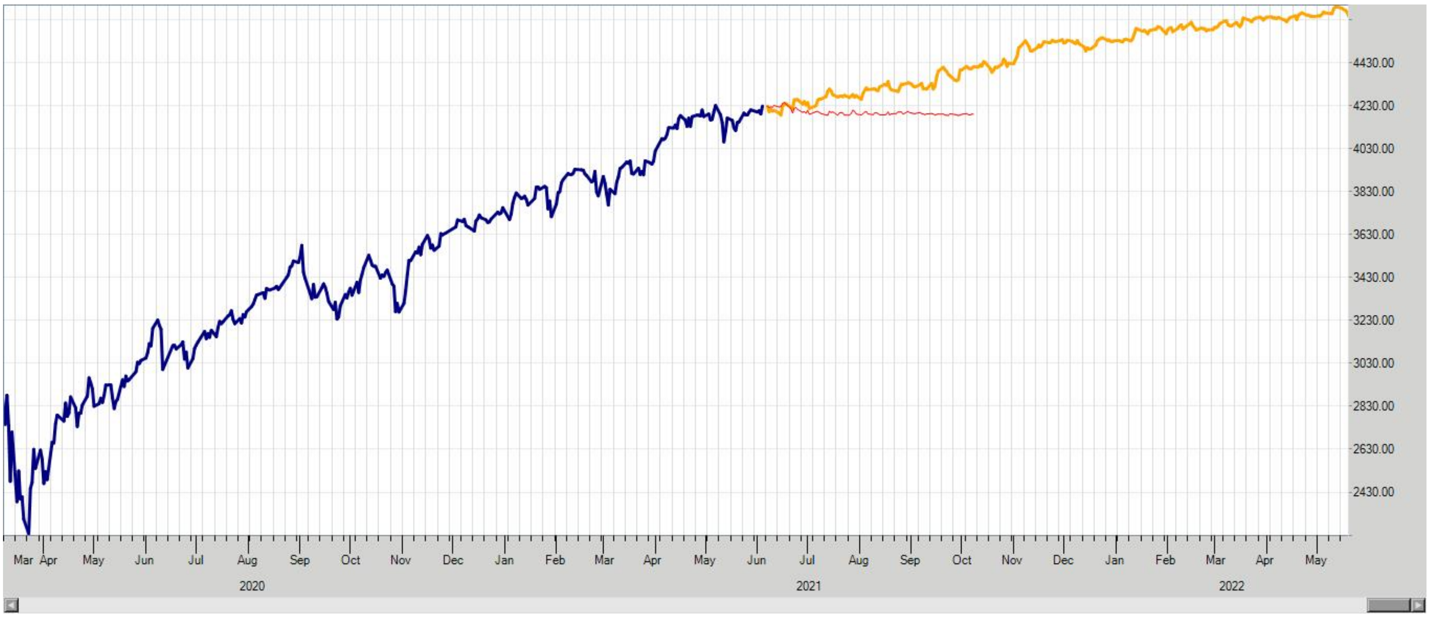


What really matters to me, however, is how investment grade shares behave and the ShareFinder Blue Chip Index (which is derived only from shares which have delivered more than ten years of constant dividend growth) is the only available international measure. Thus, below left I have graphed the performance of South African Blue Chips which have delivered compound 41.6 percent since last May while New York Blue Chips (right below) have delivered just 34.8 percent.



They have, however, both begun a decline which Sharefinder predicts will last well into the New Year. The only real difference between the two markets is ShareFinder's prediction that while New York is equally likely to go into decline from now on for a protracted period, the decline is likely to be less severe.

While the Blue-Chip outlook internationally is not too optimistic at this stage, the same does not seem likely to apply to Wall Street in general. In my next graph of the S&P500 Index you can see that Sharefinder expects a continuation of the longest Wall Street boom in history although it senses that the growth rate might decline a tad!



What has surprised everyone however, is how strongly the Rand has improved since last May on the back of a recovery of the global resources market...so much so that commentators are cautiously talking about a new minerals super cycle on the back of a repeat of the ‘Roaring 20s’ phenomenon that followed the 1918 Great Flu pandemic. My graph below on the left illustrates how the Rand has been increasing in value at compound 24.6 percent since last April and ShareFinder’s projection that the increase will continue until mid-October when it could reach R13.34 to the US Dollar. In similar fashion, the Australian Dollar (below on the right) has been gaining at compound 28.9 percent since last March under the same influence.... of course they do not have quite the same sovereign debt problem as ourselves! Remember that a falling currency graph represents strength because fewer Rands are needed to buy Dollars!

Do enjoy your weekend!

The month ahead:

New York's SP500: I correctly anticipated this week's start of weakness which is likely to last until mid-August followed by a recovery until late November when a sideways trend is likely.

Nasdaq: I correctly predicted further increases until the end of June followed by weakness until early September followed by a recovery until early December.

London's Footsie: I correctly predicted a volatile decline until October followed by a brief recovery until mid-November and then further weakness through to next April.

Germany's Dax: I correctly predicted the declines but wrongly expected that this was the final consolidation. Weakness has, however, again begun and is likely to continue until October.

France's Cac 40: I prematurely predicted the start of volatile declines likely to last for the rest of the year. However, I believe this is the top now.

Hong Kong's Hangsen: I correctly predicted further losses until the second week of July ahead of a volatile recovery until December.

Japan's Nikkei: I correctly predicted that the declines which began in February would continue until now followed by a partial recovery likely to begin around the 21st and lasting until the end of October ahead of further steep declines thereafter well into the New Year.

Australia's All Ordinaries: I correctly predicted a fresh bear phase until mid-September with a short interim recovery from mid-July until mid-August. From mid-September I see gains until early December when another slide is likely to begin.

JSE Top 40 Index: I correctly predicted a continuation of the long volatile slide that began in early March and is expected to last until early September followed by a brief recovery to early October and then a further slide until mid-February.

ShareFinder JSE Blue Chip Index: I warned that the present up-trend was likely to be transitory and over by mid to late June. Now I think the peak has been reached and I see declines until next April.

Rand/Dollar: I correctly forecast gains to the end of June. Now I see the currency bouncing along the top of its value until mid-October when a weakening phase is likely to begin.

Rand/Euro: I correctly forecast gains which I continue to see lasting until early September when a long reversal is likely to begin.

Bitcoin: Though a brief respite is now due, it's likely to be downward again in an almost unbroken decline until September.

The Predicts accuracy rate on a running average basis since January 2001 has been 86.21 percent. For the past 12 months it has been 92.39 percent.

GIULIETTA TALEVI: Don't be fooled — this level of unemployment isn't normal

Who wants a job anyway? Well, all of the desperate job seekers in SA, who now constitute the 7.2-million unemployed — which is 8,000 more people than at the end of last year.

On the narrow definition of unemployment, 32.6% are without work — which is a record since Stats SA began producing its quarterly labour force survey in 2008. But, if you look at the expanded definition, which includes those who've given up looking, this unemployment number balloons to 43.2%. Dig deeper, and you'll see that, horrifically, 74% of the youth have no job and, at this rate, scant hope of ever being employed.

It is a bone-chilling figure of economic failure, yet Tuesday's figures, once again, met with hardly a reaction from civil society, let alone the government.

Have we become so inured to the human crisis that continues to play out around us? Have we begun to believe this is normal?

While SA is among the world's worst, the jobs carnage due to Covid-19 is a global phenomenon: the International Labour Organisation reckons that 75 million jobs will disappear worldwide this year, and there will be a global shortfall of a further 23 million jobs in 2022.

Depressingly, it says: "Projected employment growth will be too weak to provide sufficient employment opportunities for those who became inactive or unemployed during the pandemic and for younger cohorts entering the labour market."

And it adds that "many previously inactive workers will enter the labour force but will not be able to find employment."

While this is playing out in many lower income countries, the situation in the world's richer regions is the opposite — a shortage of staff to do the work.

Last month, the Economist wrote: "in America a surge of spending is creating job openings, but few people seem willing to fill them. The number of vacancies, at over 8-million, has never been so high."

The Financial Times (FT) also reports that a shortage of workers across Europe — and in this case, Berlin — "is hampering the reopening plans of hotels, restaurants and bars, which threatens to hold back an expected economic rebound as vaccinations accelerate and Covid-19 restrictions are eased further."

Clearly, spending time at home on a government subsidy — a real subsidy, not a paltry R350 à la the SA government — has led to a lot of introspection and life-changing decisions.

"One reason I think we have these shortages is that people working in hospitality went home, and over the past six months, they've reassessed their lives," Emily Harman, co-owner of Berlin's Ora restaurant told the FT.

"It highlighted issues in the sector: low pay rates, long hours ... If I didn't own this business, I'm not sure I would have stayed in this industry."

Someone else, identified as Franco, reckons that the quality of service workers in Berlin was a "disaster" even before the pandemic. "I love to serve people, but if we're honest, I think a lot of people don't."

One answer to the problem might be higher pay and it seems curmudgeonly, at best, to begrudge workers a pay hike.

Yet higher wages aren't yet evident. As the FT writes elsewhere, "in the US, the quarterly Employment Costs Index showed the biggest jump in wages for 14 years in the first quarter of 2021, but it lags behind events on the ground and can be volatile. In the eurozone and UK, headline measures of wage growth have been distorted by the large number of low-paid workers still out of work and by reductions in working hours because of furlough and short-time work schemes."

As the Economist points out, there are "snarl-ups" aplenty in a shortage of staff. "A bidding war between employers could yet cause an inflationary spiral. And shortages ricochet around the economy. A builder that cannot find labourers will put up fewer new houses, in turn hitting decorators. Businesses that are still recovering from the crisis may face another financial blow," it wrote.

In other words, wage pressure be a crucial metric for the world's central bankers to watch in the coming months as they grapple with rising inflation.

But when you stack that against the devastation explicit in SA's incredible shrinking jobs market, this seems a nice problem to have.

Talevi is the FM's Money & Investing editor.

How the US tracked a Bitcoin ransom

New York Times

The Justice Department said yesterday that it had traced and seized much of the ransom that a major U.S. pipeline operator paid to a Russian hacking collective last month.

The ransomware attack shut down the Colonial Pipeline for about a week, prompting fuel shortages and price spikes, until the company paid hackers more than $4 million worth of Bitcoin. But federal officials said that a new F.B.I. task force had recaptured most of the Bitcoins by, in essence, hacking the hackers.

Bitcoin transactions are anonymous but not untraceable. The hackers moved the ransom through dozens of anonymous accounts, which can be tracked on the blockchain, the public ledger of all Bitcoin transactions. Eventually, the funds landed in an account that a federal judge allowed the F.B.I. to break into. According to court documents, the feds got the account's "private key," a crucial password that gives the owner complete control over the funds inside.

- Tom Robinson of the blockchain analytics company Elliptic, who has been tracking the ransom payments, wrote in a blog post that the account the feds took over appeared to hold the 85 percent share of the ransom that went to the client of DarkSide, the Russian "ransomware as a service" hacking group whose software was behind the attack. The remaining 15 percent was funneled through accounts presumably controlled by DarkSide developers.

In a way, this could be good for cryptocurrency. A major criticism of crypto is that its anonymity and ease of use make it suitable for crime, like the ransomware attacks that, by some measures, strike every eight minutes. The Justice Department didn't divulge how it had seized the bulk of the Colonial ransom, but its success shows that it can comb the blockchain and crack into at least some accounts. That's good for the traceability of cryptocurrency used for crime — but also goes against the decentralized, privacy-focused, anti-establishment benefits that some see as crypto's greatest assets.

- Federal officials encouraged companies to work with the F.B.I. when attacked, as Colonial did, to help recoup ransom payments, which are thought to run into the billions of dollars (and are legal and even tax-deductible).