Our Weekly Paid Newsletter

Richard Cluver Predicts

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If you have been able to piece together the implications of the enormous share swap which effectively closed down the JSE for half a day on Wednesday, then you were undoubtedly one of the very few.

I thus owe a debt of gratitude to Sasha Planting of Business Maverick who succinctly explained yesterday that the share swap sees Naspers owning a 57% majority stake in Prosus, down from 73.2%. In turn, Prosus has taken up 45.33% of the total issued share capital of Naspers.

And she added:" The weighting of Naspers in the JSE's Top 40 moved from 15% to 8%, while Prosus moved from 11.1% to 9.6%. Similarly, on the Swix40 (Shareholder Weighted Index) Naspers was downweighted from 23.4% to 11.9%. And on the capped Swix40 (where weightings are capped at 10% regardless of their market capitalisation to reduce concentration risk), Naspers downweighted from 9.50% to 4.9%, while Prosus was upweighted to 6.6% of the index, from 1.95%. Collectively, they now make up 11.5% of the capped Swix, up from 11.45%.

Like most of my readers I suspect, I own both shares and, both because I both found the mathematics of the exercise too daunting to try and unpiece, and because I had no desire to have to cope with the capital gains tax outcome, I elected to do nothing. The result, according to Anchor Capital portfolio manager Mike Gresty, has seen the net asset value of my shares in both companies increase by about six percent. Had I participated, he calculates, I would have seen a 9.5 percent increase.

For the market-tracker funds which were of course obliged to adjust their weightings in both shares to reflect the new reality, the result was to cause the biggest set of sales and purchases the JSE has ever experienced as some 120-billion Rands of transactions clogged up the exchange's computers until mid-day.

At the heart of the transactions, as was the Prosus issue which did little for Naspers investors other than saddle them with a capital gains tax headache, was another attempt to address the massive discount to net asset value of Naspers and Prosus. As most shareholders understand, Naspers has been trading lately at an approximate discount of 50 percent to its underlying asset value and Prosus at + - 30 percent.

The boards of both companies, which are virtual mirror images of each other, have faced ever increasing pressure to unlock this latent value by unbundling to shareholders their shares in the Chinese tech giant Tencent. And, not surprisingly, the boards have consistently refused because Tencent has been the golden goose that has delivered most of the consistent value growth they have enjoyed.

Cynically, and I am sure I have not been alone in this, I did not expect the latest exercise to achieve anything more than increase the complexity of the equation. So, while the optimists were hoping that the prices of both shares would tick upwards by as much as nine percent, the market in fact marked the shares down. The graph on the right traces the first few hours of trade yesterday once the market was able to respond to the developments. And, as you can see, by late morning the shares in Naspers were down 3.87 percent and late yesterday by 5.35. Prosus was trading 4.36 percent down and later 6.44 percent.

Furthermore, as the graphs below indicate (Naspers on the left and Prosus on the right) both companies have been in decline since February. More critically, in the case of the Naspers graph (on the left) the declining trend is contained within divergent trend lines which indicate that investor indecision has been rising. In simple terms, investors have been growing increasingly uncomfortable about Naspers and (purple line projection) ShareFinder predicts that things will get worse in the short-term before they improve in the medium-term (red line projection.

However, there is a significant difference in the Prosus graph. Note that although they have also been falling, the trend lines converge and, furthermore, the price graph has already broken upwards.

Now, of course, the fortunes of both shares are firmly anchored to the fortunes of Tencent which is in turn anchored in a modern-day China which has all the attributes of a dictatorship which does not take kindly to its people adopting independence of thought and mind and, demonstrably of late, does not hesitate to discipline its rising army of entrepreneurs when they appear to be stepping out of line.

Readers who followed the disciplining of Alibaba CEO Jack Ma surely have no doubt that the Chinese Communist Party puts a far lower priority upon the foreign public relations of its tech giants than upon the importance of the puppet strings with which it seeks to control all of its people. In the long-term I would back the entrepreneurs and the rising Chinese middle class, but that is a Western viewpoint and I have no experience of what it is like to live in an Orwellian state where the short-term might nevertheless be measured in years rather than Western minutes! But that short-term could be critical for Naspers!

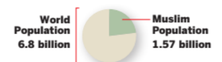
Afghanistan and all that!

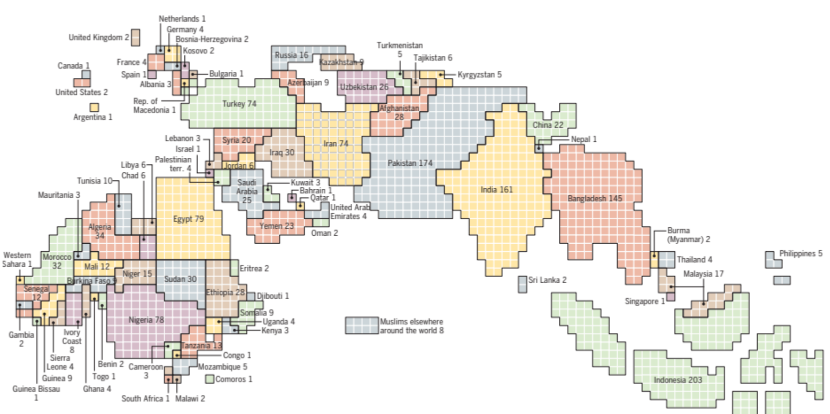
The events going on in Afghanistan this week where, seemingly without any resistance from a US-backed and armed standing army of 200 000 men, the Taliban has swept back into power, leading to chaotic scenes at border posts and airports as swathes of the population sought to flee feared oppression, seem far removed from most of my readers.

How could it happen so suddenly? But then who would have believed that the rioting and looting that happened in Gauteng and KZN last month could have happened while both the police and the army stood back and watched?

World Distribution of Muslim Population

This 'weighted' map of the world shows each country's relative size based on its Muslim population. Figures are rounded to the nearest million.



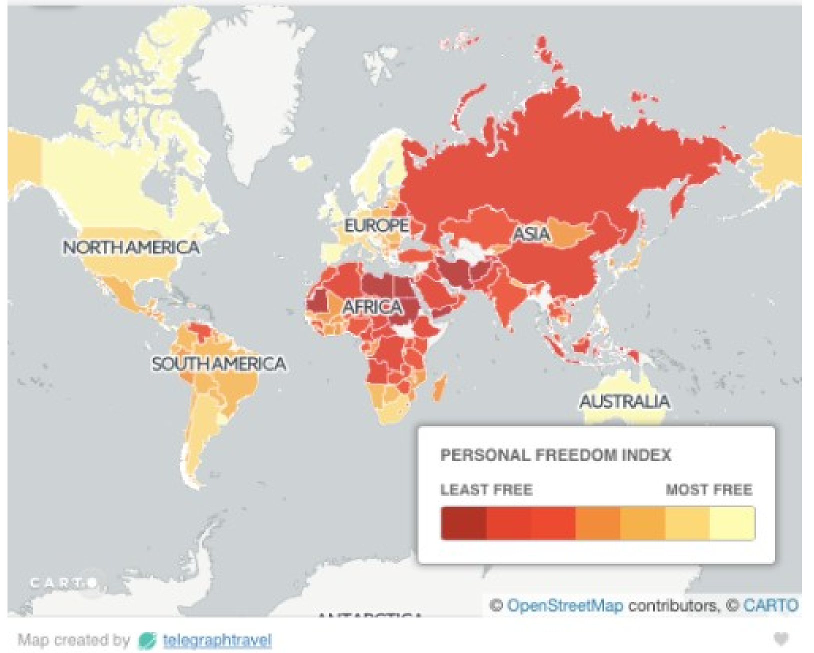


Pew Research Center's Forum on Religion & Public Life • *Mapping the Global Muslim Population, October 2009*

Who, furthermore, could have believed the events on Capitol Hill in the USA earlier this year when a mob was able to storm unresisted into the heart of America's Parliament?

But they all did happen and they speak of a world where the control mechanisms of law and order we always thought were everywhere dominant, have been proving powerless before the rise of political popularism; where the usually selfish aspirations of a few people are increasingly able to totally disrupt the peaceful lives of ordinary folk everywhere!

I have run the graphic above right, both in order that you can see where Afghanistan is in relation to the rest of the world and to remind readers that of 1.57-billion Muslims worldwide, the TOTAL Afghan population makes up just 28-million. That is just 0.4 percent of the world population and 1.78 percent of all Muslims.



The numbers are clearly tiny and Afghanistan is remote both from South Africa and from most of the West. Nevertheless, it has spawned a militancy which has inspired terror in the heart of the world's most powerful nations. Let us, furthermore, never forget that it was only by putting the torch to most of the homes of Afrikaans farmers and imprisoning their families that the world's most powerful army at the time was finally able to defeat a tiny army of impoverished and ill-equipped Boers in South Africa a century ago.

So I have run a second graphic to remind readers that terrorism usually only flourishes where personal freedom and social tolerance is at a low ebb.

And now things get rather closer to home. The second map on this page was created by the Irish Sun newspaper. It vividly illustrates how close things are getting to southern Africa and, of course, it is very similar to the map above.

I don't want to be alarmist, but South Africa's social inequality makes us wide open to the danger of populist politics gaining a foothold. Though every South African should on humanitarian grounds be doing everything they can to combat the rise of unemployment and the social inequality it is giving rise to, we should also not be blind to the ever present danger of political extremism getting a hold in this country.

The sheer human misery and the near total collapse of civilized order in countries where Islamic militancy is the principal driving force should energise us to do everything we can to ensure it does not happen here!

Meanwhile…

Meanwhile, the Wall Street Journal reports that nearly 14.2 million Robinhood users traded digital assets in the second quarter. Robinhood earned $233 million in fees from routing customers' cryptocurrency trades to high-speed trading firms, with Dogecoin accounting for nearly two-thirds of the volume. That is up from just $5 million a year earlier.

That helped offset slowdowns in other parts of Robinhood's business due in part to waning interest in meme stocks. For instance, fees Robinhood earned executing customers' stock trades fell 27% to $52 million.

Despite decreased stock-trading activity, interest that Robinhood received on margin loans nearly tripled to $31 million. Around 700,000 users held about $5.4 billion in margin-loan balances at the end of June.

Do enjoy your weekend!

The month ahead:

New York's SP500: I correctly anticipated a sideways to slightly weakening trend. Now I see a brief up-tick at least until the 24th and possibly into the first week of September. But I still see a low by the 9th.

Nasdaq: I was correct in suggesting a reversal might now be under way until mid-September with recovery likely from the 13th.

London's Footsie: I correctly predicted a decline which I continue to expect to last until mid-October.

Germany's Dax: I correctly predicted that weakness would continue with a brief gaining trend until the end of August within an overall long-term decline lasting well into the New Year.

France's Cac 40: I correctly predicted gains which I hoped could last until the end of this month. But now the declines have begun and should last until the end of the year.

Hong Kong's Hangsen: I correctly predicted a volatile recovery until December but did not foresee this week's decline that could last until Monday.

Japan's Nikkei: I correctly predicted three months of upward trend but did not foresee this week's sharp decline that should be over by the 23rd.

Australia's All Ordinaries: I correctly predicted an end to the gains around the 17th followed by declines until mid-October.

JSE Top 40 Index: I correctly predicted the interim recovery would be over by this week followed by a brief decline until September 10 ahead of a month-long recovery until early October.

ShareFinder JSE Blue Chip Index: I correctly forecast a brief recovery which I believe will be over after today followed by declines until the end of September when a new bull market is looming.

Rand/Dollar: I correctly predicted weakness. Now I see about six weeks of gains before weakness re-asserts itself in mid-October through to February.

Rand/Euro: I correctly sensed weakness until early August. Now an extended period of gains has begun until late October.

Bitcoin: I correctly predicted brief losses likely until about August 25 followed by gains until the end of October.

The Predicts accuracy rate on a running average basis since January 2001 has been 86.33 percent. For the past 12 months it has been 93.2 percent.

PETER BRUCE: Raise the drawbridge and local won't be so lekker

The ANC government is making all the wrong moves while trade is ballooning across our moats

BL PREMIUM

Last Friday Ebrahim Patel, the minister of trade, industry and competition, gazetted proposals to allow local companies to collude in the interests of the "localisation" strategy he is following to re-industrialise SA. Good heavens!

In doing so, Patel, the Great Cartel Slayer of the 2010 World Cup construction firms, tacitly concedes that collusion may have positive outcomes. Economic historians like Glasgow University's Jeffrey Fear could have told him that a long time ago.

In a 2006 paper Fear writes that "cartels positively contributed to technological innovation by stabilising volatile markets, permitting firms to invest in R&D. In the 1920s, radio and telephone manufacturers formed associations to limit excess capacity, encourage large-scale productions, pool research costs, set standard prices and design interchangeable product standards.

"Despite such collusion," writes Fear, "British telephone density and automation accelerated greatly up through the war. However, with the advent of antitrust laws and competitive pricing in the 1950s, which hindered industry co-ordination but prompted mergers and squeezed profit margins through price competition, the industry lost the incentive to expand capacity, enhance product quality, and fund crucial innovations that moved telephony into the electronic age."

Patel now twists in all directions to try to sculpt the new economy President Cyril Ramaphosa promises will rise Phoenix-like from the ashes of the pandemic and the catastrophic misrule of imprisoned former president Jacob Zuma. But it is lipstick on a pig.

Localisation moves Patel from the side of the consumer to the side of the producer. New rules allowing collusion join a raft of other punitive measures designed to reignite manufacturing in SA. He has brought the export of scrap metal to a virtual halt and extended a pricing system to allow local scrap melters (steel mini-mills and foundries) to buy it at a steep discount to export prices.

He has raised tariff barriers on a variety of steel and aluminium products, placed draconian rebate rules on textiles and clothing and, through a series of "masterplans" whipped big business into supporting ambitious product and job creation targets in return for the protections he offers them.

SA's trading partners have expressed concern as foreign companies invested here find their supply lines threatened, but, as Patel says in the government gazette, "in achieving the objective of localisation industry collaboration may be required". Collaboration, now a criminal offence, "may involve" identifying localisation opportunities, setting procurement targets and demand forecasting.

The gazetted proposals show Patel at full stretch as he tries to describe a situation where a firm can have an idea for localising a product but only discuss it with others through "facilitators" and that no pricing is to be shared. It is a nonsense. The price of the product might not be shared between firms by these "facilitators" but the prices of the inputs would have to be.

It won't end well. The ANC has been talking about localisation for 20 years and with each new initiative unemployment gets worse. Ramaphosa has had a goodish reformist run thus far — he's done the revenue service and the prosecutions service, stood firm on public sector pay, is privatising SAA (though *there's* a story that's gone suspiciously quiet) and is now planning to open big ports to the private sector (if he can find anyone ready to risk their capital in joint projects with this government).

But at least two things will stop him getting much further. First, any business done with this government is business done with the ANC, an incoherent, deceitful and greedy partner. Second, Patel's localisation policies are in all likelihood already destroying more jobs than they are creating.

He is localising by way of protecting big business and big unions. Smaller businesses in the 42 product groups he plans to localise are bleeding jobs as import prices of their raw materials balloon.

Our answer lies in setting stretch targets for exports, not localisation. We are too small an internal market for almost anything but food. And *any* exports. Then a drive to persuade our export customers to set up shop in SA, an unforgiving vaccination effort to make SA a safe tourist destination again and an immigration programme of more than a million skilled people from anywhere and with any skill.

Governments can't create skills. Only experience does. You don't need an education to re-wind an alternator or weld marine plate. You just need to watch someone doing it for five years and then have them watch you for the next five.

The whole ANC approach to its "new economy" is based on the fatal presumption (or hope) that Donald Trump and the pandemic would drive the world apart. The pandemic, wrote new finance minister Enoch Godongwana in 2020, "has legitimised a greater and more active role of the state in guiding the economy". Same old rubbish.

Worse, Godongwana declares "globally, protectionism and populism are on the rise ... multilateralism, global consensus and solidarity appear to be on the retreat as countries are focusing first and foremost on what works for them".

The fact though is that global trade is exploding as we raise our drawbridge. We thought we were going to be slipstreaming a new world order. Wrong! Official Chinese data show bilateral trade between it and the US surging. China's exports to and imports from the US reached $46.9bn and $14.3bn this past June respectively. These are record levels.

What is Ramaphosa thinking?

• Bruce is a former editor of Business Day and the Financial Mail.

GIULIETTA TALEVI: The great pensions raid

If you want to start a middle-class revolution in SA, start messing with people's pensions.

Yesterday's announcement from the department of social development — that it is working on a proposal in which South African employees are forced to allocate 12% of their earnings to a government-run pension fund — was met with predictable outrage.

You can understand why. As marketing expert Mike Sharman put it: "Great idea … if your government isn't run by a bunch of crooks."

In many ways, it *is* a great idea: SA has a woefully low savings rate — partly because we have such staggeringly high levels of unemployment (43.2% at last count), partly because the cost of living is becoming extraordinarily expensive, and partly because we are a consumerist society to the core.

This all becomes a problem for individuals when they are no longer able to support themselves after their retirement — so forcing people into saving a portion of their money would seem to be justifiable.

But here's the caveat: so lamentable, wasteful and crooked has the government's track record been in managing the public purse that you can easily understand the level of revulsion at the thought that, not only is the state gunning for up to 45% of your salary, it now wants to swipe a portion of your after-tax income too.

The green paper is a chunky 89 pages long, and the pension proposals are part of a comprehensive package of social security measures which the state has been toying with since the Taylor report into social security reforms was published in 2002.

In that paper, the department argues that the biggest gap in SA's social security system is the absence of a "mandatory contributory public social security fund" that provides retirement, disability and survivor benefits to the workforce.

Its remedy? It wants a proportion of all workers' retirement contributions on earnings to go to the mandatory fund rather than to their present retirement arrangements.

"As a result, occupational and voluntary funds will compete for supplementary savings over and above workers' contributions to the NSSF," it says.

Off-handedly, it adds: "existing pension and provident funds, including defined-contribution plans offered by most companies and defined-benefit public-sector funds will need to adapt their contribution and benefit structures to take account of the new mandatory social security arrangement."

Fatally for the department, however, this fails to recognise that the government hasn't been able to run any fund like this successfully.

The Road Accident Fund (RAF) is a disaster, and we all know what a crippling mess the Unemployment Insurance Fund (UIF) has been in paying out Covid relief over the past year. But rather than admit it simply can't do the job, the government seems to want to double down on its ineptitude.

It doesn't help that the green paper is peppered throughout with a thinly veiled us-and-them ideology.

Take the gem that the current pension fund tax regime benefits higher-income earners more, because “the value of tax deductions based on employee contributions to retirement funds is determined by the marginal rates faced by the individual. Higher-income earners therefore receive greater benefits than lower-income earners.”

This ham-fisted attempt at logic eloquently encapsulates the intellectual poverty in the department of social development. It ignores completely that higher income earners have earned this money in the first place, and then had a marginal tax rate of 45% applied to it. And it ignores the fact that the increasingly rare higher income earner is supporting a ballooning number of dependants.

Miscalculating trust in the state

The deeper question is: how confident does this plan make you feel about the future? With its usual tin ear, the department of social development has published this plan without any apparent awareness of just how fragile trust in the state is right now.

For one thing, it is clear the government wants the tax system to play a “central role” in the new social security system, by ensuring that any contributions you make to the NSSF (and supplementary arrangements) will be tax deductible.

Which may be great — until you read the line which says “such tax will only be paid when benefits are paid out, and not during the accumulation phase.”

In other words, you’ll only be able to get the tax benefit years later. But who, given the conduct of the state over the past 15 years, would trust that it will honour its word when it comes to the final payout? Who is truly confident the state will even *have* the money to stump up, when the time comes?

Neither is it clear who will actually appoint the board members of the fund, nor who will nominate the CEO or management.

The paper says: “the prerogative to nominate and to appoint board members should be separated to protect the integrity of the board and avoid politicisation of its work. Key stakeholders can be given the prerogative to nominate board members with a few qualifications.”

These include that stakeholder appointees can be “experts trusted by the nominating stakeholder.”

Board members will have “the obligation – under punishment liability — to focus on the best interest of the fund”, and “should also meet the fit and proper requirements of honesty and integrity, competency and experience, operational ability, and solvency.”

And yet, these were criteria that have been applied to the boards of just about every failed government-run fund and state-owned enterprise. And it didn’t help then.

There are other critical as-yet unanswered questions too. Questions such as who will build the systems responsible for this mega fund; will it be free to invest in JSE-listed assets, or will it be cajoled into investing in the state’s own development projects?

Much of the plan sounds fine — in theory. It is indisputable that SA needs a stronger social security net that is sustainably funded, and the aims are laudable.

However, for a nation that has seen hundreds of billions of rands which were meant to be spent on citizens siphoned away into the pockets of the rent-seeking predatory elite, you couldn't blame South Africans for suspecting this is just another raid on their rapidly diminishing wealth.

Talevi is the FM's Money & Investing editor.