



Our Weekly Paid Newsletter

# Richard Cluver Predicts

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



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**Talking to friends in KZN this past week I was acutely aware of how many went to bed at night fearful of a petrol bomb flung through the bedroom window. The rioting and destruction of property at the height of the Covid "Third Wave" furthermore left us all asking in desperation, "Where are the police and the army in our hour of need?"**

This was President Ramaphosa's crisis to lose; the opportunity for he and his Cabinet to show true leadership. Instead, most of them seem to have been missing in action. It took them four days dealing with the necessary paperwork to get a small contingent of soldiers into Durban to relieve a hopelessly overstretched police force. Etched in my mind was a news clip of a lone policeman armed with a shotgun trying by sheer force of his presence to face down a horde of commodity drunk rioters intent upon looting dish washers and deep freezers which would likely not work in their electricity-starved shacks.

Then that evening our President came onto national TV to mouth ineffectual platitudes. But by then the mobs already knew they had impunity; that nobody was going to try and stop them from taking their pick. If any of them saw him on their newly-acquired flat-screen TVs pleading with them to desist, they must have laughed. Why should they when his lack of decisive action had effectively handed them the keys to an endless series of Aladdin's caves all stacked to the roof with cheap consumer electronics they had never for a moment ever dreamed that could afford to possess?

Among those hit was Natal-based retailer Mr Price which yesterday released a report that "... 109 (approximately 7%) of the group's 1 592 stores have been entirely looted. In addition, the group has had to temporarily close a further 539 stores across its six divisions. Most of the impact is in KwaZuluNatal."

And the statement added, "The group is confident that the physical losses suffered to date are covered by its SA Special Risks Insurance Association (SASRIA) insurance cover. SASRIA have provided assurance through public statement that it has the financial means to honour claims."

I am reminded in all of this of a wilderness trail I once embarked upon in the Drakensberg in which the Parks Board ranger who was leading it showed us how our natural forests have defenses against the regular grassland fires that engulf them. The hardwoods growing at the centre are ringed with fire-absorbent softwoods which dampen the flames and stop them penetrating to the heart of the forest. And the prime feature of these softwoods is that they quickly regenerate.

It seems to be that our urban warehouses; quickly constructed of steel frame and light metal cladding and stiffed with cheap consumer goods, are our society's softwoods. They are the mob diversion which protect our principal infrastructure like our road, rail, harbor and communications systems which are really expensive to construct and are vital to a community's existence. So, in our modern society, businesses like Mr Price represent our social front line and, like the softwood trees they are well able to absorb the impact of social crisis.

Mr Price well survived the Covid lock-down of 2020 and has just reported that in its latest accounts that "Total diluted HEPS increased 13.2%." And it offered "Annual dividends declared of 672.8 cents per share, up 116.1% at a pay-out ratio of 63.0%" which were paid out on June 28.

As my graph, on the next page, illustrates, the shares then went into the normal ex-dividend retreat, having fallen from a high of R238.47 on May 28 to a low of R195.00 on Wednesday before bouncing back up on the strength of this week's damage assessment. So, following an actual payout of R3.70 out of an annual dividend total of R6.72 the shares fell by R43.47 which, by any stretch of the imagination, represents a very severe ex-dividend retreat.



To be fair though, ahead of the dividend announcement the shares had been standing at R193.17 on May 25 before rising to R238.47. So they had already risen by R45.30 and, by implication the recent price hiatus was fully explained by the dividend.

So are the shares a buy at the current price? Well, the least-squares-fit line I have drawn onto the graph suggests that they are still rather overpriced and need to fall further to R200 to be correctly priced in relationship to their recent price history. But that “recent normal” does not take into account the fact that last year Mr Price did not pay a dividend in the wake of the Covid business shut-down and so the dividend announcement on May 27 was more than just that; it represented a return to normality of one of Natal’s premier Blue Chips.

So what is the true worth of Mr Price shares? Well as always the value of a share is what the market is prepared to pay and so it is instructive to look at a graph of the past few years and here it is important to note that on March 7 2018 the shares had closed at R293.07 having previously reached a high of R287.96 on January 31 of that year. But that followed reports that the retailer had lost its way in the instant fashion slot within which it had been a leader, replaced by new overseas competitors like Cotton On and H&M.

But the fashion-conscious believe Mr Price has found its mojo once more and it is worth noting how important this is where, according to the Bureau for Market Research at the University of South Africa, South African households number among the continent’s most brand conscious consumers, spending an average of 5.3%, or R582, of monthly income on clothing and footwear, above spending on education at R373.

In that report the bureau made the telling observation that, “In impoverished shanty towns where the black majority live, the trendiest clothes and latest fashion are common features of township life.” It is a fact to bear in mind when considering this week’s riots!

But, returning to my graph, the Mr Price share price recovery began after the March 2020 market melt-down when I constructed my least-squares-fit line. For those who need an explanation least-squares-fit is a computer-generated price mean and it showed that the shares were gaining at a compound annual average rate of 63.9 percent. To give meaning to that number, the ShareFinder-generated Blue Chip Index grew by compound 35.4 percent during the same period.

More to the point, perhaps is to consider Mr Price as an ultra-long-term hold, as a Blue-Chip inclusion in the traditional Widows and Orphans portfolio. As my graph for the past 20 trading years indicates, throughout that period the shares have delivered annual price growth of compound 24.7 percent and, relative to their price mean as my graph below illustrates, they are this week exactly correctly priced.



I cannot, however, dwell only upon South Africa's issues for the market whose tail wags the rest of the world, the US, is beginning to seriously wake up to the issues I have been warning about for the past two years, the consequences of irresponsible money-creation and the inevitable consequence of inflation which MUST impact smaller nations everywhere. The following graph of crude oil prices explains why even South Africa is feeling the brunt of Joe Biden's money-creation with a knock on that the recent riots can only exacerbate.



In my 20-year graph I have constructed a price mean line (red) which has risen throughout at compound 1.6 percent which equates with the global inflation rate over the period and, within that it is important to note that the 205 percent price gain since April 2020 (purple trend line) has merely brought the oil price back to a correct level.

Note that I have invoked ShareFinder's future projection algorithm to plot the likely future of oil prices which it calculates will peak at \$80 plus within a month or two before beating a retreat. On this occasion, however, I have to seriously doubt ShareFinder's unemotional calculations because the average American is on a spending spree and inflation is soaring out of hand. Consider the comments from US column Morning Brew:

*"Inflation is getting so bad Arizona might have to raise the price of its iced tea above \$0.99. Okay, it's not that horrific yet, but consumer prices did surge 5.4% in June from a year ago, the biggest increase in 13 years.*

**What happened:** As the US reopened for business, consumers swiped their credit cards with fury. Combine that with supply shortages across the economy and massive government stimulus, and you get sweeping price increases.

#### **But there are nuances**

The WSJ's David Harrison divided the inflation report into four categories to show that price hikes aren't occurring uniformly across the economy. In some sectors...

- **Prices that plummeted early in the pandemic and are surging to catch up.** Think fares (24.6% annual increase in June) and hotels (16.9%).
- **Prices that are booming thanks to supply shortages.** Used cars are the star of this category, with their price increases accounting for more than a third of June's total price hikes. Economists expect prices to return to normal levels when supply chain wrinkles are ironed out.
- **Prices that will remain higher permanently.** You could be paying more at restaurants over the long term thanks to an extended labor shortage and higher wages.
- **Prices that aren't increasing that much.** Rents are inching upward at a rate of 1.9% per month. For comparison, rents on a primary residence rose at a nearly 4% rate before the pandemic.

As always with inflation stories, we must close by turning to the Fed, whose main job is to keep prices stable. Will June's inflation boom change Chair Jerome Powell's view that price hikes are transitory?

Probably not. As we mentioned, the bulk of the price increases were in sectors battered by the pandemic (hospitality) or those battling supply shortages (used cars). Higher inflation might stick around a little longer than initially expected, but investors are betting more typical price growth will return, just like the handshake.

# Do keep safe in the week ahead!

# The month ahead:

**New York's SP500:** I correctly anticipated that a short recovery would probably continue into early August but that pressure for a cyclic decline was continuing to mount with short-term indicators suggesting a down-turn could come as early as the 16<sup>th</sup>. It began on the 14<sup>th</sup> and ShareFinder expects it to continue until August 16.

**Nasdaq:** I correctly predicted increases would continue but sensed the probability of an earlier reversal beginning as soon as the 19<sup>th</sup> ahead of a decline until mid-September. It began on the 13<sup>th</sup> and now appears likely to continue until mid-September.

**London's Footsie:** I have correctly for some weeks pointed out that London had peaked and was likely to head on down until mid-October. However, within this I now sense the possibility of gains until the first week of August.

**Germany's Dax:** I correctly predicted the beginning of weakness from mid-June and I expect it to continue until mid-October. This week's brief gain was unexpected but I expect the trend to continue downwards.

**France's Cac 40:** I correctly marked the top of this market in mid-June and still expect it to continue down until the end of the year.

**Hong Kong's Hangsen:** I correctly predicted further losses likely to continue until the second week of July ahead of a volatile recovery until December when further declines are likely to begin....and I continue to hold that view.

**Japan's Nikkei:** I correctly predicted a brief recovery within an overall declining trend likely to continue until early-August ahead of another recovery likely to last until early November. But further steep declines are likely from the end of November.

**Australia's All Ordinaries:** I correctly predicted the declining trend that began on June 16 but recent gains were unexpected. However, I expect the market to make a double top before beginning to head down from the end of this month until mid-September.

**JSE Top 40 Index:** I correctly predicted a continuation of the long volatile slide that began in early March and which I expected to last until early September. The outlook was however, improving and I sensed the beginning of an interim recovery which is likely to last until the end of the month beginning a six-week retreat ahead of gains until early October.

**ShareFinder JSE Blue Chip Index:** I correctly forecast that it would be downhill from mid-June followed by a brief recovery from now until the end of July before the down-trend resumes for the next 12 months.

**Rand/Dollar:** I correctly forecast the currency had peaked in value and from here would bounce along the top of its value until mid-October when I continue to expect a weakening phase will begin.

**Rand/Euro:** I correctly forecast a weakening phase which should last until early September when a long reversal is likely to begin. However, I now expect seven weeks of gains before weakening commences again.

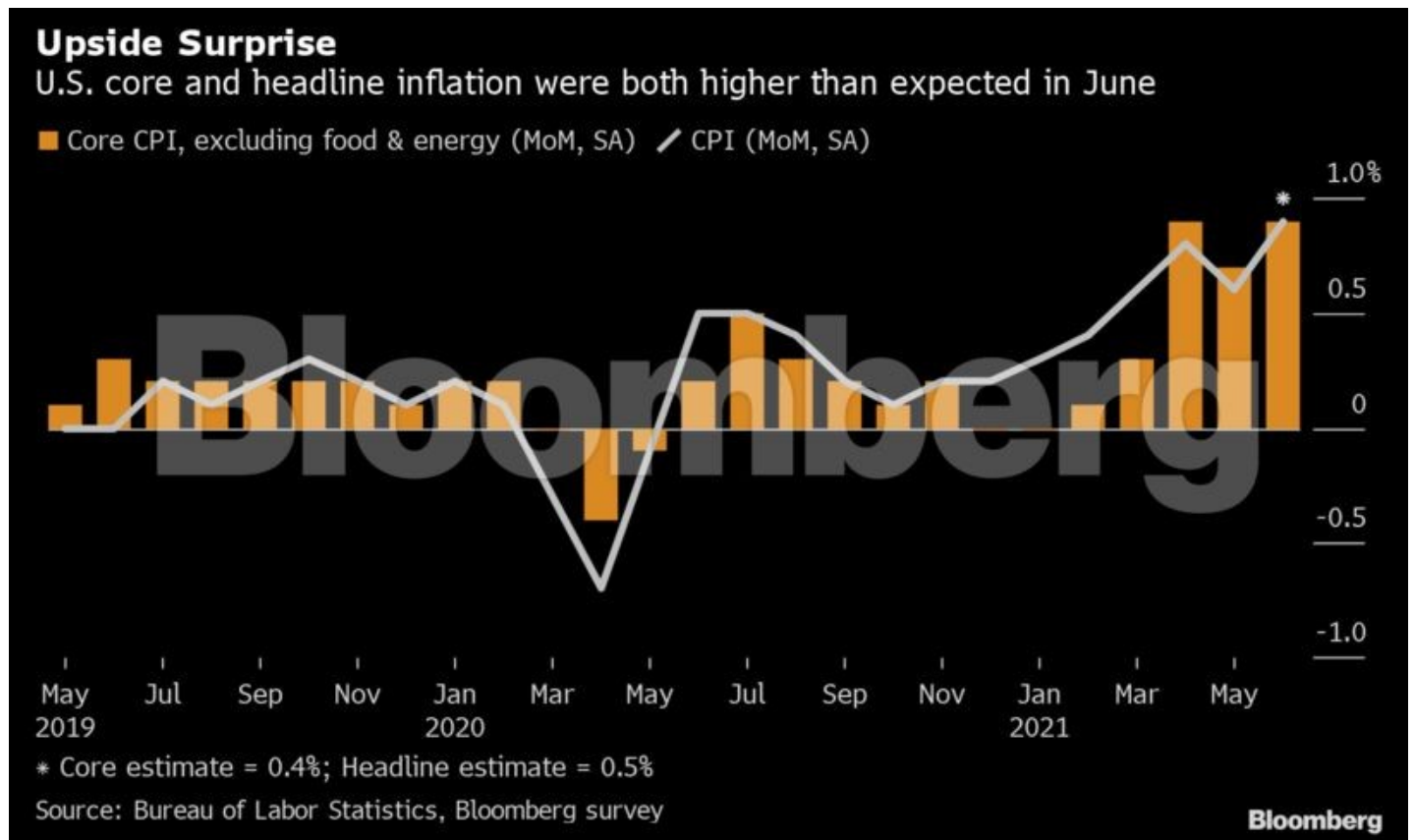
**Bitcoin:** I correctly predicted declines which I thought likely to continue until July 23/26 when a fortnight of gains seems likely.

***The Predicts accuracy rate on a running average basis since January 2001 has been 86.28 percent. For the past 12 months it has been 92.38 percent.***

# BUSINESS MAVERICK

Prices paid by U.S. consumers surged in June by the most since 2008, topping all forecasts and testing the Federal Reserve's commitment to sticking with ultra-easy monetary support for the economy.

The consumer price index jumped 0.9% in June and 5.4% from the same month last year, according to Labor Department data released Tuesday. Excluding the volatile food and energy components, the so-called core CPI rose 4.5% from June 2020, the largest advance since November 1991.



Used vehicles accounted for more than a third of the gain in the CPI, the agency said. The outsize increase was also driven in large part by the pricing rebound in categories associated with a broader reopening of the economy including hotel stays, car rentals, apparel and airfares.

Expectations that those increases will normalize help explain the Fed's view that inflation is transitory.

"Inflation surprised substantially to the upside in June but, once again, owing to outsized increases in prices in a few categories," said Michelle Meyer, head of U.S. economics at Bank of America. "This reinforces the idea of transitory inflation."

In the bond market, however, some investors saw the data as putting more pressure on the Fed. The Treasury [yield curve flattened](#) as the above-forecast reading emboldened traders to bet that the central bank will tighten policy in early 2023.

With inflation, from the Fed "we are told the story is transitory but the increases are going faster and for longer," John Ryding, chief economic adviser at Brean Capital said on Bloomberg Television. "We just had a monthly increase that was about double what was expected."

The median forecasts in a Bloomberg survey of economists called for a 0.5% gain in the overall CPI from the prior month and a 4.9% year-over-year increase. The S&P 500 declined after the report.

The report also may add to challenges for the Biden administration in getting Congress to approve trillions of dollars of additional fiscal spending in coming years. Republicans have been highlighting the jump in inflation as a reason to reject such new plans.

A White House official said the report was consistent with the administration's view that the spike in inflation is related to post-reopening bottlenecks in economy.

The year-over-year figures have shown outsize gains in recent months partly because of so-called base effects — the CPI retreated from March through May of last year during the pandemic lockdowns. While the annual figures are expected to peak, it's not yet clear how much moderation will occur over the coming months.

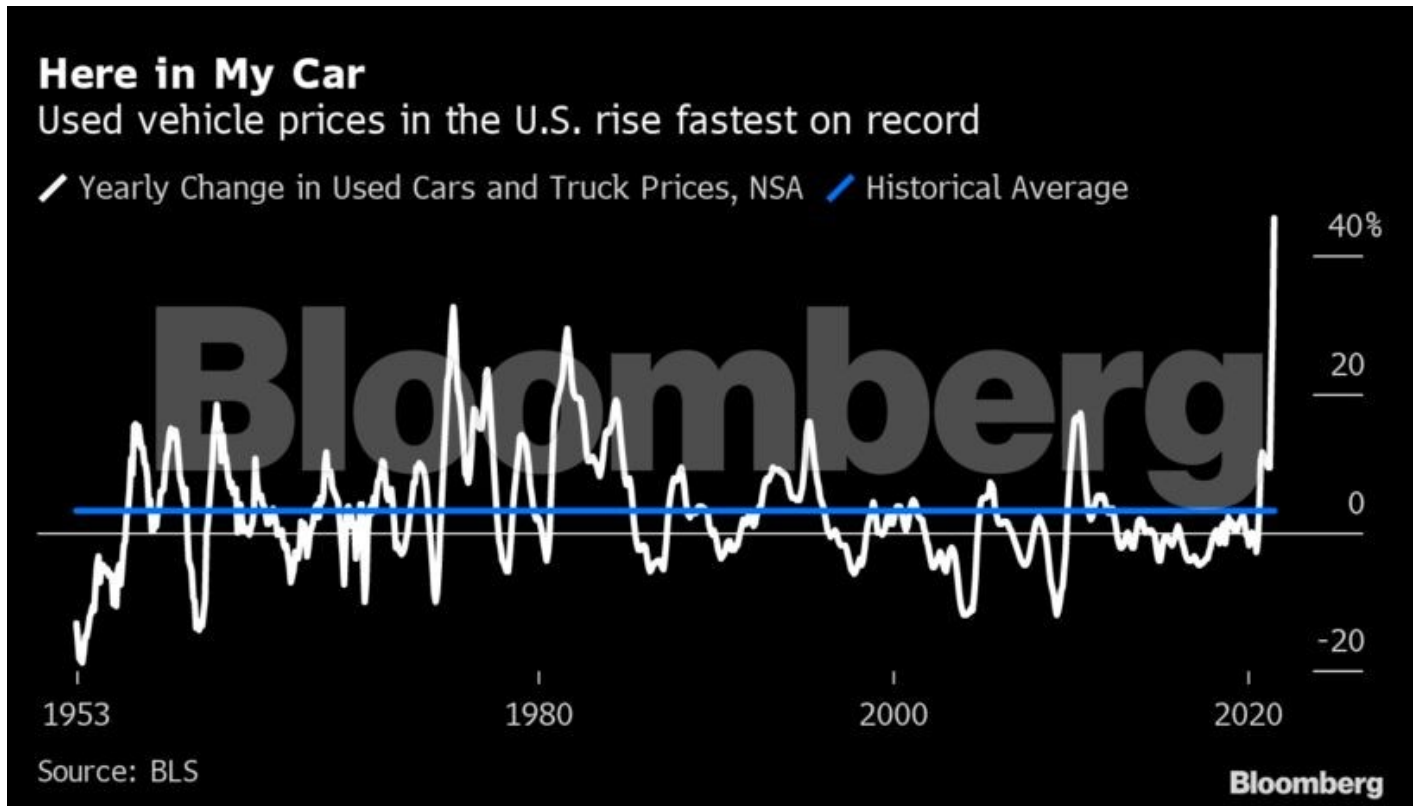
In the three months through June, the core CPI increased at a more than 8% annualized rate, the fastest since the early 1980s.

Read more: [CPI Details Mean Fed Can Cling to ‘Transitory’ View](#)

Household spending on merchandise, fueled in part by government stimulus, has left businesses scrambling to fill orders while facing shortages of materials and labor. That dynamic is contributing to higher costs, which often feed through to consumer prices.

Meanwhile, the lifting of pandemic restrictions is propelling purchases of services like travel and transportation, another contributor to inflationary pressures.

Prices paid for new and used vehicles rose from a month earlier by the most on record., That said, those categories each make up less than 4% of the overall CPI. The cost of food away from home jumped 0.7% on a month-over-month basis, the largest gain since 1981.



[Read More: Meat Inflation Soars as Pork Shortage and U.S. Grilling Collide](#)

In earnings reports Tuesday, companies including PepsiCo Inc. and Conagra Brands Inc. noted cost pressures in their supply chains. Conagra has already raised prices and said it will continue to do so — and that those hikes will eventually help the firm’s profit margin.

Fed Chair Jerome Powell has said that recent price increases are the result of transitory reopening effects, though more recently acknowledged the possibility of longer-term inflationary pressures. Sustained constraints in the production pipeline, along with a pickup in wages, raise the risk of an acceleration in consumer inflation.

Economists have been watching to see whether price pressures broaden out to categories other than those that are just now rebounding after pandemic-related lockdowns.

Shelter costs, which are seen as a more structural component of the CPI and make up a third of the overall index, rose 0.5% last month, the most since October 2005. The gain was driven by a 7.9% jump in hotel stays.

Wage growth rose steadily through the second quarter, but [higher consumer prices](#) are taking a toll. Inflation-adjusted average hourly earnings fell 1.7% in June after slumping 2.9% a month earlier, separate data showed Thursday.

Figures out Tuesday from the National Federation of Independent Business showed 47% of small-business owners, the largest share since 1981, reported higher selling prices in June.

Consumers are anticipating higher prices in the near-term. Median inflation expectations for the coming year [increased](#) to series high 4.8% in June, according to the New York Fed’s Survey of Consumer Expectations.