



Our Weekly Paid Newsletter

# Richard Cluver Predicts

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



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05 November 2021

Undoubtedly the BIG story in South Africa this week has been the ANC's 'Groot Klap' which might unleash some uncomfortable moments for the Cyril Ramaphosa administration as the forces of darkness try to exploit this moment in order to try and unseat him – with potentially catastrophic consequences for ordinary South Africans in the near future. But there were many other significant events this week which will be shaping markets in the months to come. For me the three most important other events have been:

- The US Fed formally launches the 'Taper'
- SA buys into an early retirement plan for old power stations
- The world gets serious about climate change

As COP26 kicked off in Scotland this week with the objective of signing up most world governments to a pledge to limit global warming to below 2 degrees centigrade I have been in correspondence with British economist Sir David Ramsden, whose credentials include being deputy governor of the Bank of England. Sir David warns unequivocally that the world has 30 years to drastically reduce our dependence on fossil fuels or we are all dead.

Meanwhile weather disasters have become five times more common today than they were in the 1970s. Yet, despite most banks now withdrawing financial support for fossil-fuelled power plants there are, according to 'Global Energy Monitor,' 200 coal-fired power stations under construction in Asia currently: including 95 in China, 28 in India and 23 in Indonesia.

But in the same breath, who can gainsay the local performance of recently-listed Thungela Holdings created out of Anglo American's unwanted coal holdings. That red trend line indicates that until the shares came off the boil on October 5 they were rising at a compound annual rate 1 313 percent from R21.19 to R102.46. Certainly some investors do not think coal is finished yet!

And if you think the Thungela incident is simply a series of opportunistic trades given the massive international demand for coal, what about our serial polluter Sasol which, on its own, is one of the major reasons South Africa is the global pariah in the carbon dioxide stakes. Per capita we in SA are pumping 25 tons of CO2 into the atmosphere annually which puts us in a far worse situation than the serial polluters, the USA with 15.24, Russia with 11.44 and China with 7.38.



Actually we are only top of the per-capita pile because of our relatively small population. China is the largest emitter of CO2 in the world, with about 9.3 GT of carbon dioxide emissions. This is about 28 percent of the world's total emissions.

The United States has the second-highest carbon emissions at 4.8 GT in 2017. The United States is responsible for about 14 percent of the total global emissions.

Returning, however, to investor perceptions of the outlook for fossil fuels, one of the standout share market performances this past year has been Sasol. That red trend line in the graph on the right makes it the clear market leader with a compound annual average growth rate of 360 percent which has seen the shares rise fifteen-fold from a low of R20.77 in March last year to a recent peak value of R300.85.

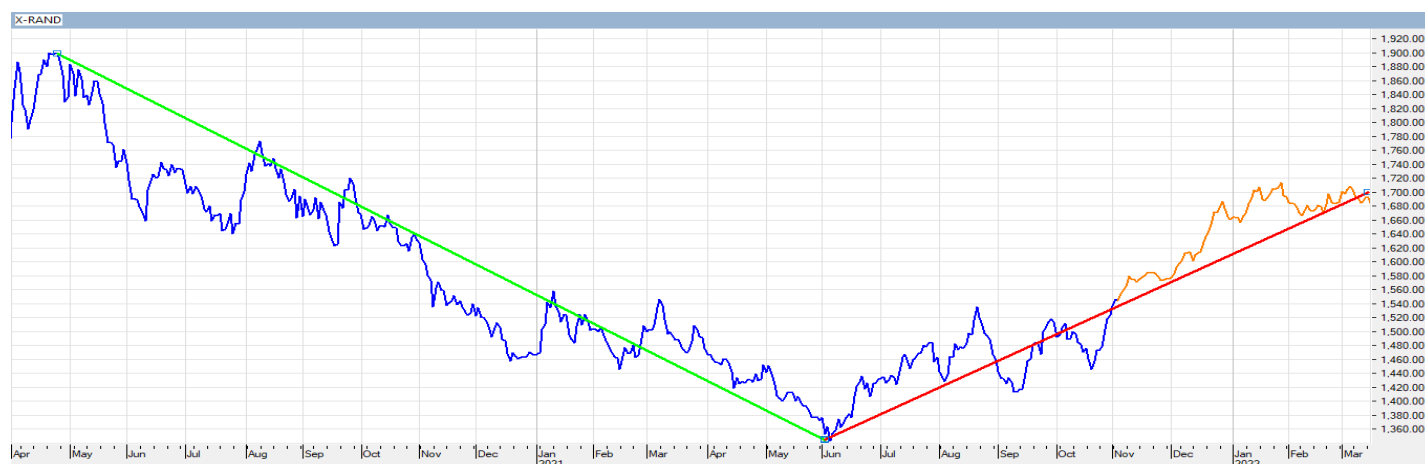
But though the jury is still out on greenhouse gases, of far more important medium impact upon South Africans is the actions of the US Federal Reserve which spent two days this week outlining what it thought about inflation and US monetary policy.



The story of the Rand relative to the US Dollar neatly encapsulates what the world thinks about US monetary policy in the short to medium-term. The falling green trend line, falling at compound 26.7 percent, represents the number of Rands needed to buy one US\$. Thus our weakest point recently was when it required 18.98 Rands to buy a Dollar back in April last year.

Then the US Government cranked up its printing presses in order to try and contain the worst economic effects of the Covid19 pandemic and the world became increasingly fearful that full blown 1980's style stagflation might engulf the world's biggest economy. The Dollar began to collapse and South Africa, along with a number of primary commodity producers, was the fortunate recipient.

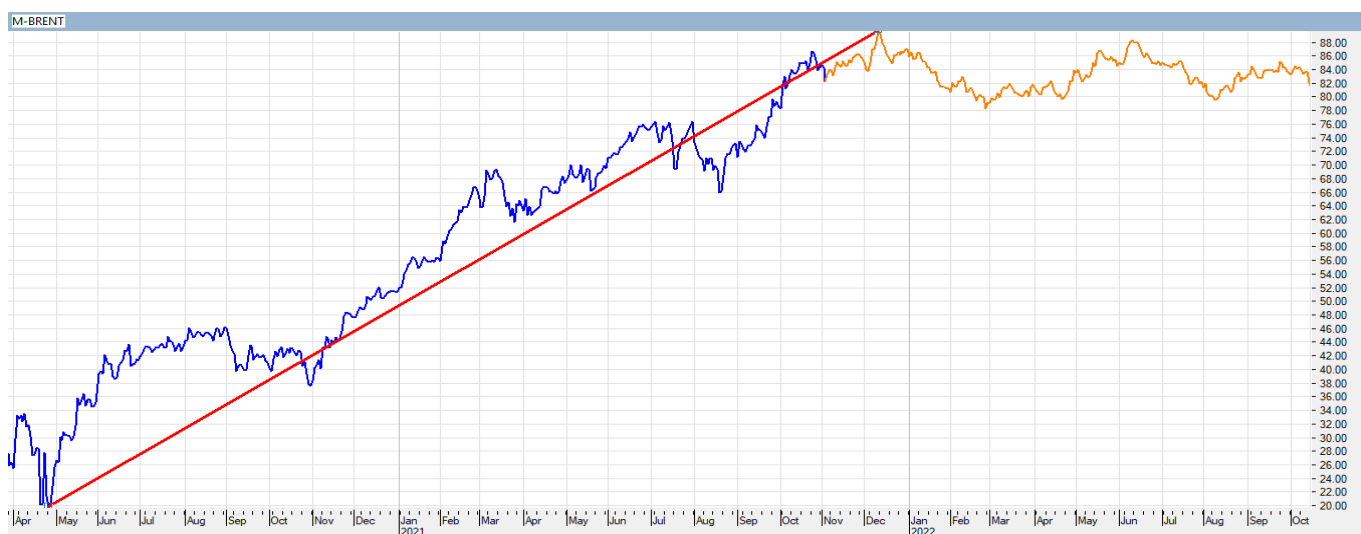
At its strongest point since August 2018, on June 4, it cost just R13.5344 to buy a Dollar. Ever since economic commentators began talking about the probability that the Fed would start "tapering" off its purchases of US Government paper, however, the Dollar has again begun strengthening at a compound annual; rate of 35.8 percent which, in the short-term makes it a very attractive speculative buy. The orange projection on the right of the graph below represents Sharefinder's current calculation that the Rand will lose value until late January when it is likely to touch R17.13 to the Dollar.



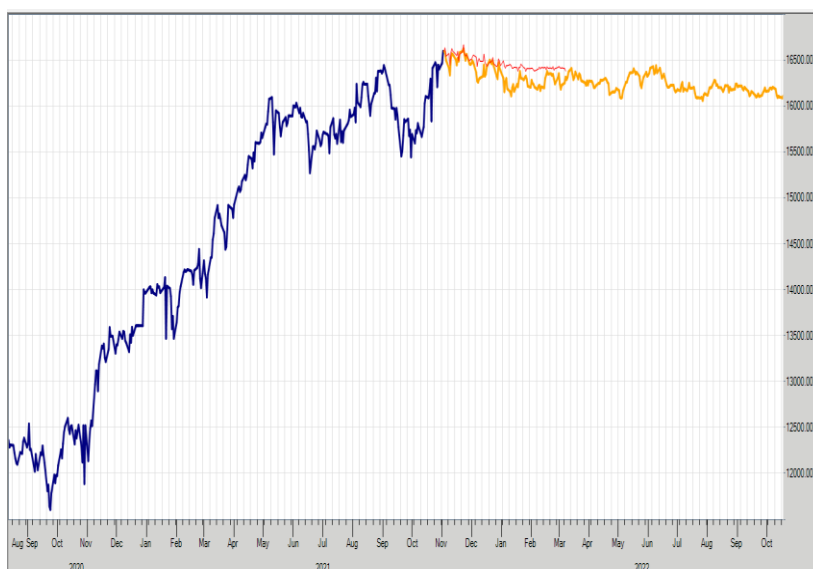
This week the Fed, which has been buying up to US\$120-bn in assets each month, said it would scale back on purchases by about US\$15bn a month. Its new stated intention is to end its accommodation of government paper by next June. Since the start of the pandemic the Fed has effectively doubled its holdings of US Treasury Bonds to an estimated US\$8 trillion.

But Fed chief Jay Powell continues to bury his head in the sand regarding the US inflation rate arguing that the present factors driving inflation are transitory in nature, though he did express uncertainty about the timing of a return to normality.

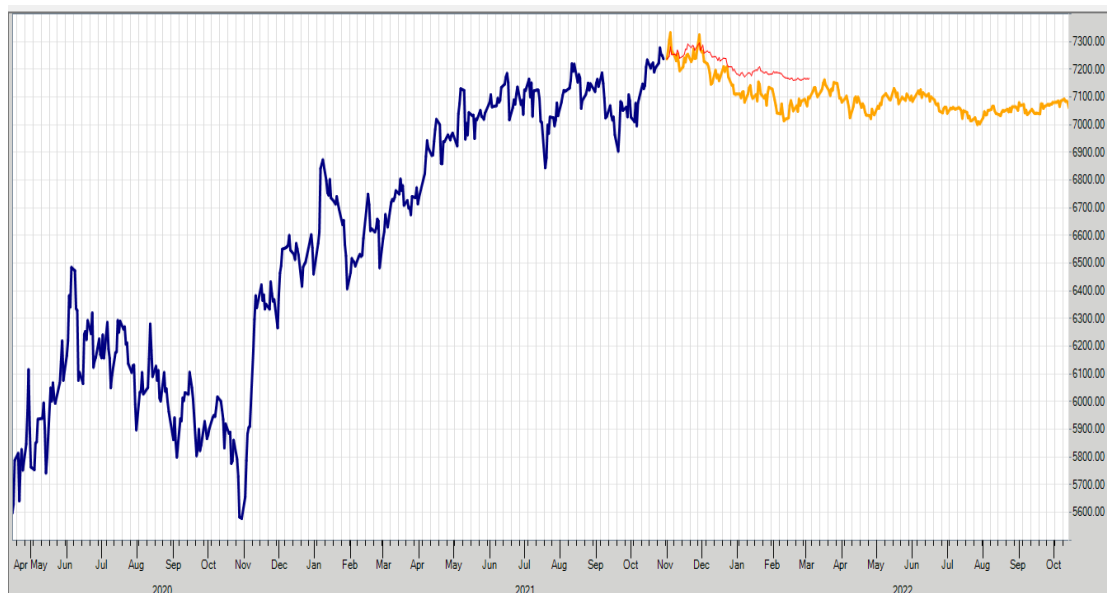
Fed reassurance might calm the currency markets temporarily but in the real world where it hits consumers' pockets, the resultant 154 percent compound annual average growth rate of benchmark Brent crude oil in recent months is the factor which has put wings under the local petrol price which this week breached R19.32 inland compared with R14.69 in January as it spreads the Fed's monetary irresponsibility into the pockets of the Third World poor. This month, for example, it added R3.50 per ride to the average SA combi taxi fare: a bitter blow to our 44.4 percent unemployed folk. Happily, at this stage ShareFinder projects that the crude oil price is close to a peak which it thinks will be at \$89.53 in mid-December as the following graph illustrates:



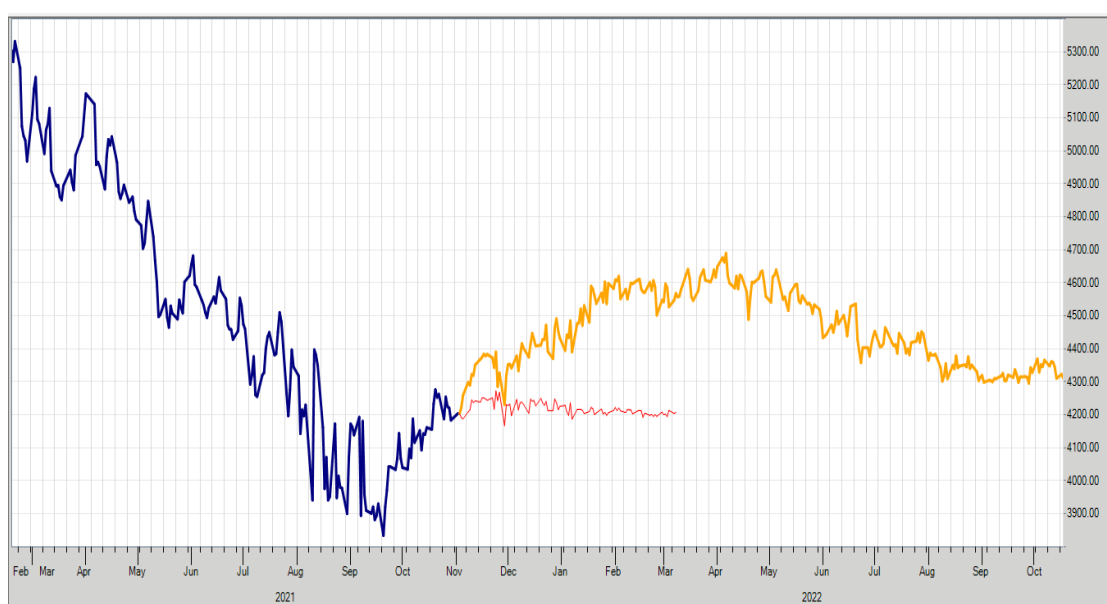
Meanwhile, based on a strong earnings season which has so far proved there is a strong demand for companies' products and services, and has accordingly curtailed worries that higher prices could reduce Americans' spending, Wall Street share prices have continued rising strongly. Nevertheless, and notwithstanding the fact that in the aftermath of Jay Powell's testimony US markets were up at the end of this week, ShareFinder now believes that as a result of the 'Taper' that New York Blue Chip shares have peaked and it sees a gradual down-hill trend for the next 12 months as illustrated in the graph on the right:



In the process it joins London's Financial Times Index which appears to have peaked and is projected to head downwards for the foreseeable future.



Against these. Sharefinder believes that South African Blue Chips still have some legs sensing further gains until at least April as projected on the right

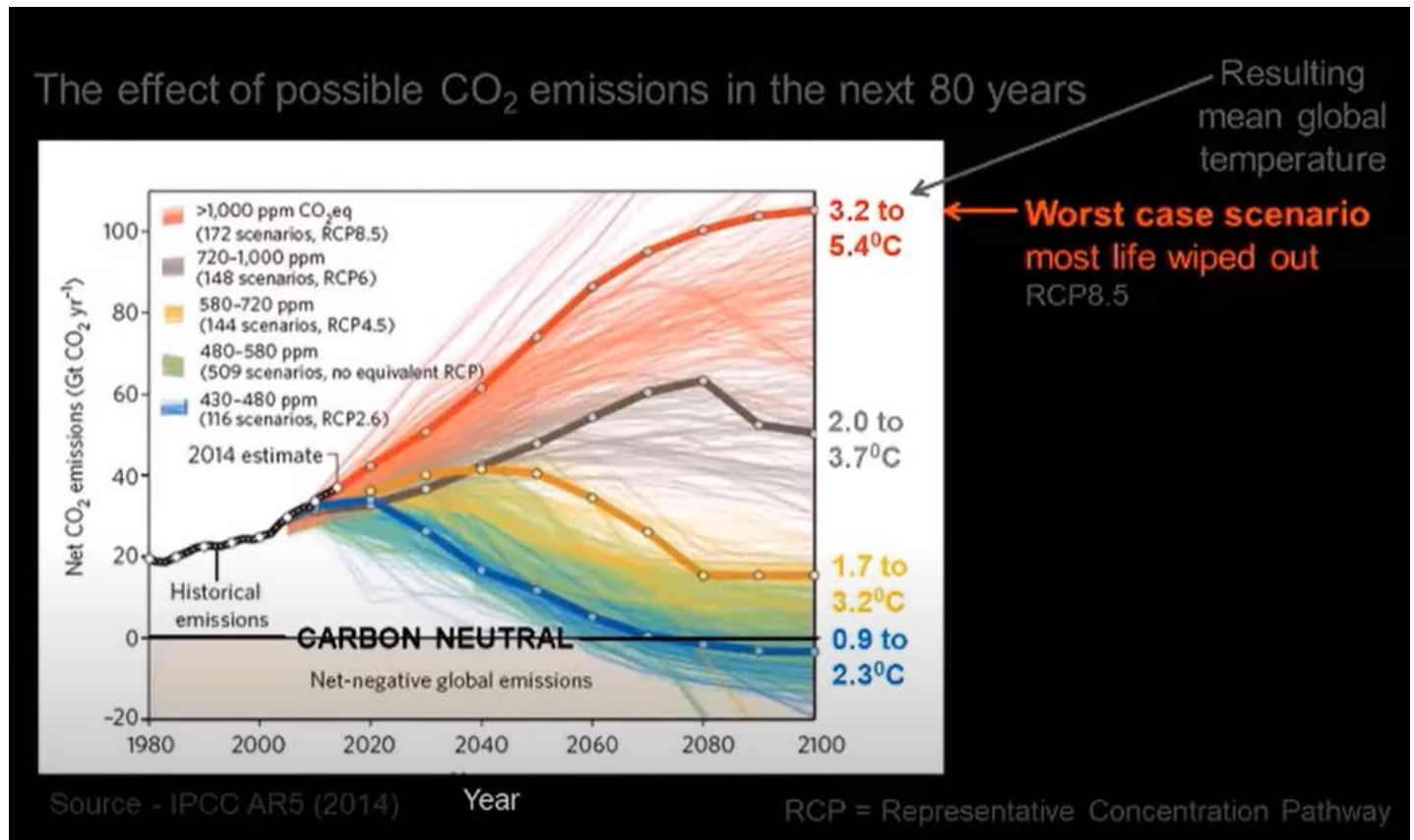


Finally there is the climate deal which so many South Africans feared Energy Minister Gwede Minister might kibosh. Arguably one of the most important starts to our unwinding of our carbon economy, the European Union, Germany, France, the UK and the US have partnered to support South Africa's climate action goals by helping finance the move from its heavy reliance on coal to cleaner and renewable energy sources.

The countries, which announced their partnership with South Africa at the COP26 climate negotiations in Glasgow, Scotland, have pledged R131-billion over the next three to five years in the form of grants, concessional loans and investment and risk-sharing instruments, including mobilising private sector funding.

Given that Eskom is burdened with an unsustainable R400-billion debt, this is surely the shot in the arm the SA economy needs to begin unwinding some of the worst consequences of the Jacob Zuma era of kleptocracy. Handled wisely, it could bring us back from the Ratings Agency fiscal cliff. Coupled with the clear election signs this week that the ANC is on the way out, it should surprise nobody that our share market outlook has turned positive once more!

Why is this so important? The following graph by Sir David Ramsden surely tells the whole story. The red line in the graph representing the worst case scenario is how things are actually playing out right now:



Watch this space and do enjoy your weekend!

## The month ahead:

**Making the following projections I have long looked for correlations between the projections made by the ShareFinder 5 and 6 programmes. Sadly these have been diverging due to a decline in the accuracy of the data available to SF5. I need to thus warn users of SF5 that a decision has accordingly been made to discontinue support for this programme as from the end of December.**

**New York's SP500:** I correctly predicted volatile gains until the fourth week of November when I see a brief retraction until the end of December and then further gains until mid-February ahead of another longer retraction then.

**Nasdaq:** I correctly predicted gains followed by an expected brief retraction in mid-December within a continuing upward sweep until the end of June at least.

**London's Footsie:** I correctly predicted the end of the last brief recovery and now expect a volatile declining trend lasting until next August. However I expect one more brief up-spike beginning in mid-November.



**Germany's Dax:** I correctly predicted brief gains which I still expect could continue until the second week of November. Thereafter it is likely to be down again until early May. Be warned, however, there are signs the down-spike could start sooner!

**France's Cac 40:** I correctly predicted volatile gains until mid-month followed by a spike down until the first week of January. Thereafter it is likely to be a yo-yo for most of the coming year.

**Hong Kong's Hangsen:** I correctly predicted an up-trend but the following down-spike came unexpectedly. Expect a volatile decline until mid-November then up to mid-December and down once more to mid-January before a protracted recovery begins.

**Japan's Nikkei:** I correctly predicted a decline beginning now and I expect it to last until late April. I failed, however, to anticipate the gain since October 11.

**Australia's All Ordinaries:** I correctly predicted the start of a three-month recovery until mid-December. Thereafter I see it bumping along the top until mid-March before the next long decline sets in until at least next September.

**JSE Top 40 Index:** I correctly predicted a recovery which is probably now over ahead of weakness until mid-February when a longish rally appears likely.

**ShareFinder JSE Blue Chip Index:** I correctly predicted declines until June at least but failed to anticipate the current short-term up-phase which should last until the second week of December.

**Rand/Dollar:** I correctly predicted the end of the brief recovery. Now I see weakness until the end of January followed by a recovery until May.

**Rand/Euro:** I correctly predicted weakness until early March.

***The Predicts accuracy rate on a running average basis since January 2001 has been 86.42 percent. For the past 12 months it has been 93.51 percent.***

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# Fed Takes First Step Toward End of Pandemic Measures

By Jeanna Smialek New York Times

The Federal Reserve is dealing with high inflation at a time when millions of workers remain on the job market's sidelines. Wednesday's announcement that it will slow bond purchases is a step toward more normal monetary policy.

**Jerome H. Powell, the Federal Reserve chair, laid out a plan to slow the asset-buying program as the economy continued to heal from pandemic disruptions and inflation remained sharply elevated.**

Supply and demand imbalances related to the pandemic and the reopening of the economy have contributed to sizeable price increases in some sectors. In particular, bottlenecks and supply chains disruptions are limiting how quickly production can respond to the rebound in demand in the near term. As a result, overall inflation is running well above our 2 percent longer-run goal. Beginning later this month, we will reduce the

monthly pace of our net asset purchases by \$10 billion for Treasury securities and \$5 billion for agency mortgage-backed securities. We also announced another reduction of this size in the monthly purchase pace starting in mid-December. If the economy evolves broadly, as expected, we judge that similar reductions in the pace of net asset purchases will likely be appropriate each month, implying that increases in our securities holdings would cease by the middle of next year. That said, we are prepared to adjust the pace of purchases, if warranted by changes in the economic outlook.

The [Federal Reserve](#) on Wednesday took its first step toward withdrawing support for the American economy, saying that it would begin to wind down a stimulus program that's been in place since early in the pandemic as the economy heals and prices climb at an uncomfortably rapid pace.

Central bank policymakers struck a slightly more wary tone about inflation, which has jumped this year amid booming consumer demand for goods and supply snarls. While officials still expect quick cost increases to fade, how quickly that will happen is unclear.

Fed officials want to be prepared for any outcome at a time when the [economy's trajectory](#) is marked by grave uncertainty. They are not sure when prices will begin to calm down, to what extent the labor market will recover the millions of jobs still missing after last year's economic slump, or when they will begin to raise interest rates — which remain at rock-bottom to keep borrowing and spending cheap and easy.

So the central bank's decision to dial back its other policy tool, large-scale bond purchases that keep money flowing through financial markets, was meant to give the Fed flexibility it might need to react to a shifting situation. Officials on Wednesday laid out a plan to slow their \$120 billion in monthly Treasury bond and mortgage-backed security purchases by \$15 billion a month starting in November. The purchases can lower long term interest rates and prod investors into investments that would spur growth.

Assuming that pace holds, the bond buying would stop altogether around the time of the central bank's meeting next June — potentially putting the Fed in a position to lift interest rates by the middle of next year.

The Fed is not yet saying that higher rates, a powerful tool that can swiftly slow demand and work to offset inflation, are imminent. Policymakers would prefer to leave them low for some time to allow the labor market to heal as much as possible.

But the move announced on Wednesday will leave them more nimble to react if inflation remains sharply elevated into 2022 instead of beginning to moderate. Many officials would not want to lift interest rates while they are still buying bonds, because doing so would mean that one tool was stoking the economy while the other was restraining it.

"We think we can be patient," [Jerome H. Powell](#), the Fed's chair, said of the path ahead for interest rates. "If a response is called for, we will not hesitate."

Congress has given the Fed two jobs: achieving and maintaining stable prices and maximum employment.

Those are tricky tasks in 2021. Twenty months into the global coronavirus pandemic, inflation has shot higher, with prices [climbing 4.4 percent](#) in the year through September. That is well above the 2 percent price gains the Fed aims for on average over time.

At the same time, far fewer people are working than did before the pandemic. About five million jobs [are missing](#) compared to February 2020. But that shortfall is hard to interpret, because businesses across the country are struggling to fill open positions and wages are quickly rising, hallmarks of a strong job market.

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For now, the Fed is betting that inflation will fade and the labor market will lure back workers, who might be lingering on the sidelines to avoid catching the coronavirus or because they have child care or other issues that are keeping them at home.

“There’s room for a whole lot of humility here,” Mr. Powell said, explaining that it was hard to assess how quickly the employment rate might recover. “It’s a complicated situation.”

Officials have already been surprised this year by how much inflation has surged and how long that pop has lasted. They had expected some run-up in prices as the cost of dining out and air travel bounced back from pandemic-lockdown lows, but the severity of the supply chain disruptions and the continued strength of consumer demand has caught Fed officials and many economists by surprise.

In their November policy statement, Fed officials predicted that this burst of inflation would fade, but they toned down their confidence on that view. They said previously that factors causing elevated inflation were transitory, but they updated that language on Wednesday to say that the drivers were “[expected to be](#)” transitory, acknowledging growing uncertainty.

“Supply and demand imbalances related to the pandemic and the reopening of the economy have contributed to sizable price increases in some sectors,” the statement added.

The Fed is willing to tolerate a temporary bout of quick inflation as the economy reopens from the pandemic, but if consumers and businesses come to expect persistently higher prices, that could spell trouble. High and erratic inflation that persists would make it hard for businesses to plan and might eat away at wage increases for workers who lack bargaining power.

“We have to be aware of the risks — particularly now the risk of significantly higher inflation,” Mr. Powell said. “And we have to be in position to address that risk should it create a threat of more-persistent, longer-term inflation.”

## ***ROB ROSE: Growthpoint sounds alarm about SA’s ‘excessive’ municipal rate hikes***

**The predilection of SA’s deadbeat municipal officials for simply hiking rates to pay their own salaries is sending the country into a death spiral**

It was a critical warning about the state of municipalities from SA’s largest property company, on the eve of the local government elections. And it suggests that the predilection of SA’s deadbeat municipal officials for simply hiking rates to pay their own salaries is sending the country into a death spiral.

Writing in the company’s annual report, chair Francois Marais said Growthpoint — which owns properties worth R152bn — was particularly worried about the “excessive increases in municipal rates and taxes over the past few years, combined with the deterioration of municipal service delivery”.



This is no alarmist scaremongering. Four months ago, the City of Joburg (which contributes 16% to SA's GDP) imposed a 14.6% hike in electricity prices and a 6.8% hike in water prices.

And don't fool yourself into thinking this was for services: the city needed to do this to finance its 17.6% salary bill increase, which rose to R14.8bn and included (don't laugh now) R660m in bonuses. While it buys water and power in bulk, it then slaps on its own mark-ups.

As Marais put it: "The impact of these increases has reached the stage where it poses a threat to the future profitability of our SA business."

It's a vicious cycle. The companies that rent buildings will struggle to pay their own bills, and will either reduce the space they rent, or cut staff — who then can't afford to pay their own municipal bills.

It needn't be this way either. The reality is, most municipalities have no clue how to manage money. This is clear from the admission by deputy minister of co-operative governance & traditional affairs Thembisile Simelane-Nkadimeng that just 38% of municipal councillors are competent to do their job.

But rather than fire them, extractive municipalities simply leech more money from their captive customers to hire others — often consultants — to do the same job. The upshot: soaring rates.

Growthpoint should know: it rents space to some of SA's largest companies, including Discovery (its swish Sandton head office is valued at R2.4bn), Anglo American, MTN, Absa, Shoprite and Nestlé. And it also owns half of the V&A Waterfront, which clocked up a R550m loss for the year to June.

However, in the past two years, amid lockdowns and crumbling service delivery, Growthpoint has written down the value of its SA business by R12.5bn.

Now, you might say: well, it's Covid — globally, property owners have struggled to turn a profit. And the work from home trend has been universally brutal for companies that rent out office space. This is why Growthpoint provided "rental discounts" of R475m to its customers last year.

Except for the fact that Growthpoint has properties in Australia, the UK and Europe, and four other African countries — and SA's prospects would appear to be the worst of the lot.

This sentiment was clearly evident in what Growthpoint CEO Norbert Sasse had to say in the annual report, as he bemoaned "the general state of the no-growth SA economy".

What's needed to change the picture, he says, is real economic growth — but there's little evidence of this from our failing municipalities, more than half of which are in "financial distress", former finance minister Tito Mboweni pointed out a few months ago.

As a result, said Sasse, Growthpoint sees greater returns by investing overseas. "While investment into Australia is expensive relative to SA, it is a growth market receiving more international interest than ever before," he said.

And while Growthpoint's business in Eastern Europe was hit by harder lockdowns, "these had less impact than those in the SA market because the economies of Poland and Romania are still growing and they were thus ready to recover faster".

This is evident in the numbers too. While the SA business made a loss of R1.8bn for the year to June, the Central and Eastern Europe business made a R187m profit, and the Australian business made an altogether more impressive R5.7bn profit.

These metrics, unfortunately for SA's dithering politicians, matter for companies, which are ultimately judged by their investors on how they allocate capital. The politicians and municipal officials should pay attention when the country's largest property company puts out a warning like this.

And for individual South Africans, beaten down by exactly the same sort of unaffordable and unjustifiable rate hikes that Growthpoint alluded to, it should spur them to head to the polls on Monday, to vote out their inept councillors.

*Rose is editor of the FM*