



Richard Cluver Predicts

In our 35th year of service to the investing public of South Africa

Our Weekly Paid Newsletter



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By now most readers will be thoroughly sick of budget analyses. If you are a conservative you will be protesting that Finance minister Enoch Godongwana has spent too much of his minerals export windfall on items like pay increases for a bloated civil service when all of it should have gone to reducing Government debt. If you are a liberal you will be bemoaning that not enough was consigned to relieving the plight of the poor.

I think he got the balance just right and the proof of it is that neither of the extremes I have just mentioned will have been satisfied while everyone else got a small bonus of one kind or another. More important, however is the evidence that the new minister is maintaining the progress of his successor towards gradually undoing the excesses of the lost Zuma years. And the smart money is showing its approval!

Just about everyone I know has pretty much given up on the ANC and practically everyone is simply holding thumbs that "Timid Cyril" might just about manage to hold it all together for his party's last few years in office. All they see is potholes and failing municipalities; symbols of our steady decline as a nation down the wormhole which swallowed up formerly flourishing countries like Rhodesia (I used that name deliberately for it exemplifies the wistful "whenwe" attitude of so many folk I know).

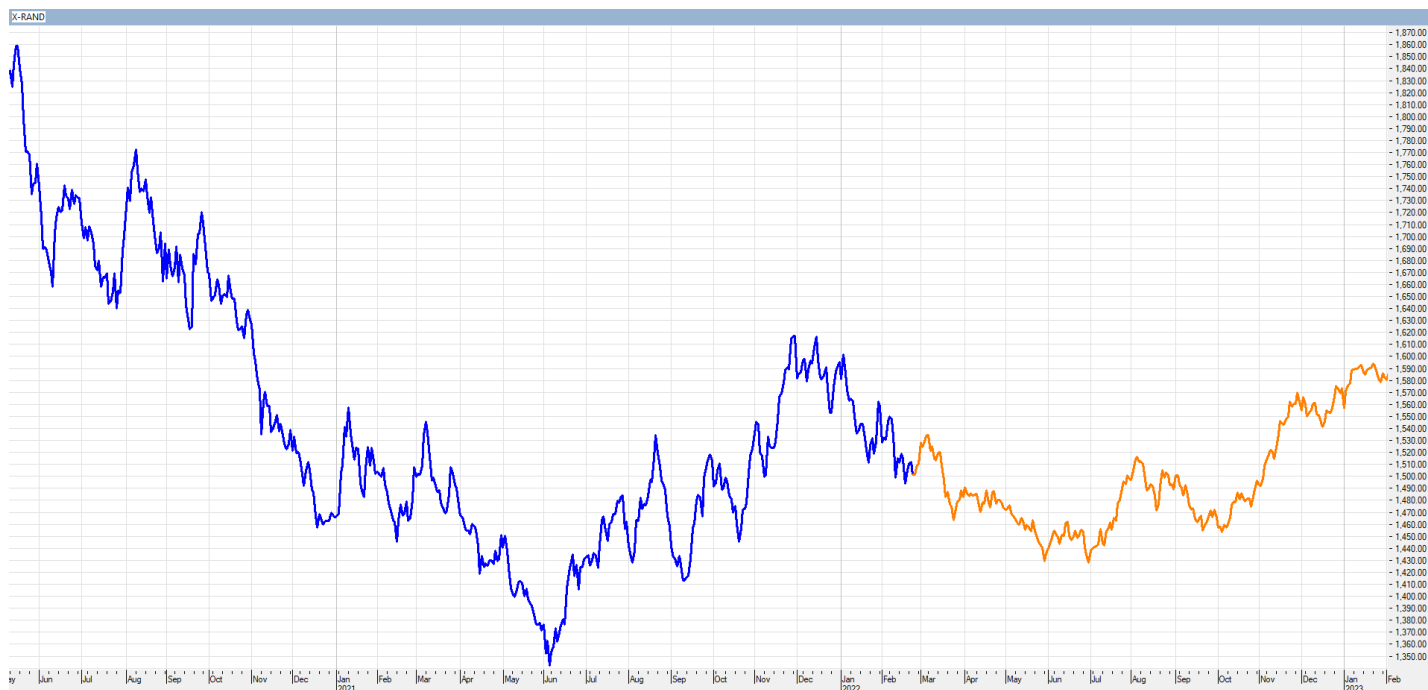
I think, however, most of us are missing the truth! Recently I pointed to the strange fact that the JSE is going against the trend of uncertainty which has been gripping leading world markets as inflationary birds come home to roost after years of central bank monetary irresponsibility. So consider again if you will the graph on the left below which tracks JSE Blue Chip shares as selected by ShareFinder software and compare it with the recent trend of New York Blue Chips in the graph on the right.



If you, like me, have been thinking that inflation-led weakness elsewhere, together with the growing crisis in the Ukraine, might have opened up a few local buying opportunities, you will have been growing increasingly

frustrated. Those cheeky buying prices you penciled in at the beginning of the New Year will surely by now have begun to look increasingly overoptimistic. I certainly have been resigning myself to the fact that the bargains I was hoping for are not going to be mine.

Then again, look what has happened to the Rand over the same period as the first two graphs; since the Covid 19 lock-down in early 2020. The June to November phase of Rand weakness was perhaps attributable to the July rioting – though how did the money traders know in June what was coming? But overall the Rand has been one of the best performing currencies in the world!



So how can it be that these critical indicators are suggesting such optimism at a time when the man in the street is mired in such political pessimism? Can it be that as usual the majority are missing the wood for the trees? Might it be true that Cyril Ramaphosa has been getting such a bad press lately that most of us have failed to notice that the 'Thuma mina' promises he made at the outset of his presidency are actually being fulfilled.

Economist JP Landman has lately completed a study which I will be publishing in full in The Investor next week. But the essence of it might be understood from the following extract:

*"Electricity reform started in **2018**, seven weeks after Ramaphosa took power, when 27 independent power producer (IPP) contracts were signed. These contracts had been suspended by Brian Molefe then at Eskom, causing South Africa's very successful renewable energy programme to simply crash. The signing didn't happen without opposition. Parties with vested interests were livid, blockading Tshwane more than once and going all the way to the Appeal Court to stop government, happily to no avail.*

*Later in 2018 a draft of the Integrated Resource Plan (IRP) was published for comment and consultation, as is required by law. In **2019**, the final version was promulgated. It opened the door decisively for renewables, storage and gas.*

*Also in **2019**, the president announced that Eskom would be split up, ending a century-old vertically integrated model built by Hendrik van der Bijl and his successors. As with the IPP contracts, there was vociferous opposition from various interest groups, and the sceptics harrumphed that it would never happen. Three years later not only has the separation taken place, and a free-standing transmission company will be legally constituted by the end of 2022.*

In SONA, the president said draft legislation to create a legal framework for such a competitive market would soon be published. It was published the next morning. Among other things, it provides for a free-standing

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transmission company, as mentioned above. The Eskom break-up paves the way for a competitive electricity market in South Africa, a truly radical reform. The 2019 announcements are coming to fruition.

2020 was the year of Covid-19. Even so, in October regulations were promulgated allowing municipalities to procure their own power from any source. Johannesburg Metro was first out of the starting blocks with a tender for 220 MW. Currently, eight municipalities are in the process of procuring a total of 1 400 MW.

In March 2021, bid window five for 2 600 MW from renewables was opened. Contracts were allocated to 27 successful bidders at the end of October.

In June 2021, the president announced that the licensing exemption for power generation would be lifted from 1 MW to 100 MW. Regulations giving effect to that change were published in August. Currently, an estimated 4 000 MW of projects are being pursued by various players under the new regulations. The number is likely an under-estimate as it comes from only one sector (mining) whilst we know of many other companies and private households turning to renewables.

Together with 500 MW from the tail-end of bid window 4 and 800 MW from the risk mitigation programme, this means that 9 300 MW is in the process of being added to the grid. For context, the capacity shortage Eskom wants eliminated to avoid load shedding is 6 000 MW.

In 2022, three further bid windows will open: bid window 6 for 2 600 MW of renewable generation (end March); a small window for 513 MW of battery storage (April) and bid window 7 for 3 000 MW of gas six months later. That will add a further 5 600 MW.

The only blot on this track record is the Karpowership deal. The allegations of corruption and the inappropriate 20-year contract means it will be a blessing if this falls through.

Understandably, any conversation about electricity in South Africa is completely dominated by load-shedding and the Karpowership deal. It creates the perception that nothing is happening. Yet, under the noise and dust, a revolutionary change is playing out."

Spectrum, harbours and rail, and infrastructure are the next areas of focus and they are now beginning to unfold with the same degree of determination.

Quietly, almost unnoticed, Timid Cyril has actually been solving South Africa's most fundamental infrastructure problems and, in time it might prove to be the case that we will look back to the Ramaphosa era with the same degree of respect that we now pay to the van der Bijls, and the the Hertzogs who turned South Africa from a colonial outpost to a post war industrial powerhouse which was in time stolen by the politicians who gave us apartheid.

Imagine where we might be headed if we can re-gain the momentum of the first half of the 20th Century! For investors our relative price earnings ratios give us a hint. South African shares stand at an average PE of 12.4 while the Wall Street comparison, even after the recent share price declines is 34.9. What that implies is that if foreign investors started to see South African equities as a safe haven in a time of financial turmoil in their own countries, the price of the average JSE share could treble.

Imagine what that would do to local morale, unemployment and our long-term economic outlook!

One of the most quoted phrases used by students of modern economic history was one supposedly whispered to Washington Post reporter Bob Woodward by the person he anonymously referred to as "Deep Throat" in the series of articles about the Watergate Scandal which were to earn him the Pulitzer Prize, "Follow the money trail."

Does the smart money know something about South Africa that we are too pessimistic to appreciate? Our leading economic indicators certainly suggest that is so!

The month ahead:

New York's SP500: I correctly predicted fresh weakness from the 22nd and I expect it to last until mid-March followed by a recovery until late June.

Nasdaq: I correctly predicted interim weakness from the 22nd to March 2 followed by a recovery until late June.

London's Footsie: I correctly predicted the start of a new longer-term declining trend until early April when I expect a two-month recovery before things head south again.

Germany's Dax: The brief recovery I predicted ended on time and I expect this weak phase to last until early May when I see a three-month recovery beginning.

France's Cac 40: I correctly predicted a yo-yo somewhat downward trend for most of the year. I also correctly expected brief weakness until the second week of March ahead of a month of gains and then further declines until mid-May.

Hong Kong's Hangsen: I correctly predicted gains until mid-May followed by a two-month decline followed by a protracted recovery to October.

Japan's Nikkei: I correctly predicted a continued decline until late April when a sharp recovery appears likely. Then I expect it to be down again in August until mid-November.

Australia's All Ordinaries: I correctly predicted a brief recovery which I expected to last until late February before the decline resumes for most of the year.

JSE Top 40 Index: I correctly predicted weakness until late April when a longish rally appears likely until late July.

ShareFinder JSE Blue Chip Index: I correctly predicted weakness until the 22nd and then gains until the first week of April. But then it is likely to be down again until late August.

Rand/Dollar: I correctly predicted a recovery lasting until the end of June.

Rand/Euro: I correctly predicted the start of weakness until early March ahead of gains from then until mid-June.

Predicts accuracy rate on a running average basis since January 2001 has been 86.53 percent. For the past 12 months it has been 94.4 percent.